

KERNEL

Q1

FY2018

Condensed Consolidated Interim Financial Statements

for the three months ended
30 September 2017



Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017

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Management Discussion and Analysis

for the three months ended 30 September 2017

Key Highlights:

- During Q1 FY2018, our revenues increased by 39.6% y-o-y to US\$ 536.1 million, primarily driven by higher sale volumes of sunflower oil.
- Reduced crop yields owing to adverse weather conditions in central Ukraine translated into material decline in IAS41 gain from US\$ 33.4 million in Q1 FY2017 to US\$ 2.8 million in the current quarter, being a key driver of aggregate EBITDA compression by 36.5% y-o-y to US\$ 46.0 million. At the same time, Q1 FY2018 total EBITDA, net of IAS41 effect, increased by 11% y-o-y.
- Net profit attributable to equity holders of Kernel Holding S.A. stood at US\$ 22.8 million vs. US\$ 64.1 million a year ago, stemming mainly from changes in our EBITDA, recognized lesser forex gain and higher finance costs.
- The release of working capital, owing to reduction of sunflower oil and sunflower seeds inventories, generated US\$ 74.9 million of net operating cash flow, which was entirely consumed by our investing activities. Namely, we spent US\$ 47 million for the acquisition of subsidiaries, and US\$ 17 million as a part of our CAPEX program.
- Sunflower oil business performed as expected during Q1 FY2018. The revenues doubled to US\$ 369.9 million vs. US\$ 175.6 million last year, chiefly attributable to accelerated sales volumes, as we released previously accumulated carry-over stock. Driven by the lofty sales volumes, our EBITDA contribution came to US\$ 21.0 million vs. US\$ 12.6 million reported a year ago.
- Grain and infrastructure business performance was undermined by a weaker pace of grain exports from the Black Sea region. Consequently, revenues stood at US\$ 173.2 million, down 22.2% y-o-y. On account of lower export volumes and delayed harvesting campaign, resulting in incremental pressure on our trading margins, EBITDA contribution stood at US\$ 18.2 million, down 16.9% y-o-y.
- As expected, our farming's performance was challenging during Q1 FY2018. We experienced a 15% average decline in yields on our initial lands (prior to expansion) largely owing to unfavorable weather condition during pollination and a bit delayed sowing campaign. Moreover, overall yields have been diluted by mixing up Kernel's high yield initial lands with low-yield newly acquired lands, our EBITDA, net of biological assets revaluation effect, came to US\$ 13.7 million vs. US\$ 13.5 million a year ago.
- As of 30 September 2017, net debt increased to US\$ 506.3 million, up from US\$ 326.2 million last year, as we completed two acquisitions in farming with total investments of over US\$ 200 million. Notably, our net debt position stayed strong with marginal decrease of 1.5% from its end of FY2017 position.

US\$ million except ratios and EPS	Q1 FY2017	Q1 FY2018	y-o-y
P&L highlights			
Revenue	384.1	536.1	39.6%
EBITDA ⁽¹⁾	72.4	46.0	(36.5%)
Net profit attributable to equity holders of Kernel Holding S.A.	64.1	22.8	(64.4%)
EBITDA margin	18.9%	8.6%	(10.3pp)
Net margin	16.7%	4.3%	(12.4pp)
EPS ⁽²⁾ , US\$	0.80	0.28	

Cash flow highlights

Operating profit before working capital changes	41.4	38.4	(7.3%)
Change in working capital	(54.4)	62.2	n/m
Cash (used in)/generated by operations	(13.0)	100.5	n/m
Net cash (used in)/generated by operating activities	(29.7)	74.9	n/m
Net cash used in investing activities	(12.9)	(75.1)	5.8x

US\$ million except ratios	30 Sep 16	30 Jun 17	30 Sep 17	q-o-q
Liquidity position and credit metrics				
Net interest-bearing debt	326.2	514.0	506.3	(1.5%)
Readily marketable inventories	402.2	353.9	395.7	11.8%
Adjusted net debt ⁽³⁾	(76.1)	160.0	110.6	(30.9%)
Shareholders' equity	1,028.5	1,153.0	1,151.5	(0.1%)
Net debt / EBITDA ⁽⁴⁾	0.9x	1.6x	1.7x	0.1x
Adjusted net debt / EBITDA	(0.2x)	0.5x	0.4x	(0.1x)
EBITDA / Interest ⁽⁵⁾	6.4x	5.1x	4.4x	(0.8x)

Note: Differences are possible due to rounding.

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 81.9 million shares for Q1 FY2018 and 79.7 million for Q1 FY2017.

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.

Segment Results and Discussion

for the three months ended 30 September 2017

Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons			EBITDA margin, %	
	Q1 FY2017	Q1 FY2018	y-o-y	Q1 FY2017	Q1 FY2018	y-o-y	Q1 FY2017	Q1 FY2018	y-o-y	Q1 FY2017	Q1 FY2018
Sunflower oil											
Sunflower oil sold in bulk	152.2	334.3	2.2x	10.6	16.8	58.6%	167.3	392.8	2.3x	7.0%	5.0%
Bottled sunflower oil	23.3	35.6	52.4%	2.0	4.2	2.1x	21.3	32.6 ⁽¹⁾	53.0%	8.4%	11.8%
	175.6	369.9	2.1x	12.6	21.0	1.7x					
Grain and infrastructure											
Grain trading	199.7	149.2	(25.3%)	4.3	1.5	(65.0%)	1,180.9	804.7	(31.9%)	2.2%	1.0%
Export terminals	12.4	11.4	(8.5%)	10.5	8.6	(18.3%)	1,393.5	1,290.0 ⁽²⁾	(7.4%)	84.3%	75.2%
Silo services	10.5	12.6	19.8%	7.1	8.2	14.4%	1,418.0	1,392.0	(1.8%)	67.6%	64.6%
	222.7	173.2	(22.2%)	21.9	18.2	(16.9%)					
Farming, net of IAS 41 gain											
	41.9	68.3	63.1%	13.5	13.7	1.0%				32.3%	20.0%
IAS 41 gain				33.4	2.8	(91.6%)					
Unallocated corporate expenses				(9.0)	(9.7)	8.0%					
Reconciliation	(56.1)	(75.3)	34.2%								
Total	384.1	536.1	39.6%	72.4	46.0	(36.5%)				18.9%	8.6%

Note: Differences are possible due to rounding. The Group changed the presentation of operating profit for the segment reporting with the purposes to reflect more precisely the farming segment profitability. Namely, to recognize only those sales generated by the Company's farming segment, which were realized from the trading companies to the 3rd parties during the reporting period. These corresponding amendments were made to the segment disclosures for three month ended 30 September 2016.

1 Million liters.

2 Including 452,736 tons transshipped through the Taman port in Q1 FY2018 and 473,779 tons in Q1 FY2017 (Kernel's share in the joint venture).

Sunflower oil sold in bulk segment

- During Q1 FY2018, previously accumulated carry-over sunflower oil stock was successfully shipped to meet the contracted volumes, leading to a 2.3 times y-o-y surge in sales volumes, which amounted to 392.8 thousand tons. As a result, our revenues improved to US\$ 334.3 million, up 2.2x y-o-y.
- In addition, we managed to utilize our crushing facilities nearly at full capacity by foreseeing low availability of new-harvest sunflower seeds and securing sizable volume of raw materials to crush in July-September 2017.
- The segment's depressed crushing margins (US\$ 42.8 per ton of sunflower oil sold in bulk in Q1 FY2018, down 32.4% y-o-y) were compensated by soaring trading volumes, resulting in overall EBITDA contribution of US\$ 16.8 million, up 58.6% y-o-y.

Bottled sunflower oil

- Bottled oil sales amounted to 32.6 million liters, up 53% y-o-y, primarily driven by exports. On higher export volumes, the segment's revenues increased to US\$ 35.6 million as compared to US\$ 23.3 million last year.
- Underpinned by export-oriented strategy, bottled oil segment's lofty margins increased to US\$ 128.2 per thousand liters of bottled oil sold, as compared to US\$ 91.6 reached a year ago.
- As a result, total EBITDA contribution amounted to US\$ 4.2 million, unprecedented for the first quarter 2.1x y-o-y increase.

Segment Results and Discussion

for the three months ended 30 September 2017

Grain marketing

- Overall, grain sales decreased 31.9% y-o-y, to 804.7 thousand tons. In Russia we assigned a portion of our FY2018 Taman transshipment quota entitlement to 3rd party, securing a significant budgeted earning from Russian operations for FY2018. While in Ukraine, our grain export volumes declined by 13% y-o-y due to delayed harvesting campaign. The combination of the above has led to a 25.3% y-o-y decline in revenues - US\$ 149.2 million in Q1 FY2018.
- The segment's EBITDA margin stood at US\$ 1.9 per ton, as compared to US\$ 3.7 per ton a year ago. All this translated in overall EBITDA contribution of US\$ 1.5 million vs. US\$ 4.3 million last year.

Export terminals and silo services

- Export terminal segment's throughput decreased 7.4% y-o-y to 1.3 million tons in Q1 FY2018, as delays in harvesting campaign took the toll. In addition, our EBITDA for the segment was pressured. This contributed to a 18.3% decline y-o-y in our EBITDA to US\$ 8.6 million.
- The silo segment's revenues remained strong at US\$ 12.6 million, up 19.8% y-o-y. As a result, the segment's total EBITDA contribution rushed by 14.4% y-o-y, to US\$ 8.2 million.

Farming

- At the date of this report publication, we nearly completed our harvesting campaign, producing almost 2.5 million tons of key grains and oilseeds in FY2018. As expected, the yields on our initial lands saw a 15% average y-o-y decline, still providing material premium to Ukraine's average. Crop yields on newly acquired lands are substantially lower, and we continue to focus on smooth integration of those assets and organic growth through implementation of numerous ongoing operational advances to uplift both effectiveness and output to Kernel's high standard.
- During Q1 FY2018, our farming revenues came to US\$ 68.3 million, up 63.1% y-o-y, as we expanded the landbank, leading to higher sales of our own harvest to the 3rd parties by our trading segment.
- Delayed harvesting campaign, caused by decrease in yields, owing to unfavorable weather conditions, and increased cost base, stemming from eliminated benefits of UAH devaluation in 2014-2015 and overall increase in global fuel costs, were major reasons for pressuring our farming's profitability during Q1 FY2018. Consequently, EBITDA contribution, net of IAS 41 effect, stood virtually unchanged at US\$ 13.7 million, up 1% y-o-y.

Harvest update

Combined landbank	Acreage, thousand hectares			Net yield ⁽¹⁾ , tons/ha			Net tonnage, thousand tons		
	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y
Corn	138.6	203.2	46.5%	8.9	6.5	(26.4%)	1,230.7	1,327.8	7.9%
Wheat	81.9	145.7	77.9%	5.8	4.8	(17.4%)	479.0	704.2	47.0%
Sunflower	81.3	134.3	65.1%	3.0	2.3	(22.4%)	242.8	311.1	28.1%
Soybean	58.0	65.3	12.6%	2.7	1.8	(34.7%)	158.6	116.7	(26.4%)
Rapeseeds	2.6	7.0	164.7%	3.0	3.4	13.7%	7.9	23.9	200.9%
Other ⁽²⁾	22.8	36.7	60.9%						
Total	385.3	592.1	53.7%				2,119.1	2,483.7	17.2%

Kernel's old landbank prior to acquisitions	Acreage, thousand hectares			Net yield ⁽¹⁾ , tons/ha			Net tonnage, thousand tons		
	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y
Corn	138.6	139.7	0.8%	8.9	7.1	(20.1%)	1,230.7	990.5	(19.5%)
Wheat	81.9	82.3	0.4%	5.8	5.3	(8.6%)	479.0	439.8	(8.2%)
Sunflower	81.3	80.6	(0.9%)	3.0	2.7	(9.7%)	242.8	217.1	(10.6%)
Soybean	58.0	43.5	(25.1%)	2.7	1.9	(29.2%)	158.6	84.1	(47.0%)
Rapeseeds	2.6	7.0	164.7%	3.0	3.4	13.7%	7.9	23.9	200.9%
Other ⁽²⁾	22.8	27.3	19.9%						
Total	385.3	380.3	(1.3%)				2,119.1	1,755.4	(17.2%)

1 Net crop yields and tonnage are based on 79% of corn acreage harvested and 99% of sunflower and soybean acreage harvested, based on estimated losses during drying and cleaning.

1 ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat and soybean.

2 Other acreage includes barley, rye, pea, sugar beets, buckwheat, forage crops, and land left fallow for crop rotation purposes.

Financial Highlights

for the three months ended 30 September 2017

Income statement highlights:

- Revenues surged by 39.6% y-o-y to US\$ 536.1 million, as we successfully shipped our accumulated carry-over sunflower oil stock to execute the contracted volumes during Q1 FY2018.
- Net change in the fair value of biological assets and agricultural produce reflects the revaluation of crops in fields and agricultural produce balances to fair value as of 30 September 2017. Positive effect in the amount of US\$ 2.8 million was lower than last years' US\$ 33.4 million, owing to weaker crop yields, caused by overall unfavorable weather conditions.
- Gross profit decreased 30.2% y-o-y to US\$ 66 million in Q1 FY2018, because of lower result from biological assets revaluation and reduced gross margin in grain segment.
- Other operating income of US\$ 5.7 million in Q1 FY2018 decreased 41.2% y-o-y, representing lower farming-related VAT benefits.
- Distribution costs were US\$ 28.6 million, down 10.4% y-o-y, as our grain traders were purchasing significant volumes on CPT basis.
- General and administrative expenses totaled US\$ 18.3 million, up 32.2% y-o-y, owing primarily to the contribution of newly acquired farming enterprises. General and administrative expenses stood at 3.4% of revenue, as a slight decrease over 3.6% in Q1 FY2017.
- Profit from operating activities was US\$ 24.8 million vs. US\$ 58.5 million a year ago, reflecting segments performance as discussed above.
- Net finance costs went up 43.1% y-o-y to US\$ 16 million, echoing changes in the capital structure of the Group.
- Foreign exchange gain of US\$ 7.4 million in Q1 FY2018 reflected mostly revaluation of intracompany transactions and borrowings between entities having different functional currencies.
- As a result, net profit attributable to the shareholders of Kernel Holding S.A. amounted to US\$ 22.8 million in Q1 FY2018.

Cash flow highlights:

- Operating profit before working capital changes was US\$ 38.4 million in Q1 FY2018 versus US\$ 41.4 million a year ago, due to similar factors influencing the decline in our EBITDA.
- Working capital decreased by US\$ 62.2 million in Q1 FY2018, as a result of accelerated sales in our sunflower oil business.
- Net cash used in investing activities was US\$ 75.1 million in Q1 FY2018, compared to US\$ 12.9 million last year, stemming from completing the acquisition of Agro Invest Ukraine and purchase of vehicles and equipment for farming and infrastructure.

Credit metrics highlights

- As of 30 September 2017, our net debt remained virtually unchanged, down 1.5% y-o-y, to US\$ 506.3 million from FY2017 year-end figures, with readily marketable inventories comfortably covering 78% of our net debt. Notably, our net debt position increased y-o-y from US\$ 326.2 million as of 30 September 2016, as we spent over US\$ 200 million on recent farmland acquisitions.

Credit metrics

US\$ million except ratios	30 Sep 16	30 Jun 17	30 Sep 17	q-o-q
Net interest-bearing debt	326.2	514.0	506.3	(1.5%)
Readily marketable inventories	402.2	353.9	395.7	11.8%
Adjusted net debt ⁽¹⁾	(76.1)	160.0	110.6	(30.9%)
Shareholders' equity ⁽²⁾	1,028.5	1,153.0	1,151.5	(0.1%)
Net debt / EBITDA ⁽³⁾	0.9x	1.6x	1.7x	0.1x
Adjusted net debt / EBITDA	(0.2x)	0.5x	0.4x	(0.1x)
EBITDA / Interest ⁽⁴⁾	6.4x	5.1x	4.4x	(0.8x)

1 Adjusted net financial debt is the net debt less readily marketable inventories.

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

3 Net debt/EBITDA and Adjusted net debt/EBITDA are calculated based on 12-month trailing EBITDA.

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

Alternative Performance Measures

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 used by for securities analysts, investors and other interested parties in 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) before income tax adding back 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 measures, to the exclusion of external factors unrelated to their performance.

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 core operations.

The following table reconciles profit before income tax to EBITDA for the periods indicated:

in thousand US\$	30 September 2016	30 September 2017
Profit before income tax	67,941	17,662
add back:		
Financial costs, net	(11,188)	(16,015)
Foreign exchange gain, net	15,091	7,408
Other income, net	5,497	1,987
Share of losses of joint venture	(2)	(501)
Depreciation & Amortization	(13,859)	(21,188)
EBITDA	72,402	45,971

Alternative Performance Measures continued

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 borrowings, current portion of long-term borrowings, current portion of obligations under finance lease and Interest on bonds issued).

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:

in thousand US\$	As of 30 September 2016	As of 30 June 2017	As of 30 September 2017
Total current assets	867,588	1,120,688	1,075,896
<i>less:</i>			
Cash and cash equivalents	93,336	143,392	116,824
Total current liabilities	497,554	293,851	277,730
<i>add back:</i>			
Short-term borrowings	272,558	131,679	108,659
Current portion of long-term borrowings	75,675	2,782	2,754
Interest on bonds issued	-	17,949	6,881
Current portion of obligations under finance lease	4,067	2,842	2,489
Working capital	628,998	838,697	802,125

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

in thousand US\$	30 September 2016	30 September 2017
Net cash used in investing activities	(12,874)	(75,130)
<i>less:</i>		
Purchase of intangible and other non-current assets	(189)	(1,081)
Disposal of subsidiaries	1,394	1,404
Acquisition of subsidiaries	-	(46,512)
Amounts advanced for subsidiaries	2,962	2,502
Purchase of financial assets	-	(15,026)
Fixed assets investments	(17,041)	(16,417)

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

in thousand US\$	30 September 2016	30 September 2017
Net cash used in investing activities	(12,874)	(75,130)
<i>less:</i>		
Purchase of property, plant and equipment	(17,475)	(17,460)
Proceeds from disposal of property, plant and equipment	434	1,043
Investing cash flows	4,167	(58,713)

Alternative Performance Measures continued

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) before income tax adding back income, share of gain/(loss) in joint ventures, net other income, the foreign exchange gain/(loss), net finance costs, amortization and depreciation, less cash used in purchase of property, plant and equipment, cash from proceeds from disposal of property, plant and equipment, finance costs paid, income tax paid, movements in allowance for doubtful receivables, loss/(gain) from changes in fair value of biological assets, 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) before income tax adding back share of gain/(loss) in joint ventures, net other expenses, the foreign exchange gain/(loss), net finance costs, amortization and depreciation, less cash used in investing activities, finance costs paid, income tax paid, changes in working capital, less movements in allowance for doubtful receivables, loss/(gain) from changes in fair value of biological assets, other accruals, net non-realizable foreign exchange gain/(loss) and other.

The following table reconciles profit before income tax to funds from operations for the periods indicated:

in thousand US\$	30 September 2016	30 September 2017
Profit before income tax	67,941	17,662
<i>add back:</i>		
Finance costs, net	(11,188)	(16,015)
Foreign exchange gain, net	15,091	7,408
Other income, net	5,497	1,987
Share of losses of joint venture	(2)	(501)
Depreciation & Amortization	(13,859)	(21,188)
EBITDA	72,402	45,971
<i>less:</i>		
Purchase of property, plant and equipment	17,475	17,460
Proceeds from disposal of property, plant and equipment	(434)	(1,043)
Finance costs paid	13,876	22,445
Income tax paid	2,874	3,179
Movement in allowance for doubtful receivables	(2,340)	(53)
Net change in fair value of biological assets and agriproduce	33,383	2,807
Net non-realizable foreign exchange loss/(gain)	(80)	1,548
Other accruals	(537)	(856)
Other	590	4,167
Funds from operations	7,595	(3,683)

The following table reconciles profit before income tax to free cash flows for the periods indicated:

in thousand US\$	30 September 2016	30 September 2017
Profit before income tax	67,941	17,662
<i>add back:</i>		
Finance costs, net	(11,188)	(16,015)
Foreign exchange gain, net	15,091	7,408
Other income, net	5,497	1,987
Share of losses of joint venture	(2)	(501)
Amortization and depreciation	(13,859)	(21,188)
EBITDA	72,402	45,971
<i>less:</i>		
Net cash used in investing activities	12,874	75,130
Changes in working capital	54,370	(62,169)
Finance costs paid	13,876	22,445
Income tax paid	2,874	3,179
Movement in allowance for doubtful receivables	(2,340)	(53)
Net change in fair value of biological assets and agriproduce	33,383	2,807
Net non-realizable foreign exchange loss/(gain)	(80)	1,548
Other accruals	(537)	(856)
Other	590	4,167
Free cash flows	(42,608)	(227)

Alternative Performance Measures continued

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 whether there is an ascertainable price for the inventory established via international pricing mechanism, there are widely available and liquid markets 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:

in thousand US\$	As of 30 September 2016	As of 30 June 2017	As of 30 September 2017
Sunflower oil and meal	80,898	221,432	89,500
Sunflower seed Grains	144,952	89,644	154,673
Other	175,671	42,085	150,846
	46,091	33,499	75,158
Total	447,612	386,660	470,177
<i>of which: Readily marketable inventories</i>	<i>402,213</i>	<i>353,947</i>	<i>395,661</i>

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

in thousand US\$	As of 30 September 2016	As of 30 June 2017	As of 30 September 2017
Short-term interest bearing debt	348,233	152,410	118,294
Long-term interest bearing debt	63,211	5,562	4,139
Eurobond	-	493,648	493,898
Obligations under finance lease	8,050	5,744	6,754
Gross interest-bearing debt	419,494	657,364	623,085
Cash and cash equivalents	93,336	143,392	116,824
Net interest-bearing debt	326,158	513,972	506,261
Readily marketable inventories	402,213	353,947	395,661
Adjusted net financial debt	(76,055)	160,025	110,600

Selected Financial Data

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

	USD		PLN		EUR	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016	30 September 2017	30 September 2016
I. Revenue	536,094	384,063	1,943,234	1,493,199	456,430	344,005
II. Profit from operating activities	24,783	58,543	89,833	227,609	21,100	52,437
III. Profit before income tax	17,662	67,941	64,021	264,148	15,037	60,855
IV. Profit for the period from continuing operations	22,819	64,266	82,714	249,860	19,428	57,563
V. Net cash generated by/(used in) operating activities	74,903	(29,734)	291,215	(107,780)	63,772	(26,634)
VI. Net cash used in investing activities	(75,130)	(12,874)	(292,097)	(46,666)	(63,965)	(11,531)
VII. Net cash generated by financing activities	12,167	59,850	47,304	216,946	10,359	53,609
VIII. Total net cash flow	11,940	17,242	46,422	62,500	10,166	15,444
IX. Total assets	1,991,188	1,652,447	7,271,619	6,371,505	1,687,532	1,477,618
X. Current liabilities	277,730	497,554	1,014,242	1,918,469	235,376	444,913
XI. Non-current liabilities	557,508	124,695	2,035,963	480,799	472,488	111,502
XII. Issued capital	2,164	2,104	7,903	8,113	1,834	1,881
XIII. Total equity	1,155,950	1,030,198	4,221,414	3,972,237	979,668	921,203
XIV. Number of shares	81,941,230	79,683,410	81,941,230	79,683,410	81,941,230	79,683,410
XV. Profit per ordinary share (in USD/PLN/EUR)	0.28	0.80	1.01	3.13	0.24	0.72
XVI. Diluted number of shares	83,061,529	81,894,124	83,061,529	81,894,124	83,061,529	81,894,124
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	0.27	0.78	1.00	3.04	0.23	0.70
XVIII. Book value per share (in USD/PLN/EUR)	14.05	12.91	51.31	49.79	11.91	11.54
XIX. Diluted book value per share (in USD/PLN/EUR)	13.86	12.56	50.62	48.43	11.75	11.23

Condensed Consolidated Interim Statement of Financial Position

as of 30 September 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Assets				
Current assets				
Cash and cash equivalents	6	116,824	143,392	93,336
Trade accounts receivable, net		81,482	87,192	41,787
Prepayments to suppliers and other current assets, net	7, 20	92,871	82,701	65,662
Corporate income tax prepaid	19	8,913	8,198	7,260
Taxes recoverable and prepaid, net	8	113,153	135,257	119,621
Inventory	9	470,177	386,660	448,304
Biological assets	10	156,209	256,247	91,618
Other financial assets		36,267	21,041	—
Total current assets		1,075,896	1,120,688	867,588
Non-current assets				
Property, plant and equipment, net	11	587,971	569,714	532,808
Intangible assets, net		114,007	104,861	33,999
Goodwill		113,794	114,110	121,063
Investments in joint ventures	12	50,524	51,025	52,162
Deferred tax assets		13,230	11,924	18,335
Corporate income tax prepaid	19	5,235	5,028	7,689
Other non-current assets	20	30,531	31,733	18,803
Total non-current assets		915,292	888,395	784,859
Total assets		1,991,188	2,009,083	1,652,447
Liabilities and equity				
Current liabilities				
Trade accounts payable	20	68,381	52,776	46,401
Advances from customers and other current liabilities	20	91,055	88,665	102,920
Short-term borrowings	13	108,659	131,679	272,558
Current portion of long-term borrowings	14	2,754	2,782	75,675
Interest on bonds issued	15	6,881	17,949	—
Total current liabilities		277,730	293,851	497,554
Non-current liabilities				
Long-term borrowings	14	4,139	5,562	63,211
Obligations under finance leases		4,265	2,902	3,983
Deferred tax liabilities		22,595	24,865	19,195
Bonds issued	15	493,898	493,648	—
Other non-current liabilities	20	32,611	30,646	38,306
Total non-current liabilities		557,508	557,623	124,695
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital	2	2,164	2,164	2,104
Share premium reserve		481,878	481,878	463,879
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve		7,294	7,014	7,091
Revaluation reserve		43,815	43,815	43,815
Translation reserve		(732,124)	(707,458)	(723,351)
Retained earnings		1,308,489	1,285,671	1,195,028
Total equity attributable to Kernel Holding S.A. equity holders		1,151,460	1,153,028	1,028,510
Non-controlling interests		4,490	4,581	1,688
Total equity		1,155,950	1,157,609	1,030,198
Total liabilities and equity		1,991,188	2,009,083	1,652,447
Book value		1,151,460	1,153,028	1,028,510
Number of shares	2	81,941,230	80,338,776	79,683,410
Book value per share (in USD)		14.05	14.35	12.91
Diluted number of shares		83,061,529	82,407,733	81,894,124
Diluted book value per share (in USD)		13.86	13.99	12.56

On behalf of the Board
Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2017	3 months ended 30 September 2016
Revenue	16	536,094	384,063
Net change in fair value of biological assets and agricultural produce	10	2,807	33,383
Cost of sales	17	(472,868)	(322,791)
Gross profit		66,033	94,655
Other operating income, net		5,683	9,664
Operating expenses			
Distribution costs	20	(28,615)	(31,924)
General and administrative expenses	20	(18,318)	(13,852)
Profit from operating activities		24,783	58,543
Finance costs, net	20	(16,015)	(11,188)
Foreign exchange gain, net	18	7,408	15,091
Other income, net	20	1,987	5,497
Share of loss of joint ventures	12	(501)	(2)
Profit before income tax		17,662	67,941
Income tax benefit/(expenses)		5,157	(3,675)
Profit for the period from continuing operations		22,819	64,266
Discontinued operations			
Profit for the period from discontinued operations		—	—
Profit for the period		22,819	64,266
Profit for the period attributable to:			
Equity holders of Kernel Holding S.A.		22,818	64,138
Non-controlling interests		1	128
Earnings per share			
From continuing and discontinued operations			
Weighted average number of shares		81,941,230	79,683,410
Profit per ordinary share (in USD)		0.28	0.80
Diluted number of shares		83,061,529	81,894,124
Diluted profit per ordinary share (in USD)		0.27	0.78
From continuing operations			
Weighted average number of shares		81,941,230	79,683,410
Profit per ordinary share (in USD)		0.28	0.80
Diluted number of shares		83,061,529	81,894,124
Diluted profit per ordinary share (in USD)		0.27	0.78

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 30 September 2017 (in thousands of US dollars, unless otherwise stated)

	3 months ended 30 September 2017	3 months ended 30 September 2016
Profit for the period	22,819	64,266
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(24,758)	(31,632)
Other comprehensive loss, net	(24,758)	(31,632)
Total comprehensive (loss)/income for the period	(1,939)	32,634
Total comprehensive (loss)/income attributable to:		
Equity holders of Kernel Holding S.A.	(1,848)	32,672
Non-controlling interests	(91)	(38)

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders								Non-controlling interests	Total equity
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained earnings	Total		
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	—	—	—	—	—	—	64,138	64,138	128	64,266
Other comprehensive loss	—	—	—	—	—	(31,466)	—	(31,466)	(166)	(31,632)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(31,466)	64,138	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	(723,351)	1,195,028	1,028,510	1,688	1,030,198
Profit for the period	—	—	—	—	—	—	95,364	95,364	1,668	97,032
Other comprehensive loss	—	—	—	—	—	(21,651)	—	(21,651)	(150)	(21,801)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(21,651)	95,364	73,713	1,518	75,231
Distribution of dividends	—	—	—	—	—	—	(20,175)	(20,175)	—	(20,175)
Issue of ordinary shares under employee share option plan	27	7,917	—	224	—	—	(1,450)	6,718	—	6,718
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
(Loss)/Profit for the period	—	—	—	—	—	—	(16,191)	(16,191)	93	(16,098)
Other comprehensive income	—	—	—	—	—	30,722	—	30,722	163	30,885
Total comprehensive income/(loss) for the period	—	—	—	—	—	30,722	(16,191)	14,531	256	14,787
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(197)	(197)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	825	825
Issue of ordinary shares under employee share option plan	33	10,082	—	(1,134)	—	—	163	9,144	—	9,144
Balance as of 30 June 2017	2,164	481,878	39,944	7,014	43,815	(707,458)	1,285,671	1,153,028	4,581	1,157,609
Profit for the period	—	—	—	—	—	—	22,818	22,818	1	22,819
Other comprehensive loss	—	—	—	—	—	(24,666)	—	(24,666)	(92)	(24,758)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(24,666)	22,818	(1,848)	(91)	(1,939)
Recognition of share-based payments	—	—	—	280	—	—	—	280	—	280
Balance as of 30 September 2017	2,164	481,878	39,944	7,294	43,815	(732,124)	1,308,489	1,151,460	4,490	1,155,950

On behalf of the Board

Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2017	3 months ended 30 September 2016
Operating activities:			
Profit before income tax		17,662	67,941
Adjustments for:			
Amortization and depreciation		21,188	13,859
Finance costs, net		16,015	11,188
Movement in allowance for doubtful receivables		53	2,340
Other accruals		856	537
Loss/(Gain) on disposal of property, plant and equipment		887	(134)
Net foreign exchange gain		(8,956)	(15,011)
Write-offs and impairment loss		—	(183)
Net change in fair value of biological assets and agricultural produce		(2,807)	(33,383)
Gain on bargain purchase		(4,965)	—
Net gain arising on financial assets classified as held for sale		(200)	—
Share of loss of joint ventures	12	501	2
Gain on sales of Subsidiaries	5	(1,876)	(5,770)
Operating profit before working capital changes		38,358	41,386
Changes in working capital:			
Change in trade accounts receivable		6,517	34,132
Change in prepayments and other current assets		(10,082)	(14,320)
Change in restricted cash balance		2,208	(20)
Change in taxes recoverable and prepaid		24,787	6,823
Change in biological assets		107,556	129,636
Change in inventories		(82,705)	(254,416)
Change in trade accountss payable		12,513	4,115
Change in advances from customers and other current liabilities		1,375	39,680
Cash generated by/(used in) operations		100,527	(12,984)
Finance costs paid		(22,445)	(13,876)
Income tax paid		(3,179)	(2,874)
Net cash generated by/(used in) operating activities		74,903	(29,734)
Investing activities:			
Purchase of property, plant and equipment		(17,460)	(17,475)
Proceeds from disposal of property, plant and equipment		1,043	434
Purchase of intangible and other non-current assets		(1,081)	(189)
Acquisition of Subsidiaries		(46,512)	—
Disposal of subsidiaries		1,404	1,394
Amount advanced for subsidiaries		2,502	2,962
Purchases of financial assets		(15,026)	—
Net cash used in investing activities		(75,130)	(12,874)
Financing activities:			
Proceeds from borrowings		100,840	115,866
Repayment of borrowings		(88,223)	(55,221)
Net cash generated by financing activities		12,617	60,645
Effect of exchange rate changes on the balance of cash held in foreign currencies		(450)	(795)
Net increase in cash and cash equivalents		11,940	17,242
Cash and cash equivalents, at the beginning of the period	6	87,165	60,269
Cash and cash equivalents, at the end of the period	6	99,105	77,511

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 30 September 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 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 30 September 2017, 30 June 2017 and 30 September 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		
			30 September 2017	30 June 2017	30 September 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		British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC	Trading in sunflower oil, meal and grain.	Ukraine	100.0%	100.0%	100.0%
Ukragroinvest LLC		Ukraine	100.0%	100.0% ⁽¹⁾	0.0%
Avere Commodities SA		Switzerland	100.0% ⁽⁴⁾	0.0%	0.0%
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC		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%
Bilovodskiy KHP PJSC		Ukraine	91.12%	91.12% ⁽¹⁾	0.0%
Agro Logistics Ukraine LLC		Ukraine	100.0% ⁽³⁾	0.0%	0.0%
Unigrain-Agro (Semenivka) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%	100.0%
Vyshneve-Agro ALLC ⁽²⁾		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%
Druzhba 6 PE		Ukraine	100.0%	100.0% ⁽¹⁾	0.0%
Buymerske PE		Ukraine	100.0%	100.0% ⁽¹⁾	0.0%
Agro Invest Ukraine LLC		Ukraine	100.0% ⁽³⁾	0.0%	0.0%

These condensed consolidated interim financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 24 November 2017.

(1) The company was acquired on 30 June 2017.

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

(3) The company was acquired on 04 July 2017.

(4) The company started its activity in July 2017.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding'). The issued capital of the Holding as of 30 September 2017, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value (30 September 2016: 79,683,410). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 September 2017		As of 30 September 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	38.13%	31,345,878	39.34%
Free float	50,695,352	61.87%	48,337,532	60.66%
Total	81,941,230	100.00%	79,683,410	100.00%

As of 30 September 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 30 September 2017, the fair value of the share-based options granted to the management was USD 7,294 thousand and USD 280 thousand was recognized as an expense (part of payroll and payroll related expenses) during the three months ended 30 September 2017, with a corresponding increase in equity over the vesting period (30 September 2016: USD 7,091 thousand and USD 509 thousand, respectively).

On 8 November 2017, the Company received a notification from TFI PZU SA with its registered office in Warsaw, Poland, 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 Uniwersum,
- PZU Fundusz Inwestycyjny Zamkniety Dynamiczny, hereinafter referred to as the 'TFI PZU Funds', regarding the disposal of shares in Kernel Holding S.A.

The TFI PZU Funds had disposed 850,000 shares of the Company in transaction on the Warsaw Stock Exchange, settled on 7 November 2017 and decreased its holdings in the Company's shares below 10% of the total number of votes on General Meeting in Shareholders. As of 7 November 2017, TFI PZU Funds held 7,562,562 shares in the Company, representing 9.23% of the share capital and entitling it to 7,562,562 votes at the Company's general shareholders' meeting, equal to 9.23% of the total number of votes. Before the disposal, TFI PZU Funds held 8,412,562 shares in the Company, representing 10.27% of the share capital of the company.

On 10 November 2017 the Company received a notification from Cascade Investment Fund, regarding the acquisition of shares in Kernel Holding S.A. The Cascade Investment Fund held 5,397,453 shares in the Company, representing 6.59% of the share capital and entitling it to 5,397,453 votes at the Company's general shareholders' meeting, equal to 6.59% of the total number of votes.

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 210 thousand as of 30 September 2017 and 2016, respectively, may not be distributed as dividends.

3. Basis of Preparation and Accounting

Basis of Preparation

These Condensed Consolidated Interim Financial Statements for the three months ended 30 September 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.

Significant Accounting Policies

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 2017. The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2017. 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 30 September 2017 (in thousands of US dollars, unless otherwise stated)

3. Basis of Preparation and Accounting (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, for which USD was selected as the functional currency.

Foreign Currencies

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 the 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 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 fluctuate 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 'Translation reserve'.

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

Currency	Closing rate as of 30 September 2017	Average rate for the 3 months ended 30 September 2017	Closing rate as of 30 September 2016	Average rate for the 3 months ended 30 September 2016
USD/UAH	26.5211	25.9022	25.9119	25.3760
USD/EUR	0.8475	0.8514	0.8942	0.8957
USD/RUB	58.0169	59.0195	63.1581	64.6245
USD/PLN	3.6519	3.6248	3.8558	3.8879

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 gain or loss that occurs on revaluation of monetary balances, presented in foreign currencies, is allocated as a separate line in the Consolidated Statement of Profit or Loss.

Operating Segments

Operating segments are reported in a manner consistent with the internal reporting as provided to the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The management and members of the board of directors of the Group are identified as the chief operating decision makers.

Segments in the consolidated 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.
Grain	Sourcing and merchandising of wholesale grain.
Export terminals	Grain handling and transshipment services in the ports of Chornomorsk and Mykolaiv.
Silo services	Provision of grain cleaning, drying and storage services.
Farming	Agricultural farming. Production of corn, wheat, soybean, sunflower seed and rapeseed.
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 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, deferred taxes 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 leases, deferred taxes and some other assets and liabilities.

Reclassifications

Certain reclassifications have been made to the condensed consolidated interim financial statements as of 30 September 2016 and for the period then ended to conform to the current periods's presentation.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 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 August-May and July-November, 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 30 September 2017:

	Bottled sunflower oil	Sunflower oil sold in bulk	Grain	Export terminals	Silo services	Farming	Other	Re- conciliation	Continuing operations
Revenue (external)	35,569	334,290	149,168	81	1,797	15,189	—	—	536,094
Intersegment sales	—	—	—	11,299	10,827	53,148	—	(75,274)	—
Total revenue	35,569	334,290	149,168	11,380	12,624	68,337	—	(75,274)	536,094
Net change in fair value of biological assets and agricultural produce	—	—	—	—	—	2,807	—	—	2,807
Other operating income, net	6	433	14	1	291	4,938	—	—	5,683
Profit/(Loss) from operating activities	3,728	13,183	1,519	7,780	6,728	1,899	(10,054)	—	24,783
Finance costs, net									(16,015)
Foreign exchange gain, net									7,408
Other income, net									1,987
Share of loss of joint ventures									(501)
Income tax benefit									5,157
Profit for the period from continuing operations									22,819
Total assets	73,223	833,843	135,562	119,221	78,242	653,345	97,752	—	1,991,188
Capital expenditures	—	1,666	—	528	16,596	36,058	82	—	54,930
Amortization and depreciation	458	3,635	—	782	1,426	14,562	325	—	21,188
Liabilities	3,298	61,115	7,799	1,872	2,253	54,198	704,703	—	835,238

During the three months ended 30 September 2017, revenues of approximately USD 183,852 thousand are derived from three external customers. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 94% of total external sales.

The Group changed the presentation of operating profit for the segment reporting with the purposes to reflect more precisely the farming segment profitability. Namely, to recognize only those sales generated by the Company's farming segment, which were realized from the trading companies to the 3rd parties during the reporting period. These corresponding amendments were made to the segment disclosures for three months ended 30 September 2016.

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 operates in two principal geographical areas – Ukraine and the Russian Federation. Information about its non-current assets by location of the assets 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 30 September 2017	As of 30 September 2017
Ukraine	524,997	851,515
Russian Federation	11,097	50,547
Total	536,094	902,062

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 30 September 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 30 September 2016:

	Bottled sunflower oil	Sunflower oil sold in bulk	Grain	Export terminals	Silo services	Farming	Other	Re- conciliation	Continuing operations
Revenue (external)	23,336	152,226	199,717	61	2,204	6,519	—	—	384,063
Intersegment sales	—	—	—	12,370	8,336	35,391	—	(56,097)	—
Total revenue	23,336	152,226	199,717	12,431	10,540	41,910	—	(56,097)	384,063
Net change in fair value of biological assets and agricultural produce	—	—	—	—	—	33,383	—	—	33,383
Other operating (expenses)/income, net	(14)	(564)	68	—	170	10,004	—	—	9,664
Profit/(Loss) from operating activities	1,498	7,030	4,344	9,733	6,394	38,902	(9,358)	—	58,543
Finance costs, net									(11,188)
Foreign exchange gain, net									15,091
Other income, net									5,497
Share of loss of joint ventures									(2)
Income tax expenses									(3,675)
Profit for the period from continuing operations									64,266
Total assets	76,913	802,130	206,688	114,725	59,168	324,790	68,033	—	1,652,447
Capital expenditures	35	1,138	—	767	500	7,795	186	—	10,421
Amortization and depreciation	455	3,575	—	744	732	8,004	349	—	13,859
Liabilities	9,194	61,835	6,177	6,403	5,222	42,934	490,484	—	622,249

During the three months ended 30 September 2016, revenues of approximately USD 94,915 thousand are derived from two external customers. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 94% 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 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 30 September 2016	As of 30 September 2016
Ukraine	329,899	714,314
Russian Federation	54,164	52,210
Total	384,063	766,524

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 30 September 2017 (in thousands of US dollars, unless otherwise stated)

5. Acquisition and Disposal of Subsidiaries

On 4 July 2017, the Group has acquired 100% effective ownership of AIU (Agro Invest Ukraine) Group: a farming business that manages about 27,500 hectares of leasehold farmland and over 170,000 tons of grain storage capacity.

The most material acquired companies of AIU Group were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Agro Logistics Ukraine LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100.00%	04 July 2017
Agro Invest Ukraine LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.00%	04 July 2017

As of the date of acquisition, the provisional fair values of assets, liabilities and contingent liabilities were as follows:

	Fair value
Assets	
Current assets:	
Cash and cash equivalents	4
Trade accounts receivable, net	176
Prepayments to suppliers and other current assets, net	316
Corporate income tax prepaid	29
Taxes recoverable and prepaid, net	2,735
Inventory	2,668
Biological assets	13,568
Total current assets	19,496
Non-current assets:	
Property, plant and equipment, net	23,161
Intangible assets, net	14,385
Deferred tax assets	40
Other non-current assets	270
Total non-current assets	37,856
Total assets	57,352
Liabilities and equity	
Current liabilities:	
Trade accounts payable	3,021
Advances from customers and other current liabilities	687
Total current liabilities	3,708
Non-current liabilities:	
Deferred tax liabilities	1,463
Total non-current liabilities	1,463
Fair value of net assets of acquired Subsidiaries	52,181
Non controlling interest	—
Fair value of acquired net assets	52,181
Gain on bargain purchase	(4,965)
Total cash considerations due and payable	47,216
Less: acquired cash	(4)
Net cash outflow on acquisition of subsidiaries	(46,512)
Net cash due and payable	(700)

Since initial accounting is incomplete as of the reporting date due to finalization of relevant calculations and market valuations, only provisional amounts were recognized to determine net assets, and result of acquisition. After finalization of relevant information retrospective adjustments to the provisional amounts will be made. The Group supposes to finalize result of acquisition and relevant amounts till the end of the period ended 30 September 2018.

The Group does not disclose the revenue and net profit of the acquired group as if it has been acquired at the beginning of the reporting period due to the fact that the beginning of the reporting period almost coincides with the date of acquisition.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

5. Acquisition and Disposal of Subsidiaries (continued)

Acquired group manages world-class grain storage infrastructure which complemented the recent expansion of our farmland bank in the region and completes our land bank expansion strategy.

Based on the knowledge available as of 30 September 2017 the management is in process of verification that all acquired or assumed liabilities have been fully accounted for, and net assets acquired have not been overstated. Gain on bargain purchase recognised reflects the ability of the management of the Group to negotiate favourable terms on the acquisition of companies. Gain on bargain purchase was recognized in the amount of USD 4,965 thousand within 'Other expenses, net' in the consolidated statement of profit or loss.

During the three months ended 30 September 2017, as a result of the optimization process of its legal structure, the Group disposed of one grain elevator located in Poltava region. The net assets of the disposed entity as of the date of disposal were equal to USD 137 thousand and the cash consideration received was USD 2,013 thousand (out of which USD 1,404 thousand was received during this reporting period).

No entities were acquired during the three months ended 30 September 2016.

During the three months ended 30 September 2016, the Group disposed of two grain elevators located in Mykolaiv and Poltava regions. The net assets of the disposed entities as of the date of disposal were equal to USD 212 thousand and the cash consideration received was USD 1,890 thousand (out of which USD 319 thousand was received during the period).

During the three months ended 30 September 2016, the Group disposed of one of its export terminals located in Mykolaiv region. The net assets of the disposed entity as of the date of disposal were equal to USD 3,408 thousand and the cash consideration received was USD 7,500 thousand (out of which USD 1,085 was received during the period).

6. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Cash with banks in USD	75,727	90,369	68,873
Cash with banks in UAH	39,951	52,067	23,036
Cash with banks in other currencies	1,138	951	1,424
Cash on hand	8	5	3
Total	116,824	143,392	93,336
Less restricted and blocked cash on security bank accounts	(1,719)	(3,927)	(123)
Less bank overdrafts (Note 13)	(16,000)	(52,300)	(15,702)
Cash and cash equivalents for the purposes of cash flow statement	99,105	87,165	77,511

7. Prepayments to suppliers and other current assets, net

As of 30 September 2017, prepayments to suppliers and other current assets, net increased to USD 92,871 thousand from USD 82,701 thousand as of 30 June 2017 (30 September 2016: USD 65,662 thousand) mostly due to the recent acquisitions of UAI and AIU Groups.

8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid decreased to USD 113,153 thousand as of 30 September 2017 from USD 135,257 thousand as of 30 June 2017 (30 September 2016: USD 119,621 thousand) mostly due to the repayment of VAT recoverable and prepaid and as a result of ordinary operating activity.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

9. Inventory

The balances of inventories were as follows:

	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Raw materials	196,936	109,951	161,544
Agricultural products	97,722	24,166	104,737
Finished products	89,381	221,369	80,672
Goods for resale	54,806	20,227	80,556
Work in progress	19,577	410	14,068
Fuel	3,404	2,770	2,055
Packaging materials	1,218	993	905
Other inventories	7,133	6,774	3,767
Total	470,177	386,660	448,304

As of 30 September 2017, raw materials were represented mainly by sunflower seeds in the amount of USD 158,054 thousand (as of 30 June 2017 and 30 September 2016: USD 89,644 thousand and USD 144,952 thousand, respectively).

As of 30 September 2017, finished products mostly consisted of sunflower oil in bulk in the amount of USD 72,255 thousand (as of 30 June 2017 and 30 September 2016: USD 204,596 thousand and USD 68,592 thousand, respectively).

As of 30 September 2017, inventory balances in the amount of USD 15,381 thousand (as of 30 June 2017 and 30 September 2016: USD 83,736 thousand and USD 243,929 thousand, respectively) were pledged as security for short-term borrowings (Note 13).

10. Biological Assets

Changes in the amount of biological assets for the three months ended 30 September 2017 and 2016 were caused by the crops harvesting and revaluation adjustment in accordance with IAS 41.

Net change in the fair value of biological assets and agricultural produce reflects the revaluation of crops in fields and agricultural produce balances to its fair value as of 30 September 2017 and 30 September 2016. For the three months ended 30 September 2016, the considerable positive effect of the revaluation of biological assets and agricultural produce introduced in the Interim Condensed Consolidated Statement of Profit or Loss was due to double-digit percentage growth of crop yields as a result of improvement in the cultivation technology and overall favorable weather conditions.

11. Property, Plant and Equipment, net

During the three months ended 30 September 2017, the Group acquired property, plant and equipment in the amount of USD 39,457 thousand (30 September 2016: USD 10,230 thousand). These purchases were related mainly to the acquisition of storage capacities and agricultural vehicles and equipment for silos and farming segments, respectively.

The decrease in property, plant and equipment in the amount of USD 2,877 thousand resulted from the depreciation of the Ukrainian hryvnia during the three months ended 30 September 2017 (30 September 2016: USD 4,204 thousand).

During the three months ended 30 September 2017, depreciation of property, plant and equipment amounted USD 16,392 thousand (as of 30 September 2016: USD 11,541 thousand).

As of 30 September 2017, property, plant and equipment with a carrying amount of USD 99,274 thousand (as of 30 June 2017 and 30 September 2016: USD 100,950 and USD 98,150 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 13, 14).

As of 30 September 2017, property, plant and equipment with a carrying amount of USD 27,149 thousand (as of 30 June 2017 and 30 September 2016: USD 27,578 and USD 28,934 thousand, respectively) were pledged by the Group as guarantee for amount due and payable within the acquisition of Prydniprovskiy OEP.

As of 30 September 2017, 30 June 2017 and 30 September 2016, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 13,135 thousand, USD 15,004 thousand and USD 15,268 thousand, respectively. Additions during the three months ended 30 September 2017 totaled USD 3,007 thousand (as of 30 September 2016: USD 4,068 thousand).

12. Investments in Joint Ventures

For the three months ended 30 September 2017, the share of loss of joint venture (Taman) equaled USD 501 thousand (for the three months ended 30 September 2016: loss USD 2 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 535 thousand (for the three months ended 30 September 2016: USD 526 thousand) and interest expenses in the amount of USD 317 thousand (for the three months ended 30 September 2016: USD 475 thousand).

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

13. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Bank credit lines	91,887	78,866	254,821
Bank overdrafts	16,000	52,300	15,702
Interest accrued on short-term borrowings	766	436	726
Interest accrued on long-term borrowings	6	77	1,309
Total	108,659	131,679	272,558

The balances of short-term borrowings as of 30 September 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
Ukrainian subsidiary of European bank	4.00%	USD	October 2017	20,900
European bank	Libor + 3.25%	USD	November 2017	16,000
Ukrainian subsidiary of European bank	11.00%	UAH	October 2017	11,707
Ukrainian subsidiary of European bank	11.20%	UAH	October 2017	9,426
Ukrainian subsidiary of European bank	6.50%	USD	October 2017	8,991
Ukrainian subsidiary of European bank	12.50%	UAH	October 2017	7,541
Ukrainian subsidiary of European bank	11.00%	UAH	November 2017	5,656
Ukrainian subsidiary of European bank	11.50%	UAH	October 2017	5,219
Ukrainian subsidiary of European bank	10.25%	UAH	October 2017	5,015
Ukrainian subsidiary of European bank	2.80%	USD	October 2017	4,500
Ukrainian subsidiary of European bank	11.95%	UAH	December 2017	3,771
Ukrainian subsidiary of European bank	3.80%	USD	October 2017	3,329
Ukrainian subsidiary of European bank	12.00%	UAH	October 2017	2,168
Ukrainian subsidiary of European bank	10.00%	UAH	October 2017	1,817
Ukrainian subsidiary of European bank	11.90%	UAH	November 2017	1,697
Ukrainian subsidiary of European bank	11.30%	UAH	November 2017	150
Total bank credit lines				107,887
Interest accrued on short-term borrowings				766
Interest accrued on long-term borrowings				6
Total				108,659

The balances of short-term borrowings as of 30 June 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 3.25%	USD	September 2017	52,300
Ukrainian subsidiary of European bank	3.80%	USD	March 2018	18,503
Ukrainian subsidiary of European bank	4.50%	USD	July 2017	12,450
European bank	Libor + 7.30%	USD	April 2018	10,000
Ukrainian subsidiary of European bank	11.75%	UAH	September 2017	9,960
Ukrainian subsidiary of European bank	12.00%	UAH	July 2017	9,579
Ukrainian subsidiary of European bank	6.50%	USD	September 2017	7,500
Ukrainian subsidiary of European bank	10.50%	UAH	July 2017	5,874
Ukrainian subsidiary of European bank	4.00%	USD	July 2017	5,000
Total bank credit lines				131,166
Interest accrued on short-term borrowings				436
Interest accrued on long-term borrowings				77
Total				131,679

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

13. Short-term Borrowings (continued)

The balances of short-term borrowings as of 30 September 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 5.90%	USD	August 2017	99,021
European bank	Libor + 5.65%	USD	June 2017	75,417
Ukrainian subsidiary of European bank	Libor + 5.80%	USD	September 2017	44,827
European bank	5.00%	USD	January 2017	15,702
Ukrainian subsidiary of European bank	18.50%	UAH	December 2016	13,798
Ukrainian subsidiary of European bank	13.00%	UAH	October 2016	7,718
Ukrainian subsidiary of European bank	8.00%	USD	June 2017	7,425
Ukrainian subsidiary of European bank	7.50%	USD	March 2017	5,000
Ukrainian subsidiary of European bank	11.00%	UAH	October 2016	1,615
Total bank credit lines				270,523
Interest accrued on short-term borrowings				726
Interest accrued on long-term borrowings				1,309
Total				272,558

As of 30 September 2017, the undrawn short-term bank credit lines amounted to USD 74,433 thousand (as of 30 June 2017 and 30 September 2016: USD 57,710 thousand and USD 251,473 thousand, accordingly).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Cash and cash equivalents (Note 6)	—	2,330	123
Inventory (Note 9)	15,381	83,736	243,929
Other financial assets	17,318	15,420	—
Property, plant and equipment (Note 11)	99,274	100,950	40,967
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable	—
Total	131,973	202,436	285,019

As of 30 September 2017 and 30 June 2017, stakes in Subsidiaries were pledged to secure short-term borrowings including sixteen agricultural companies. As of 30 September 2016, stakes in Subsidiaries were not pledged to secure short-term borrowings.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

14. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Long-term bank borrowings	6,893	8,344	138,886
Current portion of long-term borrowings	(2,754)	(2,782)	(75,675)
Total	4,139	5,562	63,211

The balances of long-term borrowings as of 30 September 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 1.65%	USD	March 2020	6,893
Total				6,893

The balances of long-term borrowings as of 30 June 2017 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 1.65%	USD	March 2020	8,344
Total				8,344

The balances of long-term borrowings as of 30 September 2016 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 8.00%	USD	August 2018	65,773
European bank	Libor + 7.50%	USD	February 2018	46,000
European bank	Libor + 7.30%	USD	April 2018	17,500
European bank	Libor + 1.65%	USD	March 2020	9,613
Total				138,886

As of 30 September 2017, 30 June 2017 and 30 September 2016, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 September 2017	As of 30 June 2017	As of 30 September 2016
Property, plant and equipment (Note 11)	—	—	57,183
Controlling stakes in Subsidiaries	—	—	Not quantifiable
Total	—	—	57,183

As of 30 September 2017 and 30 June 2017, stakes in Subsidiaries were not pledged to secure long-term borrowings (as of 30 September 2016: one agricultural company, one sunflower oil plant, one export terminal and one holding company).

15. 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 30 September 2017 accrued interest on bonds issued was USD 6,881 thousand.

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 the 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, respectively.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

16. Revenue

The Group's revenue was as follows:

	3 months ended 30 September 2017	3 months ended 30 September 2016
Revenue from sunflower oil sold in bulk, sunflower meal and cake	339,921	155,225
Revenue from grain sales	149,168	199,717
Revenue from bottled sunflower oil	29,938	20,337
Revenue from farming	15,189	6,519
Revenue from grain silo services	1,797	2,204
Revenue from transshipment services	81	61
Total	536,094	384,063

For the three months ended 30 September 2017, revenue from the Group's top five customers accounted for approximately 48.9% of total revenue (for the three months ended 30 September 2016, revenue from the top five customers accounted for 44.6% of total revenue).

17. Cost of Sales

Cost of sales was as follows:

	3 months ended 30 September 2017	3 months ended 30 September 2016
Cost of goods for resale and raw materials used	426,120	296,334
Amortization and depreciation	20,587	13,157
Payroll and payroll related costs	11,251	5,529
Rental payments	10,063	4,322
Other operating costs	4,847	3,449
Total	472,868	322,791

18. Foreign Exchange Gain, net

Foreign exchange gain, net was related to the following balances:

	3 months ended 30 September 2017	3 months ended 30 September 2016
Borrowings nominated in foreign currencies (including intercompany transactions)	(1,460)	11,603
Revaluation of balances nominated in foreign currencies	878	2,302
Cash and cash equivalents nominated in foreign currencies	328	(71)
Corporate income tax prepaid	(190)	(513)
VAT recoverable and prepaid	(65)	(3,152)
Obligations under financial leases	37	577
Other	7,880	4,345
Total	7,408	15,091

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 profit 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 30 September 2017, the Group prepaid USD 14,148 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (30 June 2017: USD 13,226 thousand and 30 September 2016: USD 14,949 thousand).

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2017 (in thousands of US dollars, unless otherwise stated)

20. Transactions with Related Parties

Related parties are the Beneficial Owner, companies under common control of the Beneficial Owner, joint venture 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 30 September 2017		As of 30 June 2017	
Prepayments to suppliers and other current assets, net	10,915	92,871	12,525	82,701
Other non-current assets	6,567	30,531	6,439	31,733
Trade accounts payable	187	68,381	188	52,776
Advances from customers and other current liabilities	10,152	91,055	11,282	88,665
Other non-current liabilities	3,053	32,611	3,053	30,646

As of 30 September 2017 and 30 June 2017, the Group did not create an allowance for trade accounts receivable, prepayments to suppliers and other current and non-current assets from related parties.

As of 30 September 2017, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 4,358 thousand (30 June 2017: USD 4,743 thousand).

As of 30 September 2017, prepayments to suppliers and other current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,402 thousand provided to Taman Grain Terminal Holding (30 June 2017: USD 2,367 thousand).

As of 30 September 2017, other non-current assets included an interest-free financing in the amount of USD 5,871 thousand provided to key management personnel (30 June 2017: USD 5,735 thousand).

As of 30 September 2017 and 30 June 2017, advances from customers and other current liabilities included USD 3,455 thousand in bonuses payable to the management.

As of 30 September 2017 and 30 June 2017, advances from customers and other current liabilities included an interest-free financial liability in the amount of USD 4,977 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.

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 30 September 2017		3 months ended 30 September 2016	
General and administrative expenses and distribution costs	(2,635)	(46,933)	(4,027)	(45,776)
Financial costs, net	(429)	(16,015)	(197)	(11,188)
Other income, net	12	1,987	117	5,497

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

For the three months ended 30 September 2017, distribution expenses included USD 385 thousand of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the three months ended 30 September 2016: USD 2,776 thousand).

All other transactions occurred with related parties under common control.

As of 30 September 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 30 September 2017 amounted to USD 128 thousand (30 September 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 9 people, amounted to USD 616 thousand for the three months ended 30 September 2017 (30 September 2016: 10 people, USD 593 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 30 September 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 30 September 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 which led to a hearing before the Tribunal in London in November 2015. As of 30 September 2017 it is not known when the award of the Tribunal will be available. Management believes that it is unlikely that any significant settlement will arise out of this lawsuit.

As of 30 September 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 86,178 thousand (30 June 2017: USD 86,548 thousand), from which USD 50,368 thousand related to VAT recoverability (30 June 2017: USD 50,565 thousand), USD 35,303 thousand related to corporate income tax (30 June 2017: USD 35,469 thousand) and USD 506 thousand related to other tax issues (30 June 2017: USD 514 thousand).

As of 30 September 2017, companies of the Group were engaged in ongoing litigation with tax authorities concerning tax issues for USD 30,350 thousand (30 June 2017: USD 30,803 thousand) of the aforementioned amount. Of this amount, USD 22,890 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 (30 June 2017: USD 23,260 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, could increase fiscal pressure on tax payers. Inconsistent application, interpretation, and enforcement of tax laws can lead to litigations resulting in the imposition of additional taxes, penalties, and interest, which could be material.

Facing the current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting significant amendments of the Tax Code of Ukraine which became effective from 1 January 2015, 1 January 2016 and 1 January 2017 except for certain provisions, which take effect at a later date.

Starting from the 1 January 2017, special tax regime in respect of VAT for agricultural enterprises was eliminated. As a result of the new legislation, the Group's agricultural farms, engaged in growing crops, have not retained any VAT liabilities during 2017 versus 15% retained in 2016 and 100% previously. In the same time, temporary VAT exemption for the supplies of certain types of grain crops has been removed since the beginning of 2016. This effectively means that the companies will continue to benefit from the reinstatement of VAT refunds on grain exports.

In addition, starting from 2017 agriculture producers will be subject to partial reimbursement (in the amount of 20%) of the costs paid for Ukrainian-made agriculture machinery and equipment purchases provided that certain conditions are met.

Furthermore, among the other changes applicable from the beginning of 2017, the Ukrainian Ministry of Finance launched public VAT refund register aimed to ensure timely and transparent refund of VAT. As result, registration of claims for VAT refunds will be made public on the official website of the State Fiscal Service of Ukraine as well as annual schedule of full scope tax audits. This effectively means that potentially there will be less temptation to organize unscheduled inspections of tax authorities that should improve the investment climate of Ukraine.

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 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 2016-2017, 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.

During the year ended 30 September 2017 annual inflation rate increased and reached 15.4% (2016: 7%). The economic situation began to stabilize in 2016, which resulted in GDP growth for the year ended 30 September 2017 by 2.1% (2016: contracted by 2%) 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 and 2016, Ukraine received the first tranches of extended fund facilities (EFF) agreed with the IMF. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amounting helping to refinance bonds due in 2019.

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 30 September 2017, the Group had commitments under contracts with a group of suppliers for a total amount of USD 6,792 thousand, mostly for the purchase of oil plant equipment, agricultural equipment and reconstruction of a terminal (30 September 2016: USD 3,554 thousand mostly for the purchase of equipment for export terminal).

Contractual Commitments on Sales

As of 30 September 2017, the Group had entered into commercial contracts for the export of 1,576,597 tons of grain and 860,149 tons of sunflower oil and meal, corresponding to an amount of USD 291,470 thousand and USD 353,144 thousand, respectively, in contract prices as of the reporting date.

As of 30 September 2016, the Group had entered into commercial contracts for the export of 2,173,000 tons of grain and 689,139 tons of sunflower oil and meal, corresponding to an amount of USD 406,570 thousand and USD 230,432 thousand, respectively, in contract prices as of the reporting date.

22. Fair Value of Financial Instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 'Financial Instruments: Disclosure' and 13 'Fair value measurement'. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties in an arm's length transaction, rather than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary for arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 September 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 34.3 million classified as held for trading since they had been acquired principally for trading purposes in the near time (as of 30 September 2016: nil). Fair value was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

The fair value is estimated to be the same as the carrying value of cash and cash equivalents, trade accounts receivable, trade accounts payable and short-term borrowings due to the short-term nature of the financial instruments. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

The following table below represents comparison by category of carrying amounts and fair value of the financial instruments:

	As of 30 September 2017		As of 30 June 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings	6,892	6,892	138,886	139,906
Bonds issued	500,778	541,477	—	—

For the three months ended 30 September 2017, the fair value of bank long-term borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 3.43% (30 September 2016: 7.52%) that is within level 2 of the fair value hierarchy.

The fair value of Bonds issued was estimated based on market quotations and is within Level 1 of the fair value hierarchy.

As of 30 September 2017, fair value of other non-current liabilities does not differ materially from its carrying amount.

There were no transfers between levels of fair value hierarchy. There were no changes in the valuation technique since the previous year.

23. Subsequent Events

No subsequent events occurred after the reporting date.