

KERNEL

**Q1**  
FY2019

**Condensed  
Consolidated  
Interim Financial  
Statements**

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for the three months ended  
30 September 2018

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# Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018

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# Key Highlights

for the three months ended 30 September 2018

## Key Highlights

- The **revenue** of Kernel Holding S.A. (*hereinafter "Kernel", the "Company"*) doubled in Q1 FY2018, reaching US\$ 1.1 billion, driven by strong grain export volumes and growing physical trade operations of Avere in the reporting period.
- Record high crop yields and production volumes expected for the on-going harvesting campaign translated into US\$ 41 million gain from the revaluation of biological assets in Q1 FY2019.
- The **EBITDA** of the group in Q1 FY2019 increased 2.2x y-o-y, to a record US\$ 101 million, primarily driven by Farming and supported by Infrastructure and Trading segment contribution.
  - EBITDA from **Oilseeds Processing** business reduced 23% y-o-y, stemming from expectedly lower margin of the business and slightly weaker sales volumes as we operated brought forward stock from the previous high-deficit season.
  - **Infrastructure and Trading** business doubled EBITDA y-o-y, as combination of solid grain export volumes from Ukraine and related profitability was further reinforced with strong Avere performance in Q1 FY2019.
  - **Farming** segment tripled EBITDA in the reporting period reaching US\$ 53 million, owing to favorable weather conditions, expanded land bank and productivity improvements.
- Net profit attributable to shareholders tripled in Q1 FY2019, amounting to US\$ 75 million.
- **Debt metrics** improved in the reporting quarter, with Net debt to EBITDA reducing to 2.5x and EBITDA-to-interest increasing to 4.0x.

## Corporate and regulatory

- **Credit highlights.** In October 2018 both Fitch and S&P affirmed our credit rating at "B+" and "B", respectively, with stable outlook. Also, in October 2018 we extended the maturity of our 200 million dollars pre-export credit facility, adding a short-term US\$ 90 million tranche maturing in August 2019 to better cover our working capital needs in the current season.
- **Assets optimization.** In Q1 FY2019, Kernel disposed several small and inefficient silos. We also completed the divestment of outdated simple press oilseed processing plant in Mykolaiv. The facility remained idle since August 2016 while it was rented to a third party.
- **Change in segment disclosure.** Company decided to change its segments disclosure, introducing three segments instead of six currently. We will combine bulk and bottled sunflower oil segments into Oilseeds Processing segment, as the fundamentals driving the performance of two segments are quite similar. Additionally, we consolidate grain, silo services and export terminals segments into one Infrastructure and Trading segment, as we start looking more at the margin through the whole value chain rather than profitability of each separate business, accounting also for a large number of intragroup transactions between our grain, silo and terminal businesses. We believe the proposed changes shall simplify the understanding of the company business by its stakeholders. For transparency and facilitation purposes, we shall continue to report six segments in MD&A section during each reporting date of FY2019. At the same time, the shift to a three segment disclosure would not entail any major changes to our standard quarterly operations updates.

US\$ million except ratios and EPS	Q1 FY2018	Q1 FY2019	y-o-y
<b>Income statement highlights</b>			
Revenue	536.1	<b>1,140.3</b>	2.1x
EBITDA <sup>1</sup>	46.0	<b>100.5</b>	2.2x
Net profit attributable to equity holders of Kernel Holding S.A.	22.8	<b>75.5</b>	3.3x
EBITDA margin	8.6%	<b>8.8%</b>	0.2pp
Net margin	4.3%	<b>6.6%</b>	2.4pp
EPS <sup>2</sup> , US\$	0.28	<b>0.92</b>	3.3x

## Cash flow highlights

Operating profit before working capital changes	38.4	<b>54.1</b>	41.1%
Decrease / (increase) in working capital	62.2	<b>(29.9)</b>	n/a
Cash generated from operations	100.5	<b>24.2</b>	(76.0%)
Net cash generated by operating activities	74.9	<b>(3.8)</b>	n/a
Net cash used in investing activities	(75.1)	<b>(72.2)</b>	(3.8%)

US\$ million except ratios	30 Sep 2017	30 June 2018	30 Sep 2018	q-o-q
<b>Liquidity and credit metrics</b>				
Net interest-bearing debt	506.5	622.1	<b>686.1</b>	10.3%
Readily marketable inventories <sup>3</sup>	395.7	325.2	<b>415.7</b>	27.8%
Adjusted net debt <sup>4</sup>	110.9	296.9	<b>270.5</b>	(8.9%)
Shareholders' equity	1,151.5	1,170.7	<b>1,176.9</b>	0.5%
Net debt / EBITDA <sup>5</sup>	1.7x	2.8x	<b>2.5x</b>	-0.3x
Adjusted net debt / EBITDA <sup>5</sup>	0.4x	1.3x	<b>1.0x</b>	-0.4x
EBITDA / Interest <sup>6</sup>	4.4x	3.4x	<b>4.0x</b>	+0.6x

Note: Financial year ends 30 June, Q1 ends 30 September

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

<sup>2</sup> EPS is measured in US Dollars per share based on 81.9 million shares for Q1 FY2019 and 81.9 million for Q1 FY2018.

<sup>3</sup> Readily marketable inventories are inventories such as corn, wheat, sunflower oil and other products that could easily be converted into cash due to their commodity characteristics, widely available markets and the international pricing mechanism.

<sup>4</sup> Adjusted net financial debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt and long-term interest-bearing debt, less cash and cash equivalents, marketable securities and readily marketable inventories at cost.

<sup>5</sup> Calculated based on 12-month trailing EBITDA.

<sup>6</sup> Calculated based on 12-month trailing EBITDA and net finance costs.

Hereinafter differences between totals and sums of the parts are possible due to rounding.

# Segment Results and Discussion

for the three months ended 30 September 2018

## Segment results summary (new format)

	Revenue, US\$ million			EBITDA, US\$ million		
	Q1 FY2018	Q1 FY2019	y-o-y	Q1 FY2018	Q1 FY2019	y-o-y
Oilseeds Processing	369.9	<b>356.9</b>	(3.5%)	21.0	<b>16.2</b>	(23%)
Infrastructure and Trading	161.5	<b>867.5</b>	5.4x	18.2	<b>38.3</b>	2.1x
Farming	68.3	<b>113.4</b>	66.0%	16.5	<b>52.8</b>	3.2x
Unallocated corporate expenses				(9.7)	<b>(6.7)</b>	(31%)
Reconciliation	(63.6)	<b>(197.6)</b>	3.1x			
<b>Total</b>	<b>536.1</b>	<b>1,140.3</b>	<b>2.1x</b>	<b>46.0</b>	<b>100.5</b>	<b>2.2x</b>

Differences are possible due to rounding.

## Oilseeds Processing

- **Sunflower seed processing volumes** in Q1 FY2019 reduced 23% y-o-y to 419 thousand tons. It reflected limited supply of stock on the market at the end of the sunflower seed processing season (July-September) following the weak harvest of sunflower seeds in autumn 2017. Given strong sunflower seed harvest in autumn 2018 (to be processed in Q2 FY2019 – Q1 FY2020), we envisage close to full capacity utilization of our oilseed processing plants in the remaining quarters of FY2019, targeting to crush 3.1 million tons of sunflower seeds for the full year, accumulating sizable stock to secure solid processing volumes in Q1 FY2020.
- **Sunflower oil sales volumes** in Q1 FY2019 declined by 4% y-o-y, standing at 405 thousand tons.
- **EBITDA margin** expectedly squeezed US\$ 40 per ton of sunflower oil sold in the reporting period reflecting the supply gap. This compares with US\$ 50 margin in Q1 FY2018 and US\$ 44 in Q4 FY2018. At the same time, we expect margin recovery for Ukrainian processors in Q2-Q4 FY2019 fueled by a robust supply of the seeds on the domestic market following the record harvest of sunflower seeds in autumn 2018 estimated at around 16.0 million tons.
- As a result, EBITDA of the segment reduced to US\$ 16 million, 24% down y-o-y and US\$ 2 million less than in the previous quarter.

## Infrastructure and Trading

- In Q1 FY2019 we **exported** 1.4 million tons of **grain from Ukraine**, up 86% y-o-y, comprised mostly from wheat and barley harvested in summer 2018 and leftover stocks of corn from a previous year crop. Strong export volumes also positively impacted utilization of our infrastructure network, increasing silo network in-take volumes by 12% y-o-y and export terminal throughput volumes in Ukraine by 17% y-o-y. For the full FY2019, we expect to export 6.2 million tons of grain from Ukraine (revising upward from 5.4 million tons initial guidance) utilizing our own infrastructure at the highest level possible and also using third-party facilities.
- **Segment's EBITDA** doubled on y-o-y basis in Q1 FY2019, reaching US\$ 38 million. While more than half of the improvement comes from Avere contribution, another half arises from better than expected volumes and margins for physical grain export from Ukraine, slightly undermined by weaker infrastructure performance (higher salary costs and gas prices for silo business and lower transshipment fees with higher overheads for export terminals).
- The general **outlook** for the segment's performance remains positive.

- In January 2019, we expect the first stage of our new grain transshipment terminal in Chornomorsk to become operational, contributing up to 1.0 million tons of incremental throughput capacity. The final commissioning is scheduled for autumn 2019, adding another 3 million tons of throughput capacity, allowing us to achieve 8 million tons of total annual grain transshipment capacity on our facilities in Chornomorsk port.

## Farming

- At the date of this report we almost completed this year's harvesting campaign, with only 8% of corn acreage still to be harvested. The Company achieved record-breaking yields in key crops with corn net yield standing at 9.8 tons per hectare (revising upward from 9.4 t/ha guidance provided a month ago following the progression of harvesting campaign), wheat at 5.2 t/ha, sunflower at 3.2 t/ha and soybean at 3.0 t/ha.
- Owing to supportive weather conditions, quick and successful integration of the landbank acquired a year ago and constant productivity improvements, we posted strong US\$ 53 million **EBITDA** from our farming business in Q1 FY2019, maintaining full-year segment's EBITDA guidance at US\$ 160 million.

## Segment volumes

metric tons	Q1 FY2018	Q1 FY2019	y-o-y
Oilseeds processed	542,354	<b>418,582</b>	(22.8%)
Sunflower oil sales <sup>1</sup>	423,555	<b>404,934</b>	(4.4%)
Trading volumes	804,679	<b>2,998,300</b>	272.6%
Ukraine	743,179	<b>1,382,753</b>	86.1%
Russia	61,500	–	n/m
Other <sup>1,2</sup>	–	<b>1,615,547</b>	n/m
Export terminal's throughput	1,290,001	<b>1,588,702</b>	23.2%
Ukraine	837,265	<b>982,637</b>	17.4%
Russia	452,736	<b>606,065</b>	33.9%
Grain and oilseeds received in inland silos	1,391,979	<b>1,558,290</b>	11.9%

**Note 1** Includes 110,070 tons of sunflower oil produced by Kernel plants and sold to Avere. Margins on that volumes are allocated to both Oilseeds Processing and Infrastructure & Trading segments.

**Note 2** Physical trading volumes (grain, meal, sunflower oil) reported by Avere, a subsidiary of Kernel involved in physical and proprietary trading.

Differences are possible due to rounding.

# Segment Results and Discussion

for the three months ended 30 September 2018

## Harvest update

	Acreage, thousand hectares			Net yields <sup>1</sup> , tons / hectare			Net tonnage, thousand tons		
	FY2018	FY2019	y-o-y	FY2018	FY2019	y-o-y	FY2018	FY2019	y-o-y
Corn	201.8	<b>224.1</b>	11.0%	6.7	<b>9.8</b>	45.7%	1,357.2	<b>2,196.3</b>	61.8%
Sunflower	133.6	<b>134.5</b>	0.7%	2.3	<b>3.2</b>	36.7%	311.1	<b>428.0</b>	37.6%
Wheat	145.7	<b>99.5</b>	(31.7%)	4.9	<b>5.2</b>	5.8%	709.5	<b>512.7</b>	(27.7%)
Soybean	64.8	<b>36.2</b>	(44.1%)	1.8	<b>3.0</b>	70.1%	114.8	<b>109.1</b>	(4.9%)
Other <sup>2</sup>	49.9	<b>34.7</b>	(30.6%)						
<b>Total</b>	<b>595.9</b>	<b>529.0</b>	<b>(11.2%)</b>				<b>2,492.5</b>	<b>3,246.1</b>	<b>30.2%</b>

**Note 1** Net crop yields and tonnage are based on 92% of corn acreage harvested and 100% of wheat, 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

**Note 2** Includes pea, rapeseed, barley, forage crops and other minor crops, as well as land left fallow for crop rotation purposes. Preliminary figures. Differences are possible due to rounding.

## Segment results summary (old format)

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons <sup>1</sup>			EBITDA margin, US\$/t <sup>2</sup>		
	Q1 FY2018	Q1 FY2019	y-o-y	Q1 FY2018	Q1 FY2019	y-o-y	Q1 FY2018	Q1 FY2019	y-o-y	Q1 FY2018	Q1 FY2019	y-o-y
<b>Combined landbank</b>												
<b>Sunflower oil</b>												
Sunflower oil sold in bulk	334.3	<b>324.3</b>	(3%)	16.8	<b>13.9</b>	(17%)	392.8	<b>374.9</b>	(5%)	42.8	<b>37.1</b>	(13%)
Bottled sunflower oil	35.6	<b>32.6</b>	(8%)	4.2	<b>2.2</b>	(47%)	32.6	<b>31.9</b>	(2.4%)	128.2	<b>70.1</b>	(45%)
	<b>369.9</b>	<b>356.9</b>	<b>(4%)</b>	<b>21.0</b>	<b>16.2</b>	<b>(23%)</b>						
<b>Grain and infrastructure</b>												
Grain trading	149.2	<b>855.4</b>	5.7x	1.5	<b>24.2</b>	15.9x	804.7	<b>2,888.2</b>	3.6x	1.9	<b>8.4</b>	4.4x
Export terminals <sup>3</sup>	11.4	<b>10.5</b>	(7%)	8.6	<b>8.3</b>	(3%)	837.3	<b>982.6</b>	17.4%	10.2	<b>8.4</b>	(18%)
Silo services	12.6	<b>13.2</b>	5%	8.2	<b>5.9</b>	(28%)	1,392.0	<b>1,558.3</b>	11.9%	5.9	<b>3.8</b>	(36%)
	<b>173.2</b>	<b>879.2</b>	<b>5.1x</b>	<b>18.2</b>	<b>38.3</b>	<b>2.1x</b>						
<b>Farming</b>	<b>68.3</b>	<b>113.4</b>	<b>66%</b>	<b>16.5</b>	<b>52.8</b>	<b>3.2x</b>						
Unallocated corporate expenses				(9.7)	<b>(6.7)</b>	(31%)						
Reconciliation	(75.3)	<b>(209.2)</b>	2.8x									
<b>Total</b>	<b>536.1</b>	<b>1,140.3</b>	<b>2.1x</b>	<b>46.0</b>	<b>100.5</b>	<b>2.2x</b>						

**Note 1** Million liters for bottled sunflower oil

**Note 2** US\$ per thousand of liters for bottled sunflower oil;

**Note 3** Excluding Taman. Earnings from the joint venture are accounted for below EBITDA. Differences are possible due to rounding.

# Financial Highlights

for the three months ended 30 September 2018

## Income statement highlights:

- Group **revenue** in Q1 FY2019 increased 2.1x y-o-y, to the highest ever first quarter level of US\$ 1.1 billion, driven by strong grain export and trading volumes.
- A record high harvest in Kernel history translated into US\$ 41 million **net gain from revaluation of biological assets and agricultural produce**, as compared to US\$ 3 million for the same period a year ago.
- Cost of sales** exceeded US\$ 1 billion, 2.2x up y-o-y, growing together with revenue on strong export and international trade volumes.
- As a result, **gross profit** in Q1 FY2018 increased 2.3x y-o-y, reaching US\$ 151 million.
- Other operating income** amounted to US\$ 17 million, 3.0x up y-o-y, mainly due to the profit generated by Avere operations.
- Given stronger sales volumes, **distribution costs** increased to US\$ 65 million in Q1 FY2019, standing at 5.7% of revenue, slightly up from 5.3% a year ago.
- General and administrative expenses** increased by 14% y-o-y, to US\$ 21 million.
- Consequently, **operating profit** surged 3.3x y-o-y, to US\$ 82 million.
- Following the growth in our interest-bearing debt, **net financial costs** increased by US\$ 4 million y-o-y, to US\$ 20 million in Q1 FY2019.
- FX gain** in the reporting period comprised US\$ 12 million, owing to the revaluation of intra-group balances denominated in other than functional currencies.
- After accounting for other expenses, share of profit of joint venture, and corporate income tax gain, **net profit** of the Company in Q1 FY2019 increased 3.4x to US\$ 78 million, of which US\$ 75 million attributable to shareholders of Kernel Holding S.A.

## Cash flow highlights:

- Operating profit before working capital changes** in Q1 FY2019 amounted to US\$ 54 million, adding US\$ 16 million comparing to the same quarter a year ago.
- Working capital** in the reporting period increased by US\$ 30 million.
- Net cash used in investing activities** totaled at US\$ 72 million, of which US\$ 47 million was used on purchase of property, plant and equipment.

## Credit metrics highlights:

- Net debt** of the Company as of 30 September 2018 increased by US\$ 64 million as compared to 30 June 2018, due to higher needs in working capital financing at the beginning of the season. Movements in **readily-marketable inventories** ("RMI") were quite typical for this part of the season: sunflower oil and meal stock reduced by US\$ 153 million, sunflower seed inventories increased by US\$ 154 million, and grain inventory increased by US\$ 90 million. As a result, RMI grew by US\$ 90 million. Net debt adjusted for RMI reduced by US\$ 26 million in Q1 FY2019.
- Net-debt-to-EBITDA** ratio as of 30 September 2018 (measured on 12 months trailing basis) reduced to 2.5x, as compared to 2.8x as of 30 June 2018. Interest coverage improved to 4.0x EBITDA-to-Interest over the same period.
- In October 2018 both Fitch and S&P affirmed Kernel's credit rating at "B+" and "B", respectively, with stable outlook.
- In October 2018 the Company extended the maturity of its 200 million dollars pre-export credit facility until 31 August 2021, adding also a short-term US\$ 90 million tranche maturing in August 2019 to better cover working capital needs in the current season.

## Credit metrics

US\$ million, except ratios	30 Sep 2017	30 Jun 2018	30 Sep 2018	q-o-q	y-o-y
Short-term interest-bearing debt	118.5	245.5	<b>288.5</b>	17.5%	143.3%
Long-term interest-bearing debt	498.0	497.6	<b>498.9</b>	0.3%	0.2%
Obligations under finance lease	6.8	10.9	<b>10.5</b>	(4.2%)	55.3%
<b>Gross interest-bearing debt</b>	<b>623.3</b>	<b>754.1</b>	<b>797.9</b>	<b>5.8%</b>	<b>28.0%</b>
Cash and cash equivalents	116.8	132.0	<b>111.7</b>	(15.4%)	(4.4%)
<b>Net interest-bearing debt</b>	<b>506.5</b>	<b>622.1</b>	<b>686.1</b>	<b>10.3%</b>	<b>35.5%</b>
Readily marketable inventories	395.7	325.2	<b>415.7</b>	27.8%	5.1%
of which sunflower oil and meal	89.5	217.9	<b>65.0</b>	(70.2%)	(27.4%)
Sunflower seeds	154.7	57.6	<b>211.8</b>	3.7x	1.4x
Grains and other RMIs	151.5	49.7	<b>138.9</b>	2.8x	(8.3%)
<b>Adjusted net financial debt</b>	<b>110.9</b>	<b>296.9</b>	<b>270.5</b>	<b>(8.9%)</b>	<b>2.4x</b>
Shareholders' equity <sup>1</sup>	1,151.5	1,170.7	<b>1,176.9</b>	0.5%	2.2%
Net debt / EBITDA <sup>2</sup>	1.7x	2.8x	<b>2.5x</b>	(0.3x)	0.7x
Adjusted net debt / EBITDA <sup>2</sup>	0.4x	1.3x	<b>1.0x</b>	(0.4x)	0.6x
EBITDA / Interest <sup>3</sup>	4.4x	3.4x	<b>4.0x</b>	0.6x	(0.3x)

**Note 1** Total equity attributable to Kernel Holding S.A. shareholders.

**Note 2** Net debt / EBITDA and Adjusted net debt / EBITDA are calculated based on 12-month trailing EBITDA.

**Note 3** EBITDA / Interest is calculated based on 12-month trailing EBITDA and net finance costs.

Differences are possible due to rounding.

# Alternative Performance Measures

To comply with ESMA Directive on APMs, Kernel Holding S.A. (hereinafter "the Group") 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 securities analysts, investors and other interested parties in evaluating 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 before income tax adding back share of (loss)/gain of joint ventures, net other (expenses)/income, net foreign exchange gain, 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.

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

in thousand US\$	3 months ended 30 September 2017	3 months ended 30 September 2018
<b>Profit before income tax</b>	<b>17,662</b>	<b>75,277</b>
<i>add back:</i>		
Financial costs, net	(16,015)	19,579
Foreign exchange gain, net	7,408	(11,942)
Other (expenses)/income, net	1,987	(431)
Share of (loss)/gain of joint venture	(501)	(392)
Amortization and depreciation	(21,188)	18,440
<b>EBITDA</b>	<b>45,971</b>	<b>100,531</b>

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 of 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 the 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.

# 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 expansion 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, less amounts advanced to related parties, less payment to acquire financial assets less purchase of financial assets.

## Investing Cash Flows

The Group uses investing cash flows as a measure of its expenditures on investments and which is defined as net cash used in investing activities less purchase of property, plant and equipment, less proceeds from disposal of property, plant and equipment.

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

in thousand US\$	As of 30 September 2017	As of 30 June 2018	As of 30 September 2018
<b>Total current assets</b>	<b>1,075,896</b>	<b>1,204,269</b>	<b>1,324,332</b>
<i>less:</i>			
Cash and cash equivalents	116,824	132,018	111,742
Total current liabilities	277,730	475,516	603,410
Assets classified as held for sale	–	14,689	–
<i>add back:</i>			
Short-term borrowings	108,659	224,773	277,700
Current portion of long-term borrowings	2,754	2,811	3,625
Current portion of obligations under finance lease	2,489	3,236	3,404
Interest on bonds issued	7,131	17,949	7,131
<b>Working Capital</b>	<b>802,375</b>	<b>830,815</b>	<b>901,040</b>

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

in thousand US\$	3 months ended 30 September 2017	3 months ended 30 September 2018
<b>Net cash used in investing activities</b>	<b>(75,130)</b>	<b>(72,242)</b>
<i>less:</i>		
Purchase of intangible and other non-current assets	(1,081)	(9,679)
Disposal of subsidiaries	1,404	5,405
Acquisition of subsidiaries	(46,512)	–
Amounts advanced for subsidiaries	2,502	–
Amount advanced to related parties	–	(10,000)
Payment to acquire financial assets	–	(13,429)
(Purchases) / sale of financial assets	(15,026)	–
<b>Fixed assets investments</b>	<b>(16,417)</b>	<b>(44,539)</b>

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

in thousand US\$	3 months ended 30 September 2017	3 months ended 30 September 2018
<b>Net cash used in investing activities</b>	<b>(75,130)</b>	<b>(72,242)</b>
<i>less:</i>		
Purchase of property, plant and equipment	(17,460)	(47,039)
Proceeds from disposal of property, plant and equipment	1,043	2,500
<b>Investing cash flows</b>	<b>(58,713)</b>	<b>(27,703)</b>



# 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 before income tax adding back income, share of (loss)/gain in joint ventures, net other expenses, 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 loss/gain in joint ventures, net other (expenses)/income, net foreign exchange gain, net finance costs, amortization and depreciation, less cash used in investing activities, finance costs paid, income tax paid, changes in working capital, 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\$	3 months ended 30 September 2017	3 months ended 30 September 2018
<b>Profit before income tax</b>	<b>17,662</b>	<b>75,277</b>
<i>add back:</i>		
Financial costs, net	16,015	19,579
Foreign exchange gain(loss), net	(7,408)	(11,942)
Other (expenses)/income, net	(1,987)	(431)
Share of (loss)/gain of joint venture	501	(392)
Amortization and depreciation	21,188	18,440
<b>EBITDA</b>	<b>45,971</b>	<b>100,531</b>
<i>less:</i>		
Purchase of property, plant and equipment	17,460	47,039
Proceeds from disposal of property, plant and equipment	(1,043)	(2,500)
Finance costs paid	22,445	26,337
Income tax paid	3,179	1,673
Movement in allowance for doubtful receivables	(53)	(79)
Net change in fair value of biological assets and agriproduce	2,807	41,466
Net non-realizable foreign exchange loss/(gain)	1,548	8,860
Other accruals	(856)	274
Other	4,167	(4,111)
<b>Funds from operations</b>	<b>(3,683)</b>	<b>(18,428)</b>

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

in thousand US\$	3 months ended 30 September 2017	3 months ended 30 September 2018
<b>Profit before income tax</b>	<b>17,662</b>	<b>75,277</b>
<i>add back:</i>		
Financial costs, net	16,015	19,579
Foreign exchange gain(loss), net	(7,408)	(11,942)
Other (expenses)/income, net	(1,987)	(431)
Share of (loss)/gain of joint venture	501	(392)
Amortization and depreciation	21,188	18,440
<b>EBITDA</b>	<b>45,971</b>	<b>100,531</b>
<i>less:</i>		
Net cash used in investing activities	75,130	72,242
Changes in working capital	(62,169)	29,945
Finance costs paid	22,445	26,337
Income tax paid	3,179	1,673
Movement in allowance for doubtful receivables	(53)	(79)
Net change in fair value of biological assets and agriproduce	2,807	41,466
Net non-realizable foreign exchange loss/(gain)	1,548	8,860
Other accruals	(856)	274
Other	4,167	(4,111)
<b>Free cash flows</b>	<b>(227)</b>	<b>(76,076)</b>

# 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; whether there are widely available and liquid markets for the inventory; if the pricing and margins on the inventory are hedged through forward sales and can be identified and appropriately valued; if there is stable and/or predictable end-user demand for the inventory; and whether the inventory is not perishable in short-term.

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 2017	As of 30 June 2018	As of 30 September 2018
Sunflower oil & meal	89,500	217,878	64,957
Sunflower seed	154,673	57,599	211,824
Grains	150,846	49,031	138,882
Other	75,158	43,945	85,925
<b>Total</b>	<b>470,177</b>	<b>368,453</b>	<b>501,588</b>
<i>of which: Readily marketable inventories</i>	<b>395,661</b>	<b>325,164</b>	<b>415,663</b>

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 2017	As of 30 June 2018	As of 30 September 2018
Short-term interest-bearing debt	118,544	245,533	288,456
Long-term interest-bearing debt	4,139	2,812	3,854
Bonds issued	493,898	494,796	495,072
Obligations under finance lease	6,754	10,946	10,490
<b>Gross interest-bearing debt</b>	<b>623,335</b>	<b>754,087</b>	<b>797,872</b>
less: cash and cash equivalents	116,824	132,018	111,742
<b>Net interest-bearing debt</b>	<b>506,511</b>	<b>622,069</b>	<b>686,130</b>
less: readily marketable inventories	395,661	325,164	415,663
<b>Adjusted net financial debt</b>	<b>110,850</b>	<b>296,905</b>	<b>270,467</b>

# Alternative Performance Measures continued

The Management believes that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs are used by the Management for performance analysis, planning, reporting and incentive setting purposes. The measures are also used in discussions with the investors, investment analyst community and credit rating agencies.

APM	Calculation	Why APM is the most important for management
<b>EBITDA</b>	Profit before income tax adding back share of (loss)/gain of joint ventures, net other (expenses)/income, net foreign exchange gain, net finance costs, and amortization and depreciation.	EBITDA is the main metric used by management of the Group to measure operating performance. It is also widely used by investors when evaluating businesses, and by rating agencies and creditors to evaluate the leverage
<b>Working Capital</b>	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).	The indicator of working capital is important for the company, as we are involved in trading and processing activities and hold on the balance of large volumes of stocks. The company also invests in business expansion, which needs working capital investments to increase efficiency. It is useful for users and investors because measure of both a company's efficiency and its short-term financial health. It also helps management to keep a business operating smoothly and meet all its financial obligation within the coming year.
<b>Fixed Assets Investments</b>	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, less purchase of financial assets.	Kernel is executing a solid investment program as a part of Strategy 2021, and fixed assets investment is an important measure to monitor capital expenditure as a part of the execution of investment program.
<b>Investing Cash Flows</b>	Net cash used in investing activities less purchase of property, plant and equipment, less proceeds from disposal of property, plant and equipment.	As the Group grew and developed through acquisitions, this APM helps to monitor the M&A and other investing activities of the Group.
<b>Funds from Operations</b>	Profit before income tax adding back income, share of (loss)/gain in joint ventures, net other expenses, 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.	The Group uses this APM as a pre-working capital measure that reflects our ability to generate cash for investment, debt servicing and distributions to shareholders.
<b>Free Cash Flows</b>	Profit/(loss) before income tax adding back share of loss/gain in joint ventures, net other (expenses)/income, net foreign exchange gain, net finance costs, amortization and depreciation, less cash used in investing activities, finance costs paid, income tax paid, changes in working capital, 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 Group uses free cash flow APM as it reflects the cash generating capability of the Group to repay debt or carry out acquisitions.
<b>Readily Marketable Inventories</b>	Agricultural inventories, such as corn, wheat, barley, soy-bean, sunflower seed, meal and oil	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.
<b>Interest-bearing Debt</b>	Sum of short-term borrowings, current portion of long-term borrowings, long-term borrowings, bonds issued and present value of lease obligations.	The Group uses Interest-bearing Debt APM, as it is a useful measure of the leverage of the Group, which is widely used by credit investors and rating agencies.

# Selected Financial Data

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

	USD		PLN		EUR	
	30 September 2018	30 September 2017	30 September 2018	30 September 2017	30 September 2018	30 September 2017
I. Revenue	<b>1,140,304</b>	536,094	<b>4,223,442</b>	1,943,234	<b>980,910</b>	456,430
II. Profit from operating activities	<b>82,091</b>	24,783	<b>304,047</b>	89,833	<b>70,616</b>	21,100
III. Profit before income tax	<b>75,277</b>	17,662	<b>278,810</b>	64,021	<b>64,755</b>	15,037
IV. Profit for the period from continuing operations	<b>78,429</b>	22,819	<b>290,484</b>	82,714	<b>67,466</b>	19,428
V. Net cash (used in)/generated by operating activities	<b>(3,834)</b>	74,903	<b>(14,200)</b>	291,215	<b>(3,298)</b>	63,772
VI. Net cash used in investing activities	<b>(72,242)</b>	(75,130)	<b>(267,569)</b>	(292,097)	<b>(62,144)</b>	(63,965)
VII. Net cash generated by financing activities	<b>81,093</b>	12,167	<b>300,351</b>	47,304	<b>69,758</b>	10,359
VIII. Total net cash flow	<b>5,017</b>	11,940	<b>18,582</b>	46,422	<b>4,316</b>	10,166
IX. Total assets	<b>2,345,469</b>	1,991,188	<b>8,620,537</b>	7,271,619	<b>2,018,199</b>	1,687,532
X. Current liabilities	<b>603,410</b>	277,730	<b>2,217,773</b>	1,014,242	<b>519,215</b>	235,376
XI. Non-current liabilities	<b>555,946</b>	557,508	<b>2,043,324</b>	2,035,963	<b>478,373</b>	472,488
XII. Issued capital	<b>2,164</b>	2,164	<b>7,954</b>	7,903	<b>1,862</b>	1,834
XIII. Total equity	<b>1,186,113</b>	1,155,950	<b>4,359,440</b>	4,221,414	<b>1,020,611</b>	979,668
XIV. Number of shares	<b>81,941,230</b>	81,941,230	<b>81,941,230</b>	81,941,230	<b>81,941,230</b>	81,941,230
XV. Profit per ordinary share (in USD/PLN/EUR)	<b>0.92</b>	0.28	<b>3.41</b>	1.01	<b>0.79</b>	0.24
XVI. Diluted number of shares	<b>82,799,192</b>	83,061,529	<b>82,799,192</b>	83,061,529	<b>82,799,192</b>	83,061,529
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	<b>0.91</b>	0.27	<b>3.38</b>	1.00	<b>0.78</b>	0.23
XVIII. Book value per share (in USD/PLN/EUR)	<b>14.36</b>	14.05	<b>52.78</b>	51.31	<b>12.36</b>	11.91
XIX. Diluted book value per share (in USD/PLN/EUR)	<b>14.21</b>	13.86	<b>52.23</b>	50.62	<b>12.23</b>	11.75

# Condensed Consolidated Interim Statement of Financial Position

as of 30 September 2018 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 September 2018	As of 30 June 2018	As of 30 September 2017
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	6	111,742	132,018	116,824
Trade accounts receivable, net	7	227,521	92,355	81,482
Prepayments to suppliers and other current assets, net	21	125,813	113,342	92,871
Corporate income tax prepaid	20	7,397	6,937	8,913
Taxes recoverable and prepaid, net		112,474	114,695	113,153
Inventory	8	501,588	368,453	470,177
Biological assets	9	153,762	289,436	156,209
Other current assets		84,035	72,344	36,267
Assets classified as held for sale	5	—	14,689	—
<b>Total current assets</b>		<b>1,324,332</b>	<b>1,204,269</b>	<b>1,075,896</b>
<b>Non-current assets</b>				
Property, plant and equipment, net	10	599,001	588,127	587,971
Intangible assets, net		104,776	104,466	114,007
Goodwill		102,219	103,691	113,794
Investments in joint ventures	11	52,610	52,218	50,524
Deferred tax assets		20,239	18,536	13,230
Corporate income tax prepaid	20	3,623	4,645	5,235
Other non-current assets	21	138,669	134,562	30,531
<b>Total non-current assets</b>		<b>1,021,137</b>	<b>1,006,245</b>	<b>915,292</b>
<b>Total assets</b>		<b>2,345,469</b>	<b>2,210,514</b>	<b>1,991,188</b>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade accounts payable	12	155,582	73,629	68,381
Advances from customers and other current liabilities	21	104,253	104,898	90,805
Short-term borrowings	13	277,700	224,773	108,659
Current portion of long-term borrowings	14	3,625	2,811	2,754
Interest on bonds issued	15	7,131	17,949	7,131
Other current liabilities		55,119	51,456	—
<b>Total current liabilities</b>		<b>603,410</b>	<b>475,516</b>	<b>277,730</b>
<b>Non-current liabilities</b>				
Long-term borrowings	14	3,854	2,812	4,139
Obligations under finance leases		7,086	7,710	4,265
Deferred tax liabilities		18,355	19,570	22,595
Bonds issued	15	495,072	494,796	493,898
Other non-current liabilities	21	31,579	32,506	32,611
<b>Total non-current liabilities</b>		<b>555,946</b>	<b>557,394</b>	<b>557,508</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>				
Issued capital		2,164	2,164	2,164
Share premium reserve		481,878	481,878	481,878
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve	2	8,378	8,114	7,294
Revaluation reserve		42,189	43,815	43,815
Translation reserve		(791,413)	(724,054)	(732,124)
Retained earnings		1,393,742	1,318,872	1,308,489
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>1,176,882</b>	<b>1,170,733</b>	<b>1,151,460</b>
Non-controlling interests		9,231	6,871	4,490
<b>Total equity</b>		<b>1,186,113</b>	<b>1,177,604</b>	<b>1,155,950</b>
<b>Total liabilities and equity</b>		<b>2,345,469</b>	<b>2,210,514</b>	<b>1,991,188</b>
Book value		1,176,882	1,170,733	1,151,460
Number of shares	2	81,941,230	81,941,230	81,941,230
Book value per share (in USD)		14.36	14.29	14.05
Diluted number of shares		82,799,192	82,887,231	83,061,529
Diluted book value per share (in USD)		14.21	14.12	13.86

On behalf of the Board

**Andriy Verevskyy**

Chairman of the Board

**Anastasiia Usachova**

Chief Financial Officer

# Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2018	3 months ended 30 September 2017
<b>Revenue</b>	16	<b>1,140,304</b>	536,094
Net change in fair value of biological assets and agricultural produce		<b>41,466</b>	2,807
Cost of sales	17	<b>(1,031,257)</b>	(472,868)
<b>Gross profit</b>		<b>150,513</b>	<b>66,033</b>
Other operating income, net	18	<b>17,127</b>	5,683
<b>Operating expenses</b>			
Distribution costs	21	<b>(64,655)</b>	(28,615)
General and administrative expenses	21	<b>(20,894)</b>	(18,318)
<b>Profit from operating activities</b>		<b>82,091</b>	<b>24,783</b>
Finance costs, net		<b>(19,579)</b>	(16,015)
Foreign exchange gain, net	19	<b>11,942</b>	7,408
Other income, net	21	<b>431</b>	1,987
Share of income/(loss) of joint ventures	11	<b>392</b>	(501)
<b>Profit before income tax</b>		<b>75,277</b>	<b>17,662</b>
Income tax benefit	20	<b>3,152</b>	5,157
<b>Profit for the period from continuing operations</b>		<b>78,429</b>	<b>22,819</b>
<b>Profit for the period</b>		<b>78,429</b>	<b>22,819</b>
<b>Profit for the period attributable to:</b>			
<b>Equity holders of Kernel Holding S.A.</b>		<b>75,493</b>	<b>22,818</b>
Non-controlling interests		<b>2,936</b>	1
<b>Earnings per share</b>			
From continuing operations			
Weighted average number of shares		<b>81,941,230</b>	81,941,230
Profit per ordinary share (in USD)		<b>0.92</b>	0.28
Diluted number of shares		<b>82,799,192</b>	83,061,529
Diluted profit per ordinary share (in USD)		<b>0.91</b>	0.27

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 2018 (in thousands of US dollars, unless otherwise stated)

	As of 30 September 2018	3 months ended 30 September 2017
<b>Profit for the period</b>	<b>78,429</b>	<b>22,819</b>
<b>Other comprehensive loss</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	(67,741)	(24,758)
<b>Other comprehensive loss, net</b>	<b>(67,741)</b>	<b>(24,758)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>10,688</b>	<b>(1,939)</b>
<b>Total comprehensive income/(loss) attributable to:</b>		
Equity holders of Kernel Holding S.A.	8,134	(1,848)
Non-controlling interests	2,554	(91)

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 2018 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders							Total	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			
<b>Balance as of 30 June 2017</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>7,014</b>	<b>43,815</b>	<b>(707,458)</b>	<b>1,285,671</b>	<b>1,153,028</b>	<b>4,581</b>	<b>1,157,609</b>
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
<b>Balance as of 30 September 2017</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>7,294</b>	<b>43,815</b>	<b>(732,124)</b>	<b>1,308,489</b>	<b>1,151,460</b>	<b>4,490</b>	<b>1,155,950</b>
Profit for the period	—	—	—	—	—	—	66,998	66,998	374	67,372
Other comprehensive loss	—	—	—	—	—	(64,344)	—	(64,344)	(391)	(64,735)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(64,344)	66,998	2,654	(17)	2,637
Distribution of dividends	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Effect of changes on minority interest	—	—	—	—	—	—	778	778	(778)	—
Recognition of share-based payments	—	—	—	(655)	—	—	1,183	528	—	528
<b>Balance as of 31 December 2017</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>6,639</b>	<b>43,815</b>	<b>(796,468)</b>	<b>1,356,963</b>	<b>1,134,935</b>	<b>3,695</b>	<b>1,138,630</b>
(Loss)/Profit for the period	—	—	—	—	—	—	(39,078)	(39,078)	12,909	(26,169)
Other comprehensive income	—	—	—	—	—	61,118	—	61,118	364	61,482
Total comprehensive income/(loss) for the period	—	—	—	—	—	61,118	(39,078)	22,040	13,273	35,313
Recognition of share-based payments	—	—	—	269	—	—	—	269	—	269
<b>Balance as of 31 March 2018</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>6,908</b>	<b>43,815</b>	<b>(735,350)</b>	<b>1,317,885</b>	<b>1,157,244</b>	<b>16,968</b>	<b>1,174,212</b>
Profit for the period	—	—	—	—	—	—	1,405	1,405	(9,473)	(8,068)
Other comprehensive income	—	—	—	—	—	11,296	—	11,296	141	11,437
Total comprehensive income/(loss) for the period	—	—	—	—	—	11,296	1,405	12,701	(9,332)	3,369
<b>Effect of changes on minority interest</b>	—	—	—	—	—	—	765	765	(765)	—
<b>Recognition of share-based payments</b>	—	—	—	1,206	—	—	(1,183)	23	—	23
<b>Balance as of 30 June 2018</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,114</b>	<b>43,815</b>	<b>(724,054)</b>	<b>1,318,872</b>	<b>1,170,733</b>	<b>6,871</b>	<b>1,177,604</b>
Profit for the period	—	—	—	—	—	—	75,493	75,493	2,936	78,429
Other comprehensive loss	—	—	—	—	—	(67,359)	—	(67,359)	(382)	(67,741)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(67,359)	75,493	8,134	2,554	10,688
Disposal of subsidiaries	—	—	—	—	(1,626)	—	—	(1,626)	—	(1,626)
Effect of changes on minority interest	—	—	—	—	—	—	(309)	(309)	(194)	(503)
Recognition of share-based payments	—	—	—	264	—	—	—	264	—	264
Change in accounting policy (Note 3)	—	—	—	—	—	—	(314)	(314)	—	(314)
<b>Balance as of 30 September 2018</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,378</b>	<b>42,189</b>	<b>(791,413)</b>	<b>1,393,742</b>	<b>1,176,882</b>	<b>9,231</b>	<b>1,186,113</b>

On behalf of the Board

**Andriy Verevskyi**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer



# Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2018	3 months ended 30 September 2017
<b>Operating activities:</b>			
<b>Profit before income tax</b>		<b>75,277</b>	<b>17,662</b>
<b>Adjustments for:</b>			
Amortization and depreciation		18,440	21,188
Finance costs, net		19,579	16,015
Movement in allowance for doubtful receivables		79	53
Other accruals		(274)	856
(Gain)/Loss on disposal of property, plant and equipment		(891)	887
Net foreign exchange gain		(20,802)	(8,956)
Net change in fair value of biological assets and agricultural produce		(41,466)	(2,807)
Gain on bargain purchase		—	(4,965)
Share of (income)/loss of joint ventures	11	(392)	501
Gain on sales of subsidiaries	5	(830)	(1,876)
Net (loss)/gain arising on financial assets classified as at fair value through profit or loss		5,401	(200)
<b>Operating profit before working capital changes</b>		<b>54,121</b>	<b>38,358</b>
<b>Changes in working capital:</b>			
Change in trade accounts receivable		(138,683)	6,517
Change in prepayments and other current assets		(11,362)	(10,082)
Change in restricted cash balance		25	2,208
Change in taxes recoverable and prepaid		(3,527)	24,787
Change in biological assets		147,702	107,556
Change in inventories		(117,441)	(82,705)
Change in trade accounts payable		83,389	12,513
Change in advances from customers and other current liabilities		9,952	1,375
<b>Cash generated from operations</b>		<b>24,176</b>	<b>100,527</b>
Finance costs paid		(26,337)	(22,445)
Income tax paid		(1,673)	(3,179)
<b>Net cash (used in)/generated by operating activities</b>		<b>(3,834)</b>	<b>74,903</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment		(47,039)	(17,460)
Proceeds from disposal of property, plant and equipment		2,500	1,043
Purchase of intangible and other non-current assets		(9,679)	(1,081)
Acquisition of subsidiaries	5	—	(46,512)
Disposal of subsidiaries	5	5,405	1,404
Amount advanced for subsidiaries		—	2,502
Amount advanced to related parties		(10,000)	—
Purchases of financial assets		—	(15,026)
Payment to acquire financial assets		(13,429)	—
<b>Net cash used in investing activities</b>		<b>(72,242)</b>	<b>(75,130)</b>
<b>Financing activities:</b>			
Proceeds from borrowings		133,227	100,840
Repayment of borrowings		(50,503)	(88,223)
<b>Net cash generated by financing activities</b>		<b>82,724</b>	<b>12,617</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,631)	(450)
Net increase in cash and cash equivalents		5,017	11,940
Cash and cash equivalents, at the beginning of the period	6	90,069	87,165
Cash and cash equivalents, at the end of the period	6	95,086	99,105

On behalf of the Board

**Andriy Verevsky**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 1. Corporate Information

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

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

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 2018, 30 June 2018 and 30 September 2017, 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 2018	30 June 2018	30 September 2017
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%	100.0%
Inerco Trade S.A.		Switzerland	100.0%	100.0%	100.0%
Restomon Ltd	Trading in sunflower oil, meal and grain.	British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%
Avere Commodities SA		Switzerland	60.0%	60.0% <sup>(2)</sup>	100.0%
Ukragroinvest LLC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	100.0%	100.0%	100.0%
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%	100.0%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%	99.2%
Ekotrans LLC		Ukraine	0.0% <sup>(1)</sup>	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 oil-seed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0%	100.0%	100.0%
Bilovodskiy KHP PJSC		Ukraine	91.12%	91.12%	91.12%
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%
Agro Invest Ukraine LLC		Ukraine	100.0%	100.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%	100.0%
Buymerske PE		Ukraine	100.0%	100.0%	100.0%

These condensed consolidated interim financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 27 October 2018.

**Note 1** The company was disposed on 30 July 2018.

**Note 2** The Group decreased its share in Avere Commodities S.A. in December 2017.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (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 2018 and 2017, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value. Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 September 2018		As of 30 September 2017	
	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')	32,344,404	39.47%	31,245,878	38.13%
Free float	49,596,826	60.53%	50,695,352	61.87%
<b>Total</b>	<b>81,941,230</b>	<b>100.00%</b>	<b>81,941,230</b>	<b>100.00%</b>

As of 30 September 2018 and 2017, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

As of 30 September 2018, the fair value of the share-based options granted to the management was USD 8,378 thousand and USD 264 thousand was recognized as an expense (part of payroll and payroll related expenses) during the three months ended 30 September 2018, with a corresponding increase in equity over the vesting period (30 September 2017: USD 7,294 thousand and USD 280 thousand, respectively).

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 216 thousand as of 30 September 2018 (30 September 2017: USD 210 thousand), may not be distributed as dividends.

## 3. Summary of Significant Accounting Policies

### Basis of Preparation and Accounting

These Condensed Consolidated Interim Financial Statements for the three months ended 30 September 2018 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' and do not include all of the information and disclosures required in the annual consolidated financial statements.

The accounting policies adopted are consistent with those of the previous financial year, except the adoption of new and amended standards as set out below.

### Adoption of New and Revised Standards

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

IFRS 15 applies to revenue from contracts with customers and replaces all of the revenue standards and interpretations in IFRS. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group elected the modified retrospective method in the result of applying of the IFRS 15 with no restatement of comparative information for prior period in accordance with the practical expedient not to restate contracts that begin and end within the same annual reporting period or have been completed as at 1 July 2018. The Group's revenue is recognized at the moment when the transfer of the significant risks and rewards of ownership of an assets to the customer occur, in generally this moment coincides with the fulfilment of performance obligations and transfer of controls as defined by standard. The adoption this standard has had no material impact on timing and amount of revenue recognized in the current period.

Allocated revenue of promised goods and services for the current period under requirements IFRS 15 was as follows:

Revenue from sales of commodities	1,098,167
Freight and other services	42,137
<b>Total</b>	<b>1,140,304</b>

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The Group reassess classification of financial assets from four to three primary categories (amortised cost, fair value through profit and loss, fair value through other comprehensive income). Reclassification depends on the business model for managing the financial assets and the contractual terms of the cash flows characteristics. Financial liabilities continue to be measured at either fair value through profit and loss or amortised cost.

The group applies a simplified approach permitted by IFRS to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. The expected credit loss on trade receivables is estimated using a provision matrix, based on historical credit loss experience and credit rating of customers, adjusted on observable and reasonable information.

The Group has adopted the other standards, amendments and interpretations effective for annual periods beginning on or after 1 July 2018. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group.

For standards and interpretations that were in issue but not yet effective, management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

### 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 2018	Average rate for the 3 months ended 30 September 2018	Closing rate as of 30 September 2017	Average rate for the 3 months ended 30 September 2017
USD/UAH	28.2983	27.3490	26.5211	25.9022
USD/EUR	0.8605	0.8602	0.8475	0.8514
USD/RUB	65.5906	65.5323	58.0169	59.0195
USD/PLN	3.6754	3.7038	3.6519	3.6248

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.

### Reclassifications

Certain reclassifications have been made to the condensed consolidated interim financial statements as of 30 September 2017 and for the period then ended to conform to the current period's presentation.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 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 chief operating decision makers.

Segments in the consolidated financial statements are defined in accordance with the type of activity, products sold or services provided.

Starting from 1Q FY 2019, the Group has changed the presentation of segment information in line with the performance management approach to its business activities. Comparative information as of 30 September 2017 was restated to reflect the changes in presentation.

Starting with FY 2019, Kernel is presenting its segment results within three business segments: Oilseeds Processing, Infrastructure and Trading, and Farming. The reason behind this aggregation is to align representation with the management decision making, as business processes within six business segments are not separate and decisions are mostly made to account for the combined effect on several segments.

In Oilseeds Processing segment, the Group combines what was previously reported as Sunflower Oil Sold in Bulk and Bottled Oil segments. With expansion of the Group's oilseed processing capacities, the share of Kernel's sales of sunflower oil through bottled oil channel has naturally declined, thus decreasing materiality of this sales channel. Furthermore, other sales channels emerged as the size of oilseed processing business evolved, while oil sold through different channels exhibit similar profitability trends. In the financial year ended 30 June 2018, bottled oil contributed less than 10% to the Company's EBITDA. Kernel's oilseed crushing business is managed jointly and thus split into segments is not justifiable.

In Infrastructure and Trading segment, the Group combines what was previously presented in Export Terminals, Silo Services, and Grain segments. These parts of the business form an integrated supply chain which is managed jointly. The management's decision-making has evolved compared with previous years to account for a throughput margin while making a decision on whether to buy or not a specific volume of grain. Under current framework, the management considers export terminals and grain storage facilities as production assets which serve grain merchandizing business and consequently uses a combined throughput margin to evaluate performance of Infrastructure and Trading business. In FY2019, 100% of the company's export terminals capacity and 80%+ of grain storage capacity is planned to be used for own export volumes.

In Farming segment, the Group continues to report results of its crop production business, which includes growing of corn, wheat, soybean, sunflower seed and rapeseed on the leasehold land, as well as some minor crops and small cattle farming operations. The scope of the farming segment under new segment reporting structure corresponds to the farming segment reported previously.

Presentation of the operating segments' activities in previous condensed consolidated financial statements was as follows:

Operating segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil sold in bulk	Production and sales of sunflower oil sold in bulk (crude and refined) and meal.
Export terminals	Grain handling and transshipment services in the ports of Chornomorsk and Mykolaiv.
Farming	Agricultural farming. Production of corn, wheat, soybean, sunflower seed and rapeseed.
Grain	Sourcing and merchandising of wholesale grain and other agriculture commodities, proprietary trading
Silo services	Provision of grain cleaning, drying and storage services.
Other	Income and expenses unallocated to other segments, which are related to the administration of the Holding.

The measure of profit and loss, and assets and liabilities is based on the Group 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.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 4. Key Data by Operating Segment

Key data by operating segment for the three months ended 30 September 2018:

	Oilseeds process-Infrastructure ing and Trading	Farming	Other	Re- conciliation	Continuing operations
Revenue (external)	274,713	857,399	8,192	—	1,140,304
Intersegment sales	82,192	10,128	105,235	—	(197,555)
<b>Total revenue</b>	<b>356,905</b>	<b>867,527</b>	<b>113,427</b>	<b>—</b>	<b>(197,555)</b>
Net change in fair value of biological assets and agricultural produce	—	—	41,466	—	41,466
Other operating income, net	(341)	13,517	3,951	—	17,127
<b>Profit/(Loss) from operating activities</b>	<b>12,017</b>	<b>36,136</b>	<b>41,117</b>	<b>(7,179)</b>	<b>—</b>
Finance costs, net					(19,579)
Foreign exchange gain, net					11,942
Other expenses, net					431
Share of profit of joint ventures					392
Income tax benefit					3,152
Profit for the period from continuing operations					78,429
<b>Total assets</b>	<b>822,379</b>	<b>730,550</b>	<b>692,144</b>	<b>100,396</b>	<b>—</b>
Capital expenditures	6,901	10,593	40,692	727	—
Amortization and depreciation	4,142	2,172	11,695	431	—
Liabilities	81,340	181,472	74,671	821,873	—

During the three months ended 30 September 2018, revenues of approximately USD 106,312 thousand (30 September 2017: USD 67,260 thousand) are derived from a single external customer. These revenues are attributed to Oilseeds processing and Infrastructure and Trading segments. Also, during that period, export sales amounted to 96% of total external sales.

Intersegment sales between Oilseed Processing segment and Infrastructure and Trading segment comprise of sunflower oil which is marketed by Avere, the activities of which are included in Infrastructure and Trading segment results.

Information about non-current assets by location of the assets and about revenue from continuing operations generated by the assets located in the areas is detailed below:

	Revenue from external customers	Non-current assets
	3 months ended 30 September 2018	As of 30 September 2018
Ukraine	561,828	946,632
Asia	379,278	—
South America	109,058	—
Other locations	90,140	54,266
<b>Total</b>	<b>1,140,304</b>	<b>1,000,898</b>

None of the other locations constituted more than 10% of total revenue or non-current assets individually.

Non-current assets that relate to other locations include investments in a joint venture (grain export terminal at the Taman port).

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (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 2017:

	Oilseeds processing	Infrastructure and Trading	Farming	Other	Re-conciliation	Continuing operations
Revenue (external)	369,859	151,046	15,189	—	—	536,094
Intersegment sales	—	10,416	53,148	—	(63,564)	—
<b>Total revenue</b>	<b>369,859</b>	<b>161,462</b>	<b>68,337</b>	<b>—</b>	<b>(63,564)</b>	<b>536,094</b>
Net change in fair value of biological assets and agricultural produce	—	—	2,807	—	—	2,807
Other operating income, net	439	306	4,938	—	—	5,683
<b>Profit/(Loss) from operating activities</b>	<b>16,911</b>	<b>16,027</b>	<b>1,899</b>	<b>(10,054)</b>	<b>—</b>	<b>24,783</b>
Finance costs, net						(16,015)
Foreign exchange gain, net						7,408
Other expenses, net						1,987
Share of profit of joint ventures						(501)
Income tax benefit						5,157
Profit for the period from continuing operations						22,819
<b>Total assets</b>	<b>907,066</b>	<b>333,025</b>	<b>653,345</b>	<b>97,752</b>	<b>—</b>	<b>1,991,188</b>
Capital expenditures	1,666	17,124	36,058	82	—	54,930
Amortization and depreciation	4,093	2,208	14,562	325	—	21,188
Liabilities	64,413	11,924	54,198	704,703	—	835,238

Presentation of the operating segments' activities in previous condensed consolidated financial statements for the three months ended 30 September 2017:

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

During the three months ended 30 September 2017, revenues of approximately USD 67,260 thousand (30 September 2016: USD 50,148 thousand) are derived from a single external customer. These revenues are attributed to Oilseeds Processing and Infrastructure and Trading 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 was 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 were allocated to the sunflower oil sold in bulk segment.

During the three months ended 30 September 2017, the Group operated 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
<b>Total</b>	<b>536,094</b>	<b>902,062</b>

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 5. Acquisition and Disposal of Subsidiaries

No entities were acquired during the three months ended 30 September 2018.

During the three months ended 30 September 2018, as a result of the optimization process of the logistic assets, the Group disposed of two grain elevators located in Ternopil and Kyiv regions. The net assets of the disposed entities as of the date of disposal were equal to USD 1,294 thousand and the cash consideration receivable was USD 1,477 thousand (out of which USD 392 thousand was received during this reporting period).

During the three months ended 30 September 2018, according to management's plan, the Group disposed of one of its oilseed crushing plants, located in Mykolaiv region. The net assets as of the date of disposal amounted to USD 14,432 thousand (including goodwill in the amount of USD 8,096 thousand). The cash consideration received was USD 15,079 thousand (out of which USD 5,013 thousand was received during this reporting period).

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 primary subsidiaries of the acquired group are 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 fair values of assets, liabilities and contingent liabilities were as follows:

	Fair value
<b>Assets</b>	
<b>Current assets:</b>	
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	1,574
Biological assets	12,006
<b>Total current assets</b>	<b>16,840</b>
<b>Non-current assets:</b>	
Property, plant and equipment, net	23,161
Intangible assets, net	14,385
Deferred tax assets	40
Other non-current assets	270
<b>Total non-current assets</b>	<b>37,856</b>
<b>Total assets</b>	<b>54,696</b>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Trade accounts payable	3,021
Advances from customers and other current liabilities	687
<b>Total current liabilities</b>	<b>3,708</b>
<b>Non-current liabilities:</b>	
Deferred tax liabilities	1,463
<b>Total non-current liabilities</b>	<b>1,463</b>
Fair value of net assets of acquired subsidiaries	49,525
Non controlling interest	—
Fair value of acquired net assets	49,525
Gain on bargain purchase	(2,309)
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)

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.

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.



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 5. Acquisition and Disposal of Subsidiaries *continued*

Based on the knowledge available as of 30 June 2018 the management verified that all acquired or assumed liabilities have been fully accounted for, and net assets acquired have not been overstated. Gain on bargain purchase was recognized in the amount of USD 2,309 thousand within 'Other expenses, net' in the consolidated statement of profit or loss.

Agro-Invest Ukraine was a Ukrainian subsidiary of Serbian-based agroholding MK Group, willing to exit Ukraine since 2014 as part of their business restructuring. Kernel participated in the organized process of acquisition of Agro-Invest Ukraine, being very flexible and providing the best offer in terms of consideration payment schedule, but receiving instead a price discount.

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).

## 6. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 September 2018	As of 30 June 2018	As of 30 September 2017
Cash in banks in USD	96,275	92,617	75,727
Cash in banks in UAH	9,336	20,407	39,951
Cash in banks in other currencies	6,127	18,989	1,138
Cash on hand	4	5	8
<b>Total</b>	<b>111,742</b>	<b>132,018</b>	<b>116,824</b>
Less restricted and blocked cash on security bank accounts	(651)	(676)	(1,719)
Less bank overdrafts (Note 13)	(16,005)	(41,273)	(16,000)
<b>Cash for the purposes of cash flow statement</b>	<b>95,086</b>	<b>90,069</b>	<b>99,105</b>

## 7. Trade Accounts Receivable, net

Increase of trade accounts receivable, net as of 30 September 2018 in comparison with 30 June 2018 and 30 September 2017 is mostly connected with increase of grain export and Avere activities.

The loss allowances for trade receivables as of 30 June 2018 reconcile to the opening loss allowances on 1 July 2018 as follows:

	Trade receivables
At 30 June 2018 - calculated under IAS 39	1,116
At 30 June 2018 - calculated under IAS 39	314
Amount restated through opening retained earnings	1,430
<b>Opening loss allowance as of 1 July 2018 - calculated under IFRS 9</b>	<b>1,430</b>

The loss allowances further decreased by USD 28 thousand to USD 1,402 thousand for trade receivables during the three months ended 30 September 2018. The decrease would have been USD 2 thousand higher under the incurred loss model of IAS 39.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 8. Inventory

The balances of inventories were as follows:

	As of 30 September 2018	As of 30 June 2018	As of 30 September 2017
Raw materials	242,470	81,543	196,936
Goods for resale	86,599	37,072	54,806
Agricultural products	72,779	22,132	97,722
Finished products	65,842	210,687	89,381
Work in progress	21,473	1,620	19,577
Fuel	4,816	4,411	3,404
Packaging materials	1,186	1,634	1,218
Other inventories	6,423	9,354	7,133
<b>Total</b>	<b>501,588</b>	<b>368,453</b>	<b>470,177</b>

As of 30 September 2018, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 43,934 thousand (as of 30 June 2018 and 30 September 2017: USD 193,460 thousand and USD 72,255 thousand, respectively).

As of 30 September 2018, raw materials mostly consisted of sunflower seed stock in the amount of USD 195,666 thousand (as of 30 June 2018 and 30 September 2017: USD 57,603 thousand and USD 158,054 thousand, respectively).

For the three months ended 30 September 2018, write-downs of inventories to net realisable value amounted to USD 1,440 thousand (30 September 2017: USD 2,768 thousand) and were recognised as an expense and included in line "Cost of sales".

As of 30 September 2018, inventory balances in the amounts of USD 166,405 thousand (as of 30 June 2018 and 31 September 2017: USD 200,849 thousand and USD 15,381 thousand, respectively) were pledged as security for short-term borrowings (Note 13).

## 9. Biological Assets

Changes in the amount of biological assets for the three months ended 30 September 2018 and 2017 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 2018 and 30 September 2017. For the three months ended 30 September 2018, 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 growth of crop yields as a result of improvement in the cultivation technology and overall favorable weather conditions.

## 10. Property, Plant and Equipment, net

During the three months ended 30 September 2018, the Group acquired property, plant and equipment in the amount of USD 48,688 thousand (30 September 2017: USD 39,457 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 20,361 thousand resulted from the depreciation of the Ukrainian hryvnia during the three months ended 30 September 2018 (30 September 2017: USD 2,877 thousand).

During the three months ended 30 September 2018, depreciation of property, plant and equipment amounted USD 15,006 thousand (as of 30 September 2017: USD 16,392 thousand).

As of 30 September 2018, property, plant and equipment with a carrying amount of USD 514 thousand (as of 30 June 2018 and 30 September 2017: USD 540 and USD 99,274 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 13, 14).

As of 30 September 2018, property, plant and equipment with a carrying amount of USD 25,277 thousand (as of 30 June 2018 and 30 September 2017: USD 25,742 and USD 27,149 thousand, respectively) were pledged by the Group as guarantee for amount due and payable within the acquisition of Prydniprovskiy OEP.

As of 30 September 2018, 30 June 2018 and 30 September 2017, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 10,580 thousand, USD 15,976 thousand and USD 13,135 thousand, respectively. Additions during the three months ended 30 September 2018 totaled USD 0 thousand (as of 30 September 2017: USD 3,007 thousand).

## 11. Investments in Joint Ventures

For the three months ended 30 September 2018, the share of gain of joint venture (Taman) equaled USD 392 thousand (for the three months ended 30 September 2017: loss USD 501 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 529 thousand (for the three months ended 30 September 2017: USD 535 thousand) and interest expenses in the amount of USD 202 thousand (for the three months ended 30 September 2017: USD 317 thousand).

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 12. Trade Accounts Payable

As of 30 September 2018, trade accounts payable increased in comparison with 30 June 2018 and 30 September 2017 mostly as a result of activation of Avere trading operations.

## 13. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 September 2018	As of 30 June 2018	As of 30 September 2017
Bank credit lines	260,692	182,657	91,887
Bank overdrafts	16,005	41,273	16,000
Interest accrued on short-term borrowings	987	718	766
Interest accrued on long-term borrowings	16	125	6
<b>Total</b>	<b>277,700</b>	<b>224,773</b>	<b>108,659</b>

The balances of short-term borrowings as of 30 September 2018 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.00%	USD	October 2018	69,183
European bank	Libor + 4.15%	USD	October 2018	62,816
Ukrainian subsidiary of European bank	4.00%	USD	October 2018	33,850
Ukrainian subsidiary of European bank	3.75%	USD	October 2018	29,974
Ukrainian subsidiary of European bank	16.50%	UAH	October 2018	16,577
European bank	Libor + 2.25%	USD	October 2018	16,005
Ukrainian subsidiary of European bank	18.50%	UAH	October 2018	10,601
Ukrainian subsidiary of European bank	3.98%	USD	November 2018	6,900
Ukrainian subsidiary of European bank	3.85%	USD	October 2018	6,200
Ukrainian subsidiary of European bank	3.50%	USD	December 2018	5,800
Ukrainian subsidiary of European bank	3.98%	USD	October 2018	4,900
Ukrainian subsidiary of European bank	18.40%	UAH	November 2018	4,018
Ukrainian subsidiary of European bank	19.00%	UAH	October 2018	3,887
Ukrainian subsidiary of European bank	18.80%	UAH	November 2018	3,682
Ukrainian subsidiary of European bank	18.80%	UAH	December 2018	1,385
Ukrainian subsidiary of European bank	19.00%	UAH	December 2018	919
<b>Total bank credit lines</b>				<b>276,697</b>
Interest accrued on short-term loans				987
Interest accrued on long-term loans				16
<b>Total</b>				<b>277,700</b>

The balances of short-term borrowings as of 30 June 2018 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.15%	USD	July 2018	58,672
European bank	Libor + 2.25%	USD	July 2018	41,273
Ukrainian subsidiary of European bank	3.75%	USD	July 2018	29,971
European bank	Libor + 4.00%	USD	July 2018	23,286
European bank	Libor + 3.50%	USD	July 2018	19,200
European bank	Libor + 3.20%	USD	July 2018	10,500
Ukrainian subsidiary of European bank	3.80%	USD	July 2018	6,900
Ukrainian subsidiary of European bank	3.50%	USD	July 2018	6,800
Ukrainian subsidiary of European bank	3.55%	USD	August 2018	6,700
Ukrainian subsidiary of European bank	3.50%	USD	December 2018	5,800
Ukrainian subsidiary of European bank	16.40%	UAH	September 2018	5,475
Ukrainian subsidiary of European bank	3.55%	USD	July 2018	4,500
Ukrainian subsidiary of European bank	16.30%	UAH	July 2018	1,993
Ukrainian subsidiary of European bank	16.40%	UAH	August 2018	1,860
Ukrainian subsidiary of European bank	3.75%	USD	July 2018	1,000
<b>Total bank credit lines</b>				<b>223,930</b>
Interest accrued on short-term loans				718
Interest accrued on long-term loans				125
<b>Total</b>				<b>224,773</b>

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 13. Short-term Borrowings continued

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
<b>Total bank credit lines</b>				<b>107,887</b>
Interest accrued on short-term borrowings				766
Interest accrued on long-term borrowings				6
<b>Total</b>				<b>108,659</b>

As of 30 September 2018, undrawn short-term bank credit lines amounted to USD 162,113 thousand (as of 30 June 2018: USD 121,908 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 September 2018	As of 30 June 2018	As of 30 September 2017
Inventory (Note 8)	166,405	200,849	15,381
Other current assets	11,234	—	17,318
Property, plant and equipment (Note 10)	514	540	99,274
Future sales receipts	16,005	41,273	—
Controlling stakes in subsidiaries	—	—	Not quantifiable
<b>Total</b>	<b>194,158</b>	<b>242,662</b>	<b>131,973</b>

## 14. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 September 2018	As of 30 June 2018	As of 30 September 2017
Long-term bank borrowings	7,479	5,623	6,893
Current portion of long-term borrowings	(3,625)	(2,811)	(2,754)
<b>Total</b>	<b>3,854</b>	<b>2,812</b>	<b>4,139</b>

The balances of long-term borrowings as of 30 September 2018 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor +1.65%	USD	March 2020	4,171
Ukrainian subsidiary of European bank	Libor +4.50%	USD	August 2021	3,308
<b>Total</b>				<b>7,479</b>

The balances of long-term borrowings as of 30 June 2018 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor +1.65%	USD	March 2020	5,623
<b>Total</b>				<b>5,623</b>

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 14. Long-term Borrowings continued

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
<b>Total</b>				<b>6,893</b>

As of 30 September 2018, 30 June 2018 and 30 September 2017, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were not secured as of 30 September 2018, 30 June 2018 and 30 September 2017.

As of 30 September 2018, 30 June 2018 and 30 September 2017, stakes in Subsidiaries were not pledged to secure long-term borrowings.

## 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 2018 and 2017, accrued interest on bonds issued was USD 7,131 thousand (30 June 2018: USD 17,949 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.

## 16. Revenue

The Group's revenue was as follows:

	3 months ended 30 September 2018	3 months ended 30 September 2017
Revenue from grain sales	782,925	149,168
Revenue from sunflower oil sold in bulk, sunflower meal and cake	319,553	339,921
Revenue from bottled sunflower oil	27,659	29,938
Revenue from farming	8,192	15,189
Revenue from grain silo services	1,874	1,797
Revenue from transshipment services	101	81
<b>Total</b>	<b>1,140,304</b>	<b>536,094</b>

## 17. Cost of Sales

Cost of sales was as follows:

	3 months ended 30 September 2018	3 months ended 30 September 2017
Cost of goods for resale and raw materials used	976,677	426,120
Amortization and depreciation	17,534	20,587
Rental payments	17,353	11,251
Payroll and payroll related costs	16,059	10,063
Other operating costs	3,634	4,847
<b>Total</b>	<b>1,031,257</b>	<b>472,868</b>

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 18. Other Operating Income, net

For the three months ended 30 September 2018, other operating income, net increased to USD 17,127 thousand (30 September 2017: USD 5,683 thousand) and is mostly connected with Avere operations with derivative instruments, including their revaluation at the end of the period.

## 19. Foreign Exchange Gain, net

For the three months ended 30 September 2018, foreign exchange gain, net amounted to USD 11,942 thousand (30 September 2017: foreign exchange gain, net in the amount of USD 7,408 thousand). The result is mostly connected with devaluation of Ukrainian hryvnia and fluctuation of exchange rates which influenced on revaluation of balances denominated in other than functional currencies, namely trade balances, VAT and income tax prepaid, borrowings (including intra-group balances: the Company's subsidiaries operate with different functional currencies 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 subsidiaries if they had different functional currencies).

During the three months ended 30 September 2018, the Ukrainian hryvnia rate devalued against the US dollar by 7% (devalued by 2% for the three months ended 30 September 2017) and the Russian ruble devalued by 4% against the US dollar (revalued by 2% for the three months ended 30 September 2017).

## 20. Income Tax

The difference between the income tax charge reported in the accompanying Condensed Consolidated Interim Financial Statement of Profit or Loss and income before tax, multiplied by the respective statutory tax rates, is mainly due to the non-deductibility of certain expenses for income tax purposes and the effect of the farming companies of the Group, which are subject to a fixed agricultural tax regime and are not subject to corporate income tax.

As of 30 September 2018, the Group prepaid USD 11,020 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (30 June 2018: USD 11,582 thousand and 30 September 2017: USD 14,148 thousand). The decrease was mostly connected with devaluation of the Ukrainian hryvnia, related to foreign exchange (losses)/gains recognized.

## 21. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances	Total category as per consolidated statement of financial position	Related party balances	Total category as per consolidated statement of financial position
	As of 30 September 2018		As of 30 June 2018	
Prepayments to suppliers and other current assets, net	6,382	125,813	9,714	113,342
Other non-current assets	22,478	138,669	13,366	134,562
Advances from customers and other current liabilities	8,086	104,253	8,204	104,898
Other non-current liabilities	—	31,579	1,058	32,506

As of 30 September 2018 and 30 June 2018, 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 2018 and 30 June 2018, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalnyy Complex Taman LLC according to the transshipment agreement in the amount of USD 4,358 thousand.

As of 30 September 2018 and 30 June 2018, prepayments to suppliers and other current assets and other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,484 thousand provided to Taman Grain Terminal Holding.

As of 30 September 2018, other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 8,637 thousand provided to Namsen Limited (30 June 2018: nil).

As of 30 September 2018, other non-current assets included an interest-free financing in the amount of USD 6,092 thousand provided to key management personnel (30 June 2018: USD 6,076 thousand).

As of 30 September 2018, advances from customers and other current liabilities included USD 1,337 thousand in bonuses payable to the management (30 June 2018: USD 1,413 thousand).

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 21. Transactions with Related Parties continued

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 2018	3 months ended 30 September 2018	3 months ended 30 September 2017	3 months ended 30 September 2017
General, administrative expenses and distribution costs	(1,012)	(85,549)	(2,635)	(46,933)
Finance costs, net	(1,347)	(19,579)	(429)	(16,015)
Other income/(expenses), net	(607)	431	12	1,987

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

For the three months ended 30 September 2018, there were no distribution expenses of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the three months ended 30 September 2017: USD 385 thousand).

All other transactions occurred with related parties under common control.

As of 30 September 2018, 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 2018 amounted to USD 125 thousand (30 September 2017: 8 directors, USD 128 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 12 people, amounted to USD 628 thousand for the year ended 30 June 2018 (30 September 2017: 9 people, USD 616 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 2018 (in thousands of US dollars, unless otherwise stated)

## 22. Commitments and Contingencies

### Operating Environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2017-2018, 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.

During the year ended 30 June 2018, annual inflation rate amounted to 10% (2017: 16%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in GDP smooth growth for the year ended 30 June 2018 for 3% (2017: 2%) and stabilization of national currency. From trading perspective, the economy was demonstrating refocusing on the European Union ("EU") market, which was a result of the signed Association Agreement with the EU in January 2016 that established the Deep and Comprehensive Free Trade Area ("DCFTA"). Under this agreement, Ukraine has committed to harmonize its national trade-related rules, norms, and standards with those of the EU, progressively reduce import customs duties for the goods originating from the EU member states, and abolish export customs duties during a 10-year transitional period. Implementation of DCFTA began on 1 January 2017. As a result, the Russian Federation implemented a trade embargo or import duties on key Ukrainian export products. In response, Ukraine implemented similar measures against Russian products.

In terms of currency regulations, the National Bank of Ukraine ("NBU") decreased the required share of mandatory sale of foreign currency proceeds from 65% to 50% from April 2017, increased settlement period for export-import transactions in foreign currency from 120 to 180 days from May 2017, and allowed companies to pay the 2013 (and earlier) dividends with a limit of USD 2 million per month from November 2017 (from June 2016, companies were allowed to pay dividends for 2014–2016 to non-residents with a limit of USD 5 million per month).

In March 2015, Ukraine signed the four-year Extended Fund Facility ("EFF") with the International Monetary Fund ("IMF") that will last until March 2019. The total program amounted to USD 17.5 billion, while Ukraine has so far received only USD 8.7 billion from the entire amount. In September 2017, Ukraine successfully issued USD 3 billion of Eurobonds, of which USD 1.3 billion is new financing, with the remaining amount aimed to refinance the bonds due in 2019. The NBU expects that Ukraine will receive another USD 2 billion from the IMF till the end of 2018. To receive the next tranches, the government of Ukraine has to implement certain key reforms, including in such areas as pension system, gas and privatization.

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 2018, the Group had commitments under contracts with a group of suppliers for a total amount of USD 151,458 thousand, mostly for the construction of an oil-crushing plant (30 September 2017: USD 6,792 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal).

### Contractual Commitments on Sales

As of 30 September 2018, the Group had entered into commercial contracts for the export of 2,102,322 tons of grain and 705,469 tons of sunflower oil and meal, corresponding to an amount of USD 416,318 thousand and USD 349,339 thousand, respectively, in contract prices as of the reporting date.

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.

### 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 2018, the consideration paid for Stiom Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect of 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 said to be due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case in which the Group asserted its counterclaims and thereafter written statements of evidence and expert reports were also exchanged. The hearing took place in November 2015. The tribunal delivered its award in late February 2018 and the Company received it in early March 2018. That award is subject to challenge in the High Court in London.

As of 30 September 2018, the Group has recognized a provision regarding the above mentioned award. The provision represents the directors' best estimate of the maximum future outflow that will be required in respect of the award. The directors believe there are good grounds for the challenge but the amount has not been discounted for the purposes of this estimate, since at the moment of estimation both the outcome of the challenge and the expected period of time in which the Court will make its decision are unknown.



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 22. Commitments and Contingencies continued

### Taxation and Legal Issues continued

The carrying amount of the provision for legal claims is USD 28,971 thousand as of 30 September 2018. No payment has been made to the claimant pending the outcome of the challenge.

As of 30 September 2018, 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 total amount of USD 57,041 thousand (30 June 2018: USD 60,604 thousand), from which USD 40,569 related to VAT recoverability (30 June 2018: USD 42,882 thousand), USD 16,158 thousand related to corporate income tax (30 June 2018: 17,382 thousand) and USD 314 thousand related to other tax issues (30 June 2018: 340 thousand).

As of 30 September 2018, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 29,134 thousand (30 June 2018: USD 31,480 thousand), included in the above-mentioned amount. Out of this amount, USD 17,731 thousand relates 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 2018: USD 19,159 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, 1 January 2017 and 1 January 2018 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.

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.

In addition, starting from July, 2017 the criteria of automatic suspension of registration (hereinafter, the "Criteria") of VAT Invoices/Adjustment Calculations (hereinafter, the "VATIs/ACs") became effective. Under the new rules, every VATI/AC prior to its registration (and VAT input recognition) will be automatically monitored on the relation to risk criteria. Should VATI/AC be proceeded through the Criteria, it will be eligible for registration and respective VAT input recognition. As a result of this change, significant administrative and corruption borders for VAT recoverability are expected to be eliminated.

VAT holiday on exports of certain industrial crops (a 0% VAT was previously applied), in particular:

- Soybean – from 01 September 2018 to 31 December 2021
- Rape and rocket-cress – from 01 January 2020 to 31 December 2021.

This change will push the exporters to impute VAT liabilities when purchasing these goods. A 0% VAT rate will apply to the exports of other agricultural crops. However, this measure does not affect the producers of mentioned goods.

60-day reporting period for annual CIT Return prepared year-to-date was established (effective since 2017 reporting year). Prior to this change, 40-day period was applied.

Withdrawn Capital Tax – the project for 2019 to substitute corporate profit tax - The Draft Law is still under Government Committee consideration – low probability of implementation.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

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## 22. Commitments and Contingencies continued

### Taxation and Legal Issues continued

A draft law that would fundamentally change Ukraine's corporate tax regime by introducing a tax on distributed profits to replace the current system of corporate income taxation was submitted to the parliament on 5 July 2018. The proposed regime, which would be similar to the regimes in Estonia, Georgia and Latvia, generally aims to stimulate investment in Ukraine and reduce the tax burden on companies, and if approved in 2018 would apply as from 1 January 2019 (if approved after 2018, the effective date would be delayed). Qualifying banking institutions, however, would be allowed to remain taxable under the current corporate income tax regime through 2021.

Ukraine currently operates a classic corporate income tax system under which companies are taxed at a rate of 18%. Under the proposal, resident entities carrying on business within and/or outside Ukraine, as well as nonresident entities and permanent establishments (PEs) of foreign entities carrying on business in Ukraine, would be subject to tax only on profits distributed or deemed to be distributed, with undistributed profits remaining untaxed. The proposed tax generally would be levied on distributions of profits to non-payers of Ukrainian tax (i.e. mainly nonresidents, but also residents that would not be subject to the tax on distributed profits, such as certain small businesses that would remain subject to the "simplified regime" and non-profit organizations), and Ukraine's current withholding tax system would be abolished. The tax on distributed profits generally would be due on the date of the distribution (or, for certain distributions, with the annual return).

The draft law proposes three different tax rates that would apply depending on the type of transaction:

- 15% on payments of dividends;
- 5% on payments of interest on loans from nonresident related parties or taxpayers from countries that are on Ukraine's list of low-tax jurisdictions, where the company meets Ukraine's thin capitalization threshold (i.e. where the company's debt does not exceed 3.5 times its equity);
- 20% on payments of interest on all loans where the company exceeds the 3.5 thin capitalization threshold;
- 20% on all other transactions deemed to be profit distributions, such as:
  - Royalties paid to nonresidents in excess of specific limits;
  - Transfers of property without consideration;
  - Certain financial assistance that is not repaid within 12 months;
  - Transfer pricing adjustments made under the transfer pricing rules;
  - Transactions between a nonresident and its PE in Ukraine;
  - Purchases of goods and services from Ukrainian related parties that are taxed under the simplified regime.

The draft law also provides the following:

- Under a transition rule, dividends distributed on or after 1 January 2019 for tax periods ending on 31 December 2018 (31 December 2021 for qualifying banking institutions) would be subject to the tax on profit distributions on the amount exceeding the payer's corporate income tax base for the relevant tax period;
- The current transfer pricing rules would not be affected and would continue to apply;
- Tax returns reporting the profit distributions and taxes paid would be due for each calendar quarter.

If the proposal is enacted, the government would need to issue guidance to clarify certain issues, such as whether tax attributes under the current regime (e.g. net operating loss carry-forwards) could be utilized and whether credits for foreign taxes paid would be allowed under the new regime.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2018 (in thousands of US dollars, unless otherwise stated)

## 23. 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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial liabilities <sup>1</sup>	As of 30 September 2018		As of 30 June 2018		As of 30 September 2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note 14)	7,479	7,479	5,623	5,623	6,892	6,892
Obligations under finance lease	9,936	9,939	10,946	10,873	6,745	6,745
Bonds issued (Note 15)	502,203	509,490	512,745	499,205	500,778	541,477

**Note 1** Including accrued interests

For the three months ended 30 September 2018, 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 3.64% (30 September 2017: 3.43%) that is within level 2 of the fair value hierarchy.

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

The following table below represents the fair values of the derivative financial instruments including trade related financial and physical forward purchase as at 30 September 2018 (30 September 2017: nil).

Other current assets	Level 1	Level 2	Total
Physical forwards	—	69,175	69,175
Futures	1,715	—	1,715
<b>Total</b>	<b>1,715</b>	<b>69,175</b>	<b>70,890</b>

  

Other current liabilities	Level 1	Level 2	Total
Physical forwards	—	51,936	51,936
Futures	1,152	—	1,152
Options	2,031	—	2,031
<b>Total</b>	<b>3,183</b>	<b>51,936</b>	<b>55,119</b>

Derivative instruments are carried at fair value for which the Group evaluates the quality and reliability of the assumptions and data used to measure fair value in the two hierarchy levels, Level 1 and 2, as prescribed by IFRS 13 Fair Value Measurement. Fair values are determined in the following ways: externally verified via comparison to quoted market prices in active markets (Level 1) or by observable quoted prices sourced from exchanges or brokers in active markets for identical assets or liabilities (Level 2).

# Notes to the Condensed Consolidated Interim Financial Statements

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## 23. Fair Value of Financial Instruments continued

Valuation of the Group's commodity physical forward contracts categorized within level 2 is based on observable quoted prices sourced from exchanges or traded reference indices in active markets for identical assets or liabilities and broker mark ups derived from observable quotations representing differentials, as required, including geographic location and local supply and demand.

As of 30 September 2018, other current assets included financial assets classified as at fair value through profit or loss, which are mostly presented by derivative instruments in the amount of USD 70,890 thousand (as of 30 September 2017: government bonds in the amount of USD 21,041 thousand).

The fair value is estimated to be the same as the carrying value of cash and cash equivalents, trade accounts payable and short-term borrowings due to the short-term nature of the financial instruments. Cash and cash equivalents and short-term borrowings are classified as level 2 fair values in the fair value hierarchy due to the inclusion of directly and indirectly observable inputs. Trade accounts payable are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

As of 30 September 2018, fair value of other non-current liabilities does not differ materially from its carrying amount and are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk. For the three months ended 30 September 2018, the fair value of other non-current liabilities was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 25.82% (30 September 2017: 25.39%).

There were no transfers between levels of fair value hierarchy.

## 24. Subsequent Events

As of 11 October 2018, Kernel Holding S.A. received a notification that Kairos International Sicav had crossed the threshold of voting rights below 5%, pursuant to the provisions of articles 8 and 9 of the Law of 11 January 2008 on Transparency Requirements for Issuers of Grand Duchy of Luxembourg.

As of 19 October 2018, in a press release by Fitch Ratings, the agency has affirmed Long-Term Issuer Default Rating (LT FC IDR) of Kernel Holding S.A. at 'B+' with Stable Outlook. Fitch Ratings also affirmed Kernel's National Long-Term Rating at 'AAA (ukr)'.

As of 26 October 2018, Kernel Holding S.A. extended its USD 200 million pre-export credit facility dated 16 October 2017 with a syndicate of European banks. The tenor of facility was extended until 31 August 2021 and additional short-term tranche of USD 90 million maturing in August 2019 was added to facility. Pre-export credit facility will be used by the Company to fund the working capital needs of its sunflower oil production business in Ukraine.

As of 31 October 2018, in a press release by S&P Global Ratings, the agency has affirmed its 'B' longterm issuer credit rating on Kernel Holding S.A. with Stable Outlook. At the same time, the agency affirmed its 'B' issue rating on Kernel's USD 500 million Eurobond maturing in January 2022, one-notch above the 'B-' long-term sovereign foreign currency rating on Ukraine, owing to Kernel's export-oriented business and sizable offshore cash holdings.

On 25 November 2018, the Russian Federation seized three Ukrainian navy ships and detained 24 sailors in a key waterway that holds strategic importance for both countries. As a result, on 26 November 2018, Ukrainian lawmakers voted to introduce martial law in the border area regions with the Russian Federation: Vinnytsia, Donetsk, Luhansk, Mykolaiv, Zaporizhzhia, Odesa, Sumy, Kharkiv, Chernihiv, and Kherson regions, as well as the inland waters of the Azov-Kerch water area. The decision was backed by 276 lawmakers. Martial law is preliminary introduced for a 30-day period, from 14:00 on 26 November, 2018, to 14:00 on 26 December, 2018.