KERNEL

Kernel Holding S.A.

ANNUAL REPORT

For the year ended 30 June 2019

Contents

Kernel is a diversified agricultural business in the Black Sea region, listed on the main market of the Warsaw Stock Exchange.

We are the world's largest producer and exporter of sunflower oil, the largest grain exporter from Ukraine, operator of an extensive agricultural logistics network and the largest producer of grain and oilseeds in Ukraine. In FY2019, we supplied 9 million tons of agricultural products from Ukraine across the world.

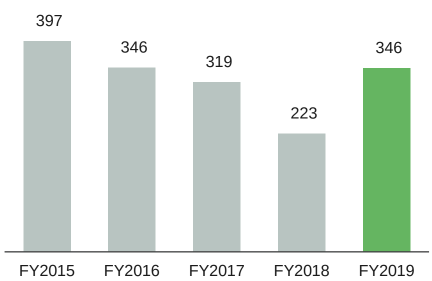
Key Highlights

US$ million except ratios and EPS	FY2018	FY2019	y-o-y
Income statement highlights			
Revenue	2,403	**3,992**	*66%*
EBITDA [1]	223	**346**	*55%*
Net profit attributable to equity holders of Kernel Holding S.A.	52	**189**	*3.6x*
EBITDA margin	9.3%	**8.7%**	*(0.6pp)*
Net margin	2.2%	**4.7%**	*2.6pp*
Earnings per share, US$	0.64	**2.31**	*3.6x*
Cash flow highlights			
Operating profit before working capital changes	183	**368**	*101%*
Change in working capital	(31)	**(94)**	*3.0x*
Finance costs paid	(69)	**(76)**	*10%*
Income tax paid	(5)	**(3)**	*(36%)*
Net cash generated by operating activities	82	**199**	*2.4x*
Net cash used in investing activities	(156)	**(241)**	*55%*
Liquidity and credit metrics			
Net debt	622	**694**	*11%*
Readily marketable inventories [2]	325	**293**	*(10%)*
Adjusted net debt [3]	297	**400**	*35%*
Shareholders' equity	1,171	**1,351**	*15%*
Net debt / EBITDA	2.8x	**2.0x**	*(0.8x)*
Adjusted net debt / EBITDA	1.3x	**1.2x**	*(0.2x)*
EBITDA / Interest	3.4x	**4.2x**	*0.8x*
Non-financial highlights			
Number of employees (full-time equivalent) at 30 June	15,116	**13,397**	*(11%)*
Rate of recordable work-related injuries, accidents per million worked hours	0.55	**0.60**	*8%*
Social spending, US$ million	2.4	**2.3**	*(6%)*
Direct greenhouse gas emissions, thousand tons of CO_2 equivalent	260	**234**	*(10%)*
Total energy consumption, terajoules	6,977	**6,857**	*(2%)*

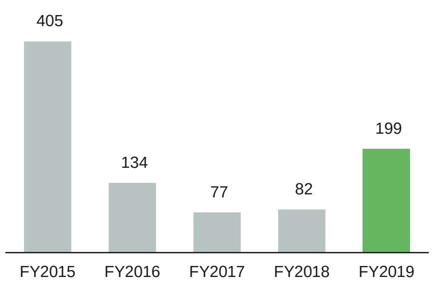
Note: Financial year ends 30 June.
1. Hereinafter, EBITDA is calculated as the sum of the profit from operating activities plus amortization and depreciation.
2. Readily marketable inventories are inventories such as corn, wheat, sunflower oil and other products that could easily be converted into cash due to their commodity characteristics, widely available markets and the international pricing mechanism.
3. Adjusted 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.

Hereinafter differences between totals and sums of the parts are possible due to rounding.
Hereinafter “Kernel”, “Group” or “Company” refers to the Kernel Holding S.A. group of companies.
Non-financial highlights for FY2018 may differ with ones presented in FY2018 annual report due to changes in calculation methodology, as described in “Sustainability” section of this report.

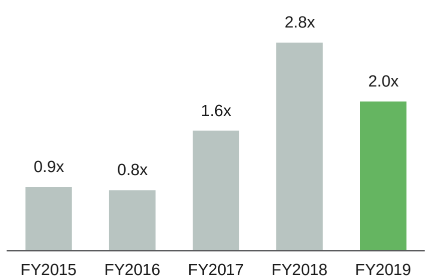
EBITDA
US$ million



Net cash from operations
US$ million



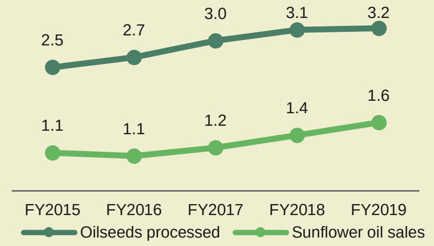
Net debt / EBITDA



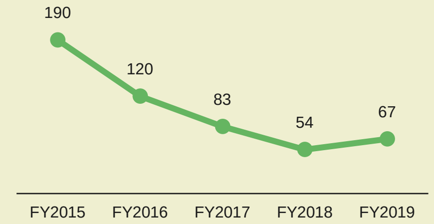
Operating Highlights

Oilseed Processing

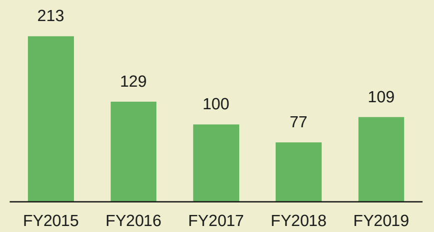
Segment volumes
million tons



EBITDA margin
US$ / ton of sunflower oil sold



EBITDA[1]
US$ millions



We processed the highest ever 3.2 million tons of sunflower seeds in FY2019, and our sales of sunflower oil achieved highest ever 1.6 million tons in FY2019 exceeding the production volumes and depleting carry-over stock.

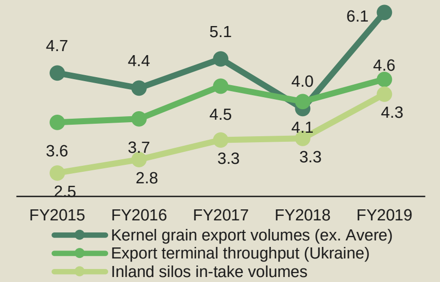
EBITDA generated per ton of oil sold recovered from the lowest ever observed level of US$ 54 per ton in FY2018 to US$ 67 in the reporting period. Profitability was impacted by two opposite factors:

- Strong 15.2 million tons harvest of sunflower seeds in Ukraine, which reduced the gap between crushing capacities in Ukraine and supply of seeds, but…
- … Subdued global sunflower oil prices, which reduced from US$ 750 per ton of unrefined oil sold in bulk (FOB Black Sea basis) at the beginning of the season to US$ 620 per ton of oil in December 2018 (the lowest in a decade). At our level of margins, such price weakness has a tremendous impact on profitability, and it undermined more substantial margin improvement in FY2019.

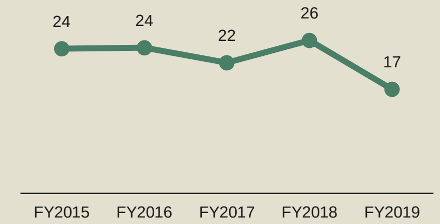
Consequently, segment EBITDA increased 42% y-o-y, to US$ 109 million.

Infrastructure and Trading

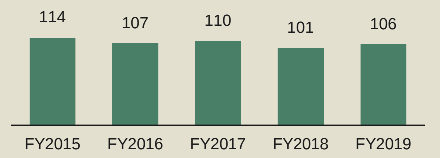
Segment volumes
million tons



EBITDA margin
US$ / ton of grain exported



EBITDA
US$ millions



In FY2019, we delivered record volumes in our history: 6.1 million tons of grain exported (#1 in Ukraine), 4.6 million tons transshipped through our terminals, and 4.3 million tons of intake by our silo network. These achievements were driven by:

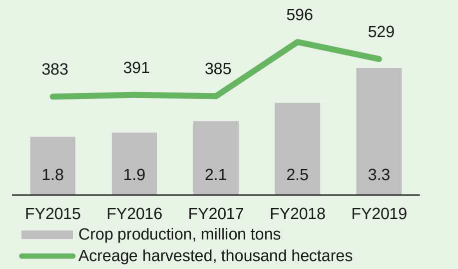
- Record crop yields of our farming segment for 2018 crop;
- Full capacity utilization of our infrastructure;
- Usage of 3rd-party export terminal in the port of Pivdennyi.

EBITDA margin per ton of grain exported through our value chain reduced to US$ 17, diluted by increasing scale of our low-margin trading operations and Avere negative performance, while keeping contribution from our high-margin infrastructure businesses limited.

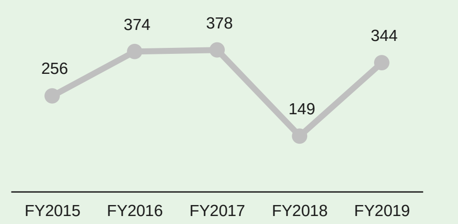
As a result, total segment EBITDA in FY2019 added US$ 5 million as compared to the previous year, to US$ 106 million.

Farming

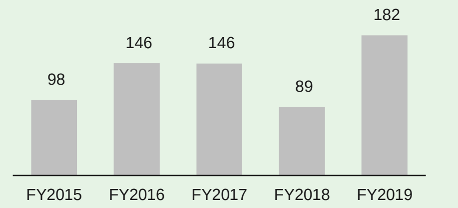
Kernel's key crop production



EBITDA margin
US$ / ha



EBITDA
US$ millions



Following the divestment of suboptimal farmland, we harvested 529 thousand hectares in FY2019, down 11% y-o-y. Though the harvest of key crops was the record in our history, standing at 3.3 million tons as we achieved record yields for late crops supported by:

- Favorable weather conditions;
- Quick and successful integration of farming business acquired in 2017; and
- Continued productivity gains

Effective hedging strategy applied along with strong crop yields resulted in EBITDA margin increasing to US$ 344 per hectare, up 2.3x y-o-y.

With 529 thousand hectares harvested in FY2019, our farming segment generated the highest ever US$ 182 million EBITDA, 2.0x increase as compared to FY2018, being the flagship Kernel's business this season.

Note: the company has changed segment disclosure starting from FY2019, so the volumes and margins metrics were recalculated retrospectively and differ from figures reported by FY2018 inclusively.

1) here and further segment EBITDA is provided before unallocated corporate expenses.

Chairman's Statement

Andrii Verevskyi
Chairman of the Board of Directors, Founder

Dear Shareholders,

On behalf of the Board of Directors of Kernel Holding S.A. I am pleased to present the results of the group for the year ended 30 June 2019. We generated US$ 346 million of EBITDA (up 55% y-o-y) and US$ 189 million of net profit attributable to shareholders of Kernel Holding S.A. (up 3.6x y-o-y), improving our solid balance sheet position with net-debt-to-EBITDA ratio at 2.0x as of 30 June 2019.

FY2019 highlights

FY2019 was a year of great achievements. We became the undisputed champion in grain export volumes from Ukraine outperforming numerous international and local peers. Farming segment harvested the record crop, the acquisition of grain railcars enhanced our logistic capabilities and origination reach, while Strategy 2021 passed critical milestones.

Local market fundamentals were more favorable for our **Oilseed Processing** business in FY2019 than a year ago. Ukraine harvested a strong 15.2 million tons of sunflower seeds, 13% up y-o-y, which materially bridged the gap to 18.5 million tons of installed processing capacities, pushing up crush margins. However, general weakness in global sunflower oil price prohibited EBITDA margins from recovering to normalized levels. As a result, our EBITDA margin ended up at US$ 67 per ton of oil sold, up 24% y-o-y, below its long-term potential. Combined with a record 1.6 million tons sales of sunflower oil, it translated to US$ 109 million segment EBITDA, a 42% increase y-o-y.

Infrastructure and Trading segment performance in FY2019 was uneven. On one hand, we delivered the highest ever volume across all our business lines, becoming the **#1 grain exporter from Ukraine** with 6.1 million tons of exports. This is solid early progress towards set volume targets in our Strategy 2021. On top of that, record volumes were achieved in our silo and export terminals businesses, enhanced by the improvement of grain trading margins and further boosted with a timely investment in grain railcars. On the other hand, these achievements were blurred by softer infrastructure margins and negative contribution by Avere in FY2019. As a result, EBITDA of the segment amounted to US$ 106 million, up 5% as compared to last year.

With the largest crop size in our history, **Farming** segment generated US$ 182 million of EBITDA, the highest ever, owing to supportive weather conditions and the smooth integration of the farming landbank acquired in 2017, along with effectively used hedging solutions.

On our climb to **Strategy 2021 targets**, we completed the major greenfield expansion of our grain storage capacity and commissioned the first stage of our new export terminal in the port of Chornomorsk enhancing throughput capabilities.

In addition, Kernel acquired **RTK-Ukraine** LLC, the largest private operator of grain railcars in Ukraine, for US$ 65 million in February 2019. No doubt this deal has strong value-accretive potential as we expect EBITDA contribution over US$ 35 million in FY2020. With this transaction, Kernel covered in-house needs and hedged against constantly growing railcar renting costs.

In February 2019, Kernel purchased 5.85% interest in **ViOil Holding** Ltd, the largest independent sunflower oil producer in Western Ukraine with aggregate crushing capacity of 1.1 million tons and a network of silos. A customary shareholder agreement in relation to ViOil grants certain rights making us the front-runner in the future sale process. This deal is an important strategic step towards the future consolidation of the sector, where Kernel will play a leading role.

With regards to **credit,** I would like to highlight the launch of our cooperation with two world-class international financial institutions supporting us with long-term project financing. **European Investment Bank** provided Kernel with a 10-year loan amounting to US$ 250 million, and **EBRD** together with Clean Technology Fund agreed to finance our green energy projects up to US$ 56 million with an 8-year loan.

The permanent focus on **sustainability** of our operations translated into the reduction of energy consumption and greenhouse gas emissions in FY2019 despite increased scale of our business. We continued investing in our employees, supporting local communities and contributing to overall sector productivity by sharing our knowledge and technology with other farmers via proprietary Open Agribusiness platform. As a clear market leader, we are the role model for other companies in Ukraine in building sustainable and responsible business.

Following results of FY2019, the Board of Directors proposes shareholders to approve the dividend of US$ 0.25 per share.

FY2020 outlook

The new season seems to be fundamentally strong for our **Oilseed Processing** segment.

Chairman's Statement

Sunflower harvest in Ukraine is expected at the level of 15.2 million tons, virtually unchanged vs. FY2019, while sunflower oil prices now are higher than last year, building momentum for stronger profitability with a record 3.3 million tons of sunflower seed to be crushed in FY2020.

As part of Strategy 2021, almost half of our green energy heat & power co-generation capacities are due for commissioning in spring 2020, contributing to our Oilseed Processing segment. And the nearby launch of the second stage of a brand-new export terminal in the port of Chornomorsk will add a total of 4 million tons to our annual grain handling capacity.

As a result, we shall export 8 million tons of grain from Ukraine in FY2020, 7 million of which will pass through our terminals achieving one of our Strategy 2021 targets ahead of the initial timeline.

In order to secure strong volumes for our crushing and grain export businesses, our procurement team plans to originate a record 8.4 million tons of grain and oilseeds in FY2020, a 33% increase y-o-y.

Unlike last year, **Farming** segment is expected to face headwinds as normalization of crop yields, combined with a nearly 7% cost base inflation and further drop in global soft commodity prices, should take their toll. Another distinctive element of this season is that we remain naturally long, which will add both upside and downside risk to our Farming segment earnings potential this season.

Capital Expenditures within Strategy 2021 are projected to peak in FY2020 with US$ 300 million to be deployed to cover both expansion and maintenance needs, as part of the initially planned FY2019 CapEx was moved forward to FY2020. However, the total investment program capital requirements remain unchanged.

The farmland market reform is widely expected to be adopted near term, whereby agricultural land may become freely tradable in Ukraine, although exact terms and conditions are not yet known. We consider a broad and liberal farmland reform shall unlock the full potential of Ukrainian agriculture contributing to economic development of the country. Obviously, with over 500,000 hectares of farmland under cultivation and with the direct access to landowners, Kernel is well placed to be an active farmland market participant leveraging its multiple sources of on-demand capital.

Delivering on our Strategy 2021

We are building today for the better tomorrow of Kernel. We have reached a midpoint where capital deployed gradually turns into cash generation, crystalizing our leadership position with the most efficient asset base across each business line.

The critical milestones attained over the past year and set targets for the coming years clearly evidence that we will deliver on time and within initially planned budgets. The successful completion of investments in silo business, grain railcars, and leasehold farmland done over the recent past are the first minor achievements on that path.

Our US$ 180 million new Western Ukrainian oilseed processing equipped with co-generation heat & power plant is expected to be commissioned in spring 2021. The US$ 150 million green energy plants will be commissioned throughout spring 2020 and spring 2021. Meanwhile, the second stage of the US$127 million export terminal facility is almost ready, with the launch scheduled by the start of 2020.

At the gate of new era

We are building a successful, sustainable and vibrant company in a globally competitive sector of the Ukrainian economy employing our core values: integrity, efficient and sustainable use of resources.

Today, Kernel is the backbone of Ukrainian agriculture, providing diverse solutions to our local and international clients in a cost efficient and highly professional manner.

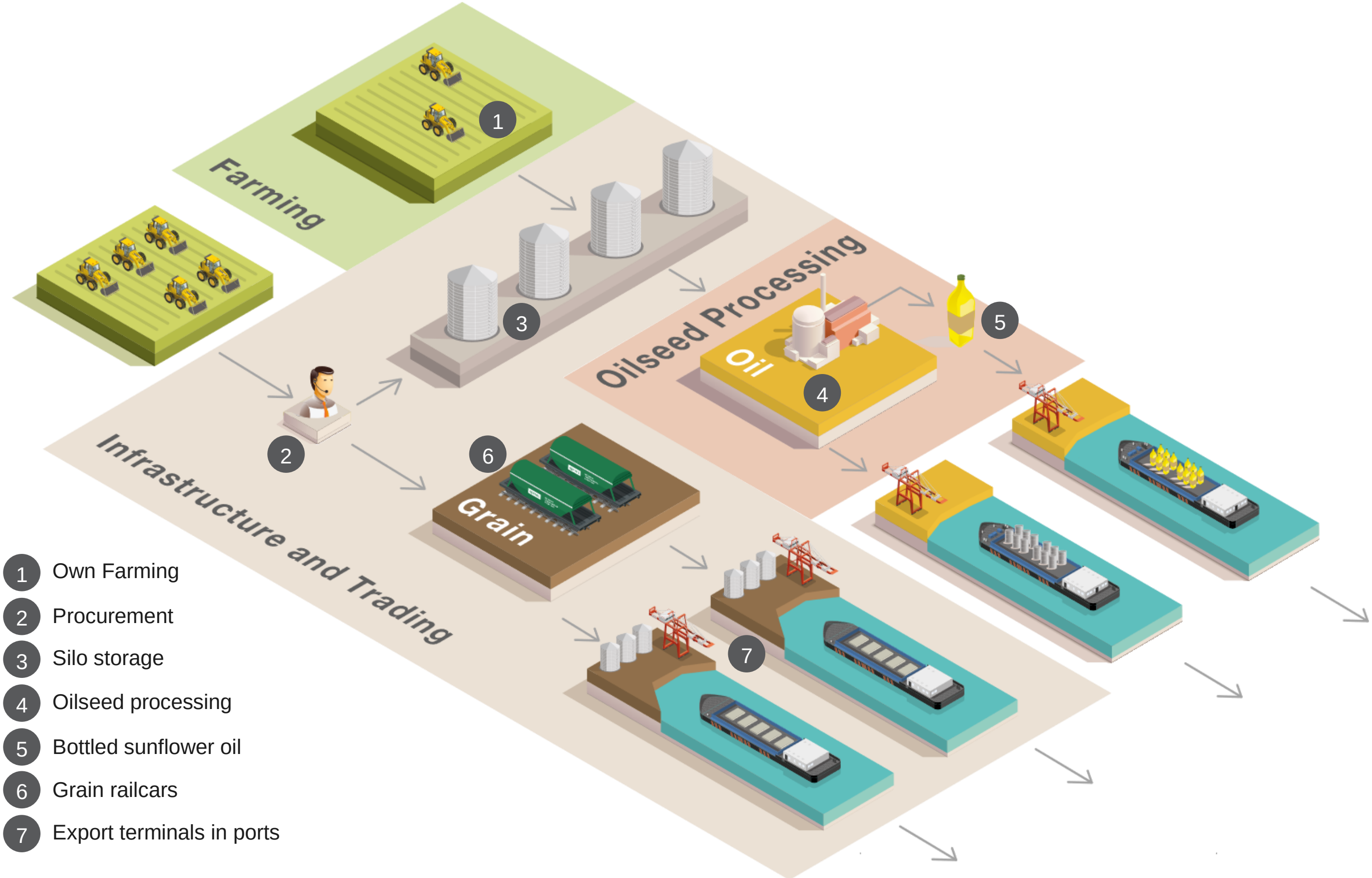
Operational excellence and sustainable cost leadership are and will remain our key priorities and we are committed to these with our strategic investments to better serve the ever-demanding needs of our stakeholders and build long-term relationships.

Indeed, we pay great attention to a sustainable and mutually beneficial long-term co-operation with farmers. Our pledge to knowledge- and data-sharing, implemented via the Open Agribusiness initiative, along with comprehensive pre-crop financing solutions offered to our suppliers, are just few foundation blocks of an emerging Kernel ecosystem that will enhance the competitive edge of our platform. This subtle element, which is widely ignored by our peers, shall contribute to the prosperous future of Kernel, probably to the same extent as our strategic investments in top-notch assets, as the economic performance of such assets shall largely depend on the efficient origination and flow of the feedstock through our business system.

Finally, on behalf of the Board of Directors, I would like to thank the Kernel team for the good performance in FY2019 and to thank our stakeholders for their continued confidence in our business.

Andrii Verevskyi
Chairman of the Board of Directors,
Founder

Our Business Model



1 Own Farming
2 Procurement
3 Silo storage
4 Oilseed processing
5 Bottled sunflower oil
6 Grain railcars
7 Export terminals in ports

Topping industry league tables in all segments

Oilseed Processing segment

- #1 global sunflower oil producer (~8% of global production) and exporter (~15% of global exports)
- #1 bottled sunflower oil producer and marketer in Ukraine
- 3.5 million tons annual sunflower seed processing capacity

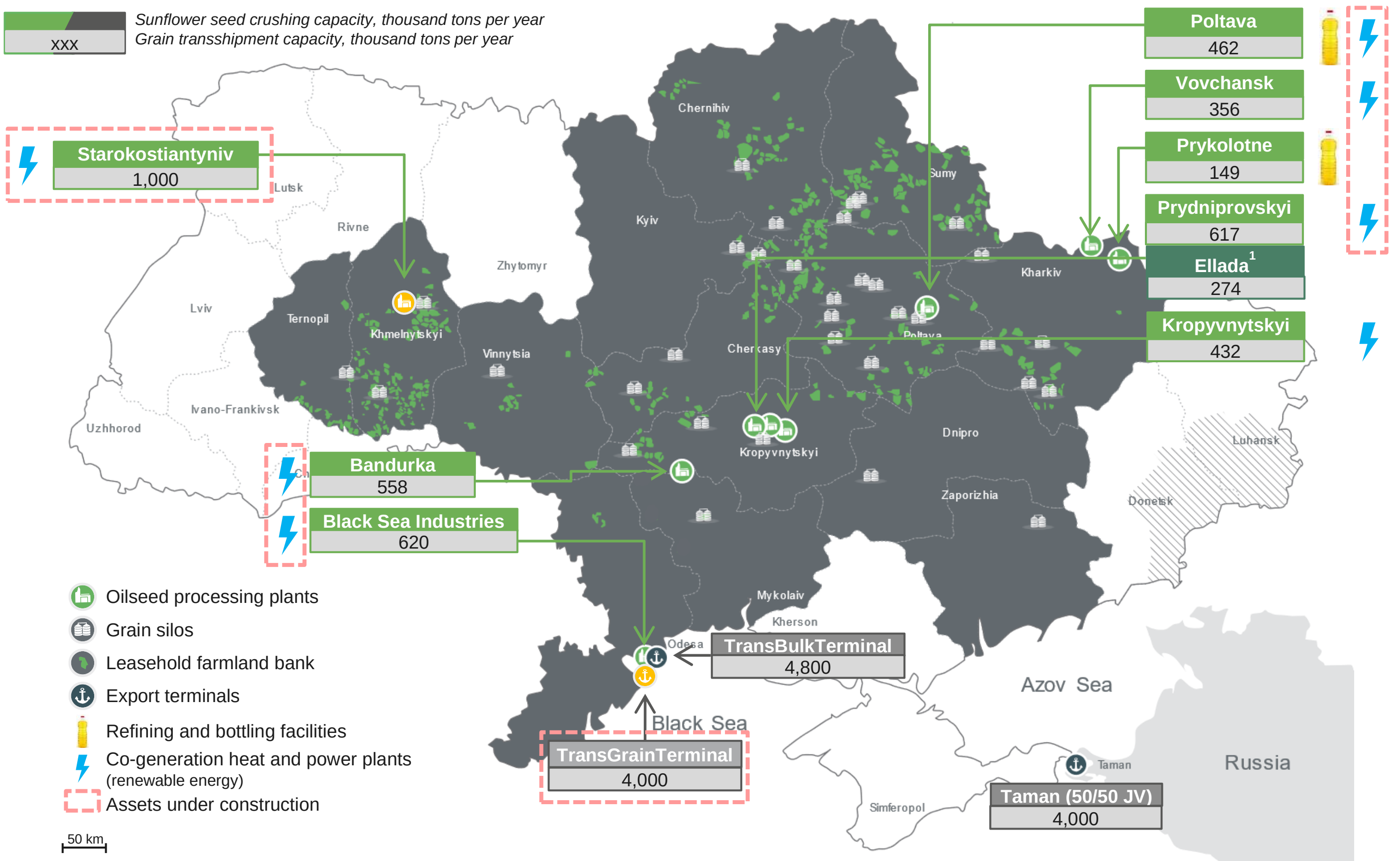
Infrastructure and Trading segment

- #1 grain exporter from Ukraine with 12% share of country's total grain export
- Own grain export port terminal in Ukraine with annual capacity to transship 4.8 million tons of soft commodities. Similar facility in Russia (50/50 JV with Glencore).
- #1 private inland grain silo network in Ukraine with 2.5 million tons of grain storage capacity
- #1 private grain railcar fleet in Ukraine (3.4 thousand railcars)

Farming segment

- #1 crop producer in Ukraine controlling 530 thousand hectares of leasehold farmland
- Modern large-scale machinery, sustainable agronomic practices, cluster management system and export-oriented crop mix
- Nearly 100% of sales volumes flows through our grain and infrastructure and sunflower oil divisions, earning incremental profits

Kernel at a Glance



Note 1 Operated under tolling agreement.

Segment results summary (new presentation format)

	Revenue, US$ million			EBITDA, US$ million			Volume, thousand tons [2]			EBITDA margin, US$/t [3]		
	FY2018	**FY2019**	y-o-y	FY2018	**FY2019**	y-o-y	FY2018	**FY2019**	y-o-y	FY2018	**FY2019**	y-o-y
Oilseed Processing	1,393	1,493	*7%*	77	109	*42%*	1,413	1,619	*15%*	54.3	67.3	*24%*
Infrastructure and Trading	1,025	3,140	*3.1x*	101	106	*4.9%*	3,953	6,094	*54%*	25.5	17.4	*(32%)*
Farming	470	602	*28%*	89	182	*2.0x*	2,594	3,294	*27%*	148.9	343.7	*2.3x*
Unallocated corporate expenses				(44)	(51)	*17%*						
Reconciliation	(486)	(1,243)	*2.6x*									
Total	**2,403**	**3,992**	***66%***	**223**	**346**	**55%**						

Note 2 Physical grain volumes exported (ex. Avere) for Infrastructure and Trading.
Note 3 US$ per ton of oil sold for Oilseed Processing; US$ per ton of grain exported (ex. Avere volumes) for Infrastructure and Trading; US$ per hectare for Farming.

Segment results summary (old presentation format)

	Revenue, US$ million			EBITDA, US$ million			Volume, thousand tons [4]			EBITDA margin, US$/t [5]		
	FY2018	**FY2019**	y-o-y	FY2018	**FY2019**	y-o-y	FY2018	**FY2019**	y-o-y	FY2018	**FY2019**	y-o-y
Sunflower oil												
Sunflower oil sold in bulk	1,264	1,353	*7%*	63	93	*47%*	1,301	1,496	*15%*	48.7	62.2	*28%*
Bottled sunflower oil	130	140	*8%*	13	16	*19%*	119	131	*10%*	112.6	121.6	*8%*
	1,393	**1,493**	***7%***	**77**	**109**	***42%***						
Grain and infrastructure												
Grain trading	951	3,077	*3.2x*	17	31	*80%*	4,646	10,444	*2.2x*	3.8	3.0	*(20%)*
Export terminals (Ukraine)	53	49	*(7%)*	39	36	*(8%)*	4,112	4,606	*12%*	9.5	7.8	*(18%)*
Silo services	72	71	*(2%)*	44	38	*(13%)*	3,292	4,276	*30%*	13.4	9.0	*(33%)*
	1,077	**3,197**	***3.0x***	**101**	**106**	***5%***						
Farming	**470**	**602**	***28%***	**89**	**182**	***2.0x***	2,594	3,294	*27%*	148.9	343.7	*2.3x*
Unallocated corporate expenses				(44)	(51)	*17%*						
Reconciliation	(538)	(1,300)	*2.4x*	-	-							
Total	**2,403**	**3,992**	***66%***	**223**	**346**	***55%***						

Note 4 Million liters for bottled sunflower oil; grain trading volumes include physical trading volumes reported by Avere, a subsidiary of Kernel involved in physical and proprietary trading.
Note 5 US$ per thousand of liters for bottled sunflower oil; US$ per hectare for farming.
Differences are possible due to rounding.

Our Strategy 2021

We aim to profitably double export volumes by FY2021, providing unique complex solutions to our clients (customers and suppliers) with balanced development of our business segments resulting from an efficient use of our asset base, investment in technology and innovation, strategic acquisitions, continuous development of our employees and the strengthening of our operations[1].

Imperatives	Strategic pillars	Targets	Ultimate goal
Financial stability / Strong balance sheet	Geographic focus	Consolidate the oilseed crushing industry	Maximize shareholders' value
Integrity	Strong asset base	Double grain exports from FY2016 levels	
Professional team of leaders	Operational discipline	Achieve sustainable cost leadership in crop production	

Mid-term targets in detail: / Key deliverables in FY2019

Oilseed Processing

Mid-term targets in detail:

- Construction of 1-million-ton per year greenfield crushing plant in western Ukraine;
- Substantial upgrade of most our processing plants to drive efficiency;

Key deliverables in FY2019:

- Launch of full-speed construction phase of our processing plant in western Ukraine and co-generation heat and power units adjacent to our crushing plants;
- Acquisition of 5.85% interest in ViOil (one of the largest independent local sunflower oil producers);

Infrastructure and Trading

Mid-term targets in detail:

- Double grain exports in FY2021 through greenfield construction of 4.0-million-ton deep-water transshipment facility in Ukraine;
- Expand and streamline silo network to serve growing in-house production and export volumes;

Key deliverables in FY2019:

- Commissioned 1st stage (grain intake and storage capacities) of our new TransGrainTerminal, a 4-million-ton deep-water grain transshipment facility in Chornomorsk port;
- Constructed two silos and upgraded two other silos;
- Invested in grain railcar business to enhance grain logistics;
- Exported 6.1 million tons of grain from Ukraine (+58% y-o-y), top-1 position for the first time in our history;

Farming

Mid-term targets in detail:

- Achieve sustainable cost-efficient crop production via investment in technology;
- Smooth integration of recently acquired assets to uplift the operational efficiency and productivity levels to Kernel's high standard.

Key deliverables in FY2019:

- Generated the highest ever EBITDA in our farming business, stemming from favorable weather conditions, successful integration of farming businesses acquired in 2017, and continuous productivity gains.

[1] Strategy 2021 has been announced in 2017

Financial Performance in FY2019

A season with strong performance boosted by Farming segment

Kernel delivered solid financial results for the year ended 30 June 2019. Group EBITDA increased 55% y-o-y, to US$ 346 million in FY2019 on robust performance of Farming business and recovery in the Oilseed Processing segment.

Farming segment was driving Company's performance this year, posting the highest ever US$ 182 million EBITDA, 2x up compared to the previous year and accounting for 53% of total Company's EBITDA in FY2019. Supportive weather conditions in Ukraine, prompt and successful integration of acquired farmland landbank along with the effective hedging of crop defined outstanding results.

In line with our guidance, **Oilseed Processing** segment EBITDA recovered in FY2019, adding 42% y-o-y to US$ 109 million. Margin in the business improved to US$ 67 EBITDA per ton of oil sold, supported by strong harvest of sunflower seeds in Ukraine, though extremely low sunflower oil prices prohibited margin from further improvement.

Financial result of **Infrastructure and Trading** segment was up 5% in FY2019 on the y-o-y basis, with EBITDA standing at US$ 106 million. Good performance of grain export business line and addition of railcars business was blurred by negative Avere performance and slight margin contraction in infrastructure businesses.

Unallocated corporate expenses increased by 17% y-o-y, to US$ 51 million in FY2019, due to general growth in administrative expenses and introduction of IFRS 9 and respective recognition of loss allowance for trade accounts receivable.

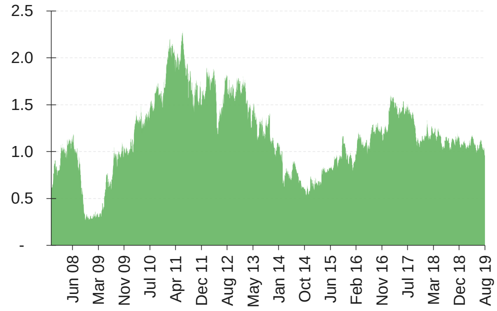
Leverage of the company reduced to 2.0x net-debt-to-EBITDA, and EBITDA-to-interest coverage ratio improved to 4.2x.

Net profit attributable to shareholders of Kernel Holding S.A. in FY2019 soared 3.6x y-o-y, to US$ 189 million. Consequently, the Board of Directors of Kernel Holding recommends the General Meeting of Shareholders distributing to shareholders US$ 20.5 million as a dividend, unchanged as compared to the previous year and resulting in 11% dividend payout ratio.

Revenue
US$ 3,992 million
+66% y-o-y

EBITDA
US$ 346 million
+55% y-o-y

Kernel Holding S.A. market capitalization
US$ billion



Source: Bloomberg

Financial Performance in FY2019 continued

Income statement highlights

We generated a record **revenue** in Group's history, reaching US$ 3,992 million in FY2019, up 66% y-o-y. The result is mostly driven by record grain export volume from Ukraine (up 58% y-o-y) stemming from strong in-house harvest of grain and highest ever procurement of grain from 3rd-party farmers in Ukraine, as well as Avere physical trade operations. On top of that, we delivered strong sales of sunflower oil minimizing the carry-over stock.

The Group recognized US$ 9 million **gain from net change in fair value of biological assets and agricultural produce** in FY2019, compared to a US$ 19 million gain a year ago. This component included a gain from revaluing crops in fields to fair value less costs to sell as of 30 June 2019 and expensing of the respective gain booked a year earlier, as well as a gain from change in the fair value of livestock.

Cost of sales surged by 62% y-o-y, to US$ 3,654 million in FY2019, in line with revenue growth and reflecting higher volumes of procurement of grain and higher costs incurred by our farming business as a result of intensification of crop production on landbank added to our operations in 2017, as well as doubled shipping and handling costs reflecting growing volumes sold on CIF-basis. Consequently, **gross profit** for the period more than doubled y-o-y, reaching the highest in Kernel history US$ 348 million.

Other operating income totaled at US$ 28 million in FY2019, down from US$ 59 million in FY2018, mostly driven by US$ 14 million loss on operations with commodity futures in FY2019, as compared to US$ 32 million gain for a year ago. For a detailed breakdown of other operating income, please, refer to Note 27 of the financial statements on page 115.

General and administrative costs increased by 33% y-o-y, to US$ 107 million in FY2019. The increase was driven mainly by payroll costs increase, bad debt expenses (mostly due to provisions recognized following the application of IFRS 9 standard) and higher audit, legal and other professional fees incurred over the period.

As a result of the factors discussed above and considering also low comparison base, **operating profit** in FY2019 doubled as compared to the previous year, reaching US$ 269 million. **EBITDA** of the company constituted US$ 346 million, a 55% growth y-o-y.

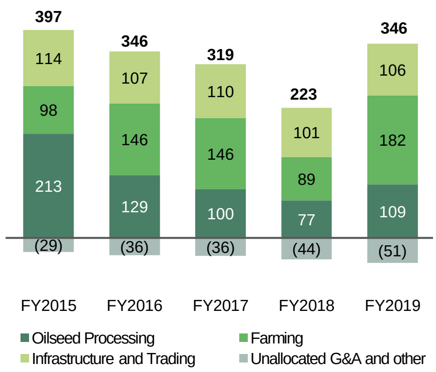
Finance costs in FY2019 added US$ 17 million y-o-y, totaling US$ 82 million. The growth is mostly driven by more intensive use of working capital facilities over the season given expanded scale of the business.

During the reporting period, we recognized **net foreign exchange gain** of US$ 13 million, up from US$ 5 million a year ago. This item is mostly a non-cash gain recognized after the revaluation of our intra-group balances denominated in Ukrainian hryvnia. All of the Group's subsidiaries use the US Dollar as their functional currency, except for farming, export terminals and silo services, which use the Ukrainian hryvnia and the Russian ruble. As a normal course of business, the Group's subsidiaries may need intercompany debt financing which, when revalued, causes either foreign exchange gains or losses at one of the Group's enterprises, if the lender and the borrower had different functional currencies.

Income statement highlights
US$ million

	FY2018	FY2019	y-o-y
Revenue	**2,403**	**3,992**	***66%***
Net IAS 41 gain	19	9	*(51%)*
Cost of sales	(2,261)	(3,654)	*62%*
Gross profit	**160**	**348**	***2.2x***
Other operating income	59	28	*(52%)*
General and administrative expenses	(80)	(107)	*33%*
Operating profit	**140**	**269**	***93%***
Finance costs, net	(65)	(82)	*26%*
Foreign exchange gain(loss), net	5	13	*2.4x*
Other expenses, net	(31)	(8)	*(73%)*
Share of profit/(losses) of joint venture	1	(1)	*n/m*
Profit / (loss) before income tax	**50**	**190**	***3.8x***
Income tax (benefit)/expenses	6	(12)	*n/m*
Profit for the period	**56**	**179**	***3.2x***
Attributable to equity holders of Kernel Holding S.A.	52	189	*3.6x*
Non-controlling interest	4	(11)	*n/m*
EBITDA	**223**	**346**	***55%***

Kernel's EBITDA split
US$ million



Other expenses amounted to US$ 8 million in FY2019, mostly reflecting losses from revaluation of property, plant and equipment.

Corporate income tax expenses totaled to US$ 12 million in FY2019, as compared to US$ 6 million income tax benefit recognized a year ago.

As a result, **net profit** in FY2019 posed a hefty 3.2x growth y-o-y, reaching US$ 179 million. Net profit attributable to shareholders of Kernel Holding S.A. comprised US$ 189 million, up from US$ 52 million in FY2018.

Adhering to the dividend policy, the Company in April 2019 paid the dividend of US$ 0.25 per share totaling to US$ 20.5 million for FY2018. Considering Company performance in FY2019, the Board of Directors recommends the general meeting of shareholders to approve the dividend of US$ 0.25 per share to be paid during the financial year ending 30 June 2020.

Cash flow highlights

Similar to Company's EBITDA improvement, **operating profit before working capital changes** added US$ 185 million to the previous year result, totaling to US$ 368 million in FY2019.

Working capital changes resulted in US$ 94 million cash outflow (driven by growth in trade accounts receivable due to Avere operations), which, together with US$ 76 million **finance costs** paid, US$ 4 million interest received and US$ 3 million **income tax** paid resulted in US$ 199 million **net cash generated by operating activities**.

Net cash used in investing activities reached US$ 241 million, mostly driven by our expansion investments: US$ 167 million

Financial Performance in FY2019 continued

purchase of PP&E as an execution of our CapEx program under Strategy 2021 and US$ 56 million payment under RTK-Ukraine acquisition (with additional US$ 8 million to be paid in FY2020).

Company also paid US$ 20.5 million dividends in FY2019, distributing 39% of profit attributable to shareholders of Kernel Holding S.A. for FY2018.

To finance the gap between operating and investing cashflows, we attracted US$ 61 million of new debt (mostly long-term facilities), and reduced Group's cash balance.

Debt overview

Net debt as of 30 June 2019 added 11% y-o-y to US$ 694 million due to long-term debt increase to finance our CapEx program.

42% of net debt outstanding at 30 June 2019 was covered by readily marketable inventories[1] ("RMI"), which were either presold or could be easily converted into cash being a commodity by nature. RMI accounted for 82% of all inventories as of 30 June 2019.

Driven by the reduction in RMI, Adjusted net debt increased 35% y-o-y, to US$ 400 million as of the end of FY2019.

Stemming from the EBITDA recovery, key leverage metrics for FY2019 improved: net-debt-to-EBITDA measured of 30 June 2019 reduced to 2.0x from 2.8x measured a year ago, adjusted-net-debt-to-EBITDA improved to 1.2x vs 1.3x tested at the end of June 2018, and EBITDA-to-interest coverage ratio increased to 4.2x as compared to 3.4x for FY2018.

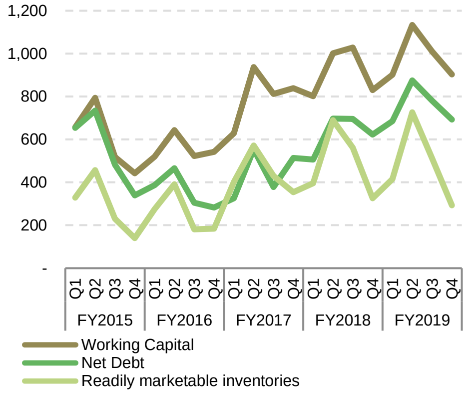
In December 2018, Kernel attracted project financing from the **European Investment Bank**, amounting to US$ 250 million. The funds will be used to construct a greenfield oilseed processing plant in Western Ukraine and co-generation power plants, build inland grain storage facilities and construct a grain handling and storage terminal in the port of Chornomorsk. The amounts will be withdrawn in tranches depending on CapEx needs. The loan matures in 10 years, having a grace period of two years.

Additionally, in February 2019 we signed an agreement with **EBRD** to attract the 8-year loan for the total amount up to US$ 56 million to finance our green energy projects. The beginning of cooperation in long-term funding with such reputable international financial institutions demonstrates transparency and high standards of our business, as well as our proven business strategy.

CapEx schedule

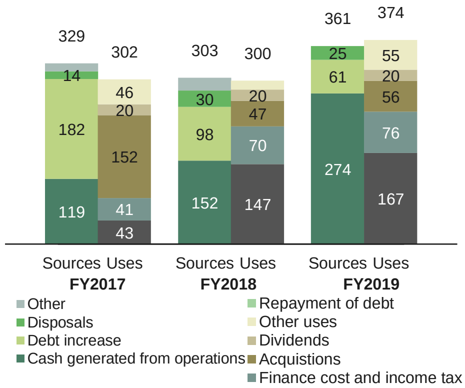
Having FY2020 as the final year of our CapEx program under Strategy 2021, we plan to invest US$ 300 million in expansion and maintenance projects, completing the construction of grain export terminal, and substantially progressing in green energy and new crushing plants projects.

Working capital and debt position
US$ million



"Working Capital", "Net Debt" and "Readily marketable inventories" definitions as described in section Alternative Performance Measures.

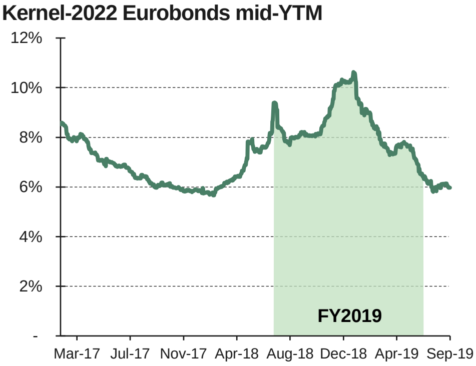
Sources and uses of cash
US$ million



Liquidity positions and credit metrics
US$ million, except ratios

	30 June 2018	30 June 2019	y-o-y
Short-term interest-bearing debt	245.5	202.9	(17%)
Long-term interest-bearing debt	2.8	63.7	22.6x
Obligations under finance lease	10.9	7.7	(30%)
Eurobond	494.8	496.1	0.3%
Debt liabilities	**754.1**	**770.3**	**2.2%**
Cash and cash equivalents	132.0	76.8	(42%)
Net debt	**622.1**	**693.5**	**11.5%**
Readily marketable inventories	325.2	293.4	(10%)
of which sunflower oil and meal	217.9	124.8	(43%)
Sunflower seeds	57.6	103.7	80%
Grains and other RMIs	49.7	65.0	31%
Adjusted net debt	**296.9**	**400.1**	**35%**
Shareholders' equity	1,170.7	1,350.8	15%
Net debt / EBITDA	2.8x	2.0x	(0.8x)
Adjusted net debt / EBITDA	1.3x	1.2x	(0.2x)
EBITDA / Interest	3.4x	4.2x	0.8x

Kernel-2022 Eurobonds mid-YTM



Source: Bloomberg

[1] Readily marketable inventories are agricultural inventories such as corn, wheat, barley, soybean, sunflower seed, meal and oil, among others, which are readily convertible into cash because of their commodity characteristics, widely available markets and international pricing mechanism, carried at cost.

Oilseed Processing

Global leader in sunflower oil production

Record 3.2 million tons of oilseeds processed in FY2019

Revenue

US$ 1,493 million

+7% y-o-y

EBITDA

(before unallocated head office expenses)

US$ 109 million

+42% y-o-y

Kernel is a global powerhouse in sunflower seed processing, actively consolidating the market and greenfield investing. We emerged as the largest global producer and exporter of sunflower oil with 3.5 million tons of annual sunflower seed processing capacity and 1.6 million tons sales of sunflower oil in FY2019. Segment EBITDA increased 42% y-o-y, to US$ 109 million.

Margins in this business substantially declined over last several years. Although it is challenge for us as oilseed processor, it creates a competitive landscape where Kernel's scale and efficiency is strongly positioned to advance. Being the global leader, we continue to strengthen our position through greenfield investing, adding adjacent businesses to our portfolio, consolidating the market and increasing the horizon of our operations.

Firstly, in FY2021 we plan to commission the largest in Ukraine oilseed processing plant in western part of Ukraine – high-potential region for sunflower seed crushing. By investing US$ 180 million greenfield, we will add 1 million tons of annual processing capacity to our portfolio by spring 2021.

Secondly, we are entering new synergetic business of green energy generation from biomass by investing US$ 150 million. The project is a truly transformational addition to our oilseed processing business. We use the first mover advantage, as we are the first big oilseed processor in Ukraine to invest in such heat & power cogeneration projects, which makes us more competitive against peers.

Thirdly, we continue with our market consolidation strategy. In FY2019, we acquired 5.85% interest in ViOil Holding Ltd, one of the largest independent sunflower oil producers in Ukraine. The deal grants us certain advantages in case of future sale process of the remaining stake.

Finally, we increase the horizon of our operations. Historically we used to sell our sunflower oil in Black sea ports to big international traders, but in FY2019 we initiated one step ahead and started selling more on the CIF-basis (port of destination) through our Avere subsidiary.

We remain focused on the delivering on our Strategy 2021 to bring our Oilseed Processing segment to the next level.

Oilseed Processing continued

Market overview

We believe there are two key external factors materially affecting Kernel oilseed processing business: 1) global sunflower oil prices and 2) supply-demand balance on Ukrainian sunflower seed processing market. While the first factor is important for **combined earnings** of sunflower seed farming and processing, the second one determines a **split of margins** between farmers and processors.

Local market fundamentals were favorable for oilseed processing business in FY2019, but general global price weakness prohibited crushing margins from sizable increase vs FY2018 level.

Global sunflower oil prices

Sunflower oil is the 4th largest vegetable oil in terms of global consumption with 9.3% market share in 2018/19 season and the fastest y-o-y growth in consumption of 7.8%. Main demand on global market comes from India and China (driven by income and population growth and rapidly expanding food processing industries) and EU, together taking 58% in global imports, while the largest global exporter is Ukraine with 57% share in total exports and 6.2 million tons of sunflower oil exported in 2018/19 season[1].

Over FY2019, sunflower oil Black Sea FOB price fluctuated between 620-750 US$ per ton of oil, reaching its 10-year minimum in December 2018. Key factors behind that were:

- Strong supply of sunflower seed globally, which was compared to (as initially perceived) an unchanged y-o-y demand base judged by sunflower oil's relative value against competing oils;
- Global vegetable oils price weakness driven by energy sell-off towards the end of calendar year 2018 together with depressed palm oil prices.

Closer to the end of FY2019 sunflower oil prices recovered driven by dried out farmer selling with seeds prices having approximated to the cost of production threshold, and more active demand from Southeast Asia on the back of low sunflower oil flat price having incentivized stockpiling driven by opened refining and bottling margins.

Supply-demand balance on Ukrainian sunflower seed processing market

Sunflower seed processing in Ukraine is heavily localized: nearly all sunflower seeds harvested by local farmers are processed domestically. While combined profitability of farmers (producers of seeds) and crushers (processors of seeds) is determined by global prices, the exact split of earnings between farmers and crushers depends on supply of seeds (harvest) and demand for seeds (processing capacities).

In FY2019, sunflower seed processing capacities in Ukraine increased by 3% y-o-y to 18.5 million tons, as three new facilities in south-eastern Ukraine announced the launch of operations. At the same time, sunflower seeds harvest in the season increased by 1.8 million tons, to 15.2 million tons, driven by supportive weather conditions and strong crop yields. As a result, the gap between crushing capacities and supply of seeds reduced, positively impacting crushing margin over the season.

Additionally, multiseed crushers in Ukraine started to process more soybeans and rapeseeds in FY2019 as compared to FY2018, thus reducing demand for sunflower seeds.

Outlook for FY2020

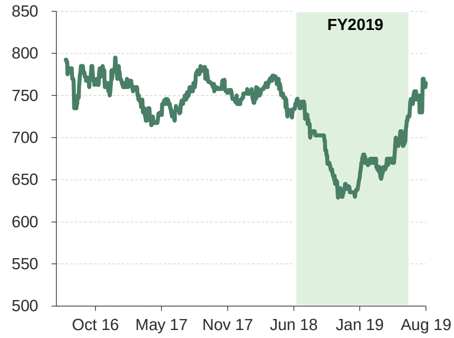
The beginning of the season looks supportive for Ukrainian crushing industry.

In FY2019, sunflower remained the most profitable crop generally for farmers in Ukraine[2], but temporary weakness in sunflower oil prices over the season discouraged farmers to further increase the acreage under sunflower for FY2020. The most recent field data make us expect close to 15.2 million tons sunflower seed harvest in Ukraine in FY2020, securing a strong supply of seeds on the market.

The competitive landscape is not expected to change – we do not envisage any new projects entering the market, so the effective sunflower seed processing capacities are likely to remain unchanged at 18.5 million tons.

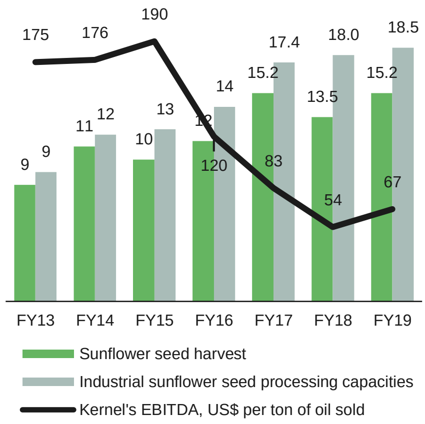
Global sunflower oil prices recovered at the beginning of the FY2020 season, supporting the upsurge in margins.

Sunflower oil export price, FOB-Chornomorsk
US$ per ton of unrefined oil sold in bulk



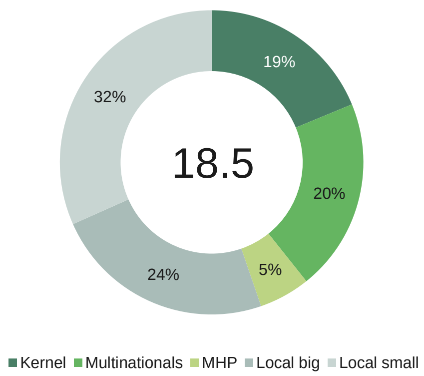
Source: Bloomberg

Mismatch between supply and demand for sunflower seeds in Ukraine
million tons



Source: Kernel's data, Kernel's estimates.

Processing capacities as at MY 2018/19
million tons



Source: Kernel's estimates

1 Source: USDA, July 2019

2 Source: www.ukrstat.gov.ua

Oilseed Processing continued

Our business model

Market leader in oilseed processing

We are the largest sunflower oil producer and exporter in the world, with annual capacity to process 3.5 million tons of sunflower seeds. In FY2019 we produced ~8% of global production of sunflower oil and exported ~15% of global export[1].

We operate seven of our own oilseed processing plants in Ukraine and also process seeds under the tolling agreement on the 3rd-party-owned Ellada crushing plant in Kropyvnytskyi city. Our facilities compose 19% of country industrial sunflower crushing capacity, and we keep 21% of total sunflower processing volumes in Ukraine. We are currently 2.4 times bigger than the 2nd-largest crusher in Ukraine and seek to further increase our market share after commissioning the largest in Ukraine oilseed processing plant with 1 million tons of annual sunflower seeds crushing capacity, scheduled for early 2021.

87% of the sunflower seeds we processed in FY2019 were sourced from 3rd-party farmers, and 13% were produced by our farming segment.

Sunflower seed processing yields two major products: sunflower oil and meal, which we export globally mostly through 3rd-party terminals, with only a minor portion transshipped through our own TransBulkTerminal. Sunflower seed husk, a biomass, is either burnt in-house to generate steam for production purposes, or pelletized and sold to 3rd parties. We are currently constructing co-generation heat and power units adjacent to all but one our crushing plants to burn all the husk produced and generate electricity. Since 2009 our Kropyvnytskyi plant has operated a similar facility with 1.6 MW installed turbine capacity, supplying the electricity generated to national grid.

Up to 10% of crude sunflower oil is further refined and bottled on our Poltava and Prykolotne plants for higher-added-value product. On the Ellada plant we also process high-oleic sunflower seeds. Most of our crushing plants are multi-seed and able to switch to soybean or rapeseed processing if needed.

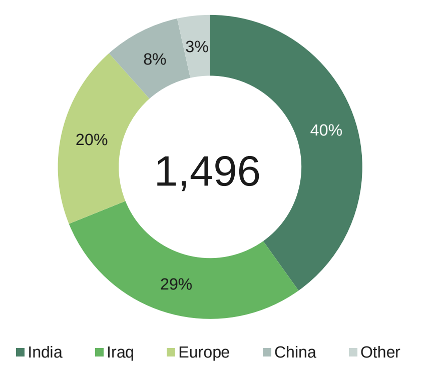
All the assets are located across the sunflower seed production belt in Ukraine in close proximity to farmers, ensuring the high utilization rates and profitability, as the low density of sunflower seed negatively impacts the economics of transporting seeds to the distant regions.

Our crushing plants are modern facilities constructed or fully renovated recently, granting us processing cost advantages over most of the other players. Our scale also allows us to benefit from more efficient usage of our country-wide origination network and allocation of overheads over larger volumes.

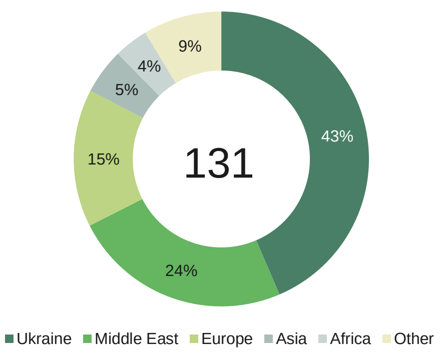
Markets and customers

Oilseed processing is an export-oriented business. Over 90% of produced sunflower oil is exported in bulk, with India, EU, Middle East and China being our key markets of destinations. Our customers include processors of

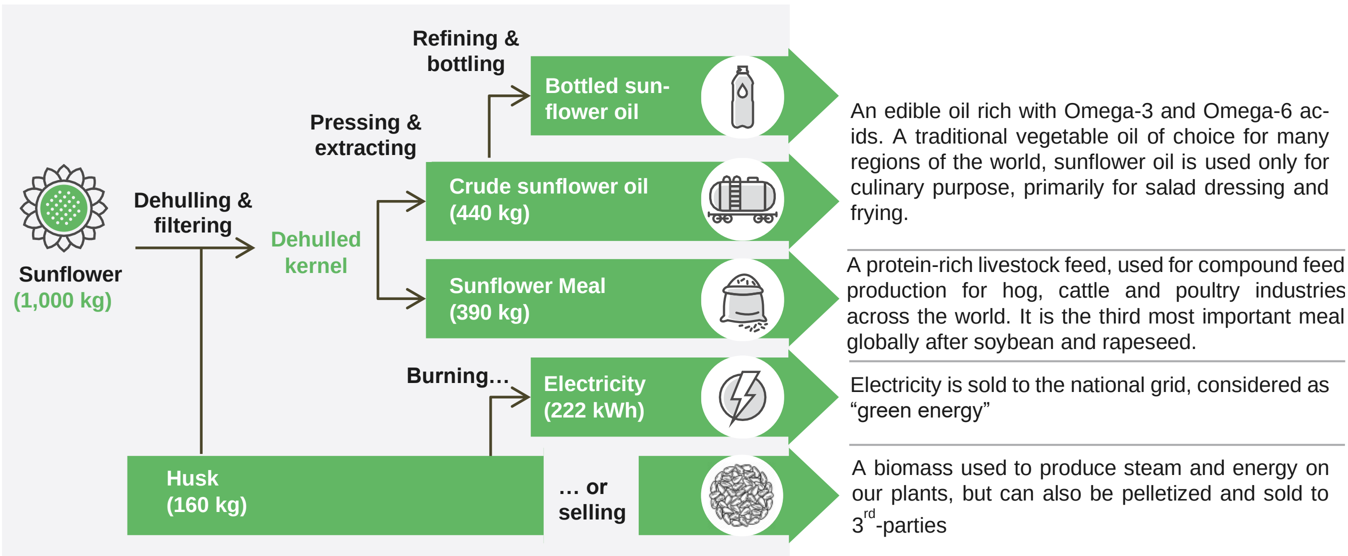
Sunflower oil sold in bulk destinations FY2019
thousand tons



Bottled sunflower oil destinations FY2019
million liters



Sunflower seed crushing process



[1] USDA, Kernel analysis.

Oilseed Processing continued

Case study: investments into green energy generation

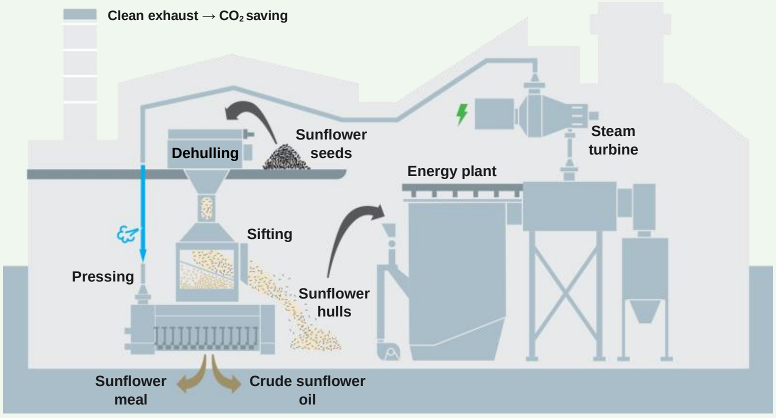
Since its onset in early 2000s, sunflower seed processing in Ukraine has gone through several turns in its development. At first, crushing plants used only pressing technology. The **first indutsry shift** added extractors to pressing operations, which improved the yields output and made early adopters of the new technology much more competitive. The **second pivotal point** happened with the introduction of highly efficient husk-fueled boilers. Crushers started to invest in modern productive boilers, which generated steam for crushing without using the natural gas, but by burning the sunflower husk – a biomass-type by-product from the sunflower seed crushing process. And now we are facing the **third turning point**: installation of cogeneration equipment.

Since 2015, Ukrainian government made a set of invenstives for the producers of “green” energy from a biomass by obliging the national grid operator to buy all the electricity generated from biomass at a higher feed-in tariff, which is fixed until 2030 and regularly adjusted for FX fluctuations.

In 2017, we decided to enter this market by installing cogeneration heat and power equipment, with a combined turbine capacity of 94 MW on seven of our crushing plants, over the course of 2019-2021. As before, we will burn husk, and the steam produced will be used not only for crushing purposes, as well as for electricity generation.

We see a strong business case for such invesments:
- ✓ **Attractive feed-in tariff** for “green energy” in Ukraine: 0.12 €/kWh till 31 Dec 2029;
- ✓ **A proven track record** of running combined heat and power (CHP) unit on Kropyvnytskyi plant since 2009;
- ✓ Synergies vs greenfield CHP plant construction: **existing infrastructure** and **secured supplies** of biomass feedstock
- ✓ Vacanting railcars use / **reduction of logistic costs**

The total investments are expected to reach US$ 150 million. Once done, we will end up as the largest producer of green energy from biomass in Ukraine.



soft commodities who refine and bottle sunflower oil (with Etihad Food Industries purchasing 29% of our bulk sunflower oil in FY2019 as the largest of our customers) or international commodity traders, such as COFCO and Cargill, taking 9% and 6% of our bulk oil sales volumes, respectively, in FY2019.

Up to 10% of produced crude sunflower oil is further refined and bottled. In FY2019, 57% of produced bottled oil was exported mainly to Africa, Middle East, EU and China under our brands or private labels. We have about 55% share in total refined bottled sunflower oil export from Ukraine, supplying products to such international retail chains as METRO, Auchan, Walmart, Maxima and others.

43% of produced bottled oil was sold in Ukraine to 18 nationwide retailers and 32 regional distributors, comprising 84% and 16% of domestic sales, respectively, under well-recognized brands “Chumak”, “Schedryi Dar”, “Stozhar” and others.

Key developments

In FY2019, we processed 3.2 million tons of oilseeds – a new record for Kernel, slightly exceeding last year’s result and running at 91% capacity utilization level. It is imperative to maximize capacity utilization for margin-takers in the current low-margin environment.

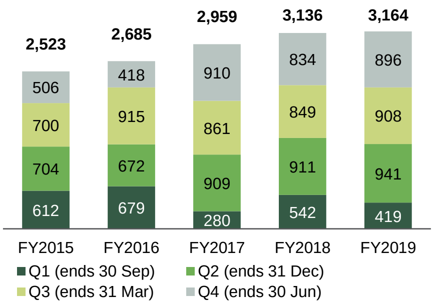
In FY2019, we commenced work of a co-generation heat and power unit in our Kropyvnytskyi oil-extraction plant, which expanded the on-site green energy generation capacity by four times, to 6 MW.

FY2019 was a year of launch of on-site construction works for our new oilseed processing plant in Western Ukraine (a region with strong fundamentals for oilseed processing business), with the aim to commission the facility in January-March 2021. Equipped by machinery from leading global suppliers, the plant in Starokostiantyniv, Khmelnytskyi region, will be the largest in Ukraine with annual processing capacity of 1 million tons of sunflower seeds, also accommodating soybeans and rapeseed crushing. The plant will be equipped with an integrated 22 MW combined heat and power generation unit (“CHP unit”) expected to generate up to 154 thousand MWh of electricity annually to be sold to the national grid.

In order to expand the production of sunflower in western and northern regions of Ukraine, we launched a promotional campaign as a part of our Open Agribusiness initiative providing local farmers with Kernel’s real-life cases of how to streamline their crop mix to produce more sunflower seeds, historically the most profitable crop in Ukraine.

In the bottled sunflower oil business, we added market share in Ukraine as a result of the customization of bottle size and formats, successful promotional campaigns and increased cooperation with leading domestic retail chains on production of private labels and

Oilseed processing volumes
thousand tons



Kernel bottled oil selected customers

Kernel bottled oil core brands

Oilseed Processing continued

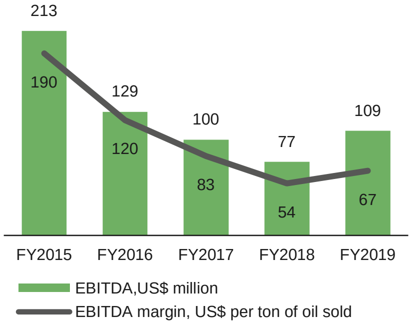
the promotion of our own brands. For export sales, we also managed to enter a new retail network Superunie in Netherlands, and increased shipments to Asia and South America, while losing somewhat in Middle East.

Since mid-FY2019, we changed our approach to the sales of sunflower oil sold in bulk. Historically, we sold oil mainly at Ukrainian ports (FOB-basis) to numerous big international traders. But since Q3 FY2019, we sell almost all unrefined sunflower oil produced by our plants through our Avere trading platform, shifting sales from FOB more to CIF-basis (port in the country of destination). In addition to marketing sunflower oil produced by our plants, Avere also buys sunflower oil from other producers in Ukraine (over 200 thousand tons in FY2019[1]), consolidating exports from Ukraine under its platform and building up the scale in the vegetable oils export market. Based on volumes produced by Kernel plants, we have ~15% of total global export, but with the help of Avere trading subsidiary we intend to increase this stake further, consolidating the sunflower oil freight market and Ukraine FOB-basis market under the Kernel umbrella.

Over the course of FY2019, we reduced the headcount in the segment by 10% y-o-y, to 2,258 employees (FTE) as of 30 June 2019. While half of this reduction comes from the divestment of a small inefficient simple-press plant in Mykolaiv in July 2018, another 5% results from our efforts in optimization of business processes within the segment.

Finally, in February 2019 Kernel acquired 5.85% stake in **ViOil Holding Ltd**, one of the largest independent sunflower oil producers in Ukraine, controlling 1.1 million tons of annual sunflower seed processing capacity and a network of silos used for origination of sunflower seeds. By entering a customary shareholder agreement in relation to ViOil with other shareholders of ViOil, we acquired certain rights which might benefit Kernel in future sale process.

Oilseed Processing segment EBITDA



[1] Such volumes are reported as a part of "Other trading volumes" in our Infrastructure and Trading segment.

Oilseed Processing segment performance

		FY2018	FY2019	y-o-y
Oilseeds processed	*thousand tons*	3,136	3,164	*1%*
Sunflower oil sales	*thousand tons*	1,413	1,619	*15%*
Revenue	*US$ million*	1,393	1,493	*7%*
EBITDA	*US$ million*	77	109	*42%*
EBITDA per ton of oil sold	*US$ / ton*	54	67	*24%*
EBITDA margin	*% of revenue*	5.5%	7.3%	*1.8pp*

Performance overview

Our sales of sunflower oil achieved highest ever 1.6 million tons in FY2019, exceeding the production volumes and depleting the carry-over stock. Bulk sunflower oil sales reached 1.5 million tons, up 15% y-o-y following stronger shipments to Middle East. Sales of bottled sunflower oil jumped to 123 thousand tons (or 131 million liters), up 10% y-o-y given growth in domestic sales in Ukraine to further increase our market share.

EBITDA generated per ton of oil sold recovered from the lowest ever observed level of US$ 54 per ton in FY2018 to US$ 67 in the reporting period. Profitability was impacted by two opposite factors:

- **Strong** 15.2 million tons **harvest of sunflower seeds** in Ukraine, which reduced the gap between crushing capacities in Ukraine and supply of seeds, and…
- **Subdued global sunflower oil prices**, which reduced from US$ 750 per ton of unrefined oil sold in bulk (FOB Black Sea basis) at the beginning of the season to US$ 620 per ton of oil in December 2018 (the lowest in a decade). At our level of margins, such price weakness has a tremendous impact on profitability, and it undermined more substantial margin improvement in FY2019.

As a result of stronger sales volumes and recovery in margin, segment EBITDA in FY2019 increased by 42% y-o-y, to US$ 109 million.

We also secured strong volumes of sunflower seeds to crush in Q1 FY2020, which is the last quarter before a new harvest of sunflower seeds starts.

Acquisition of 5.85% in ViOil

In February 2019, Kernel acquired 5.85% interest in ViOil Holding Ltd ("**ViOil**"), one of the largest independent sunflower oil producers in Ukraine. ViOil assets include:

- **Vinnytsia multiseed oil-extraction plant** with annual capacity to process 940 thousand tons of sunflower seeds _or_ 640 thousand tons of rapeseeds _or_ 540 thousand tons of soybeans. The plant is equipped with vegetable oil refining and bottling facility, as well as soft margarines and packaged fat production unit;
- **Chernivtsi multiseed oil-extraction plant** with annual capacity to process 165 thousand tons of sunflower seeds _or_ 89 thousand tons of rapeseeds _or_ 73 thousand tons of soybeans;
- **10 silos** with 300 thousand tons storage capacity, used for oilseed procurement purposes.

A customary shareholder agreement in relation to ViOil grants us certain rights gaining a favorable position to further increase our stake. This deal is an important initial step towards the future consolidation of the sector under Kernel umbrella, which is one of the targets in our Strategy 2021.

In case of closer cooperation with ViOil, we may achieve various potential synergies, like common procurement of sunflower seeds and sale of sunflower oil produced by ViOil through our subsidiary Avere, which consolidates the FOB-basis market in Ukraine.

Oilseed Processing continued

FY2020 outlook

Oilseed Processing segment is expected to deliver healthy results in FY2020. **Volume-wise**, we have a target to process 3.3 million tons of sunflower seeds in FY2020 – the highest volumes in our history, further increasing our capacity utilization rate. **Margin-wise**, as of the date of this report publication we expect stronger y-o-y margins in FY2020. The harvest of sunflower seeds in FY2020 is expected to be unchanged as compared to the previous season, and crushing capacities are not increasing, but sunflower oil prices recovered from extremely low FY2019 levels, contributing to the expected margin recovery. On top of that, following the increase of the limits of our sunflower oil pre-export credit line, we aim to originate more seeds at the beginning of the season at higher margins, which should also contribute to general profitability improvement.

As before, first quarter of new financial year will be weak in terms of volumes, as we normally have scheduled downtime to prepare plants for new season in this quarter, but stronger than Q1 FY2019 given the sufficient stock of seed on the market after robust harvest in FY2019.

Additionally, we expect about US$ 6 million EBITDA contribution from green energy generation in FY2020, following the planned commissioning of 3 cogeneration heat and power units on our Poltava, Bandurka and Black Sea Industries oil-extraction plants in spring 2020 with combined power generation capacity of 40 MW. The remaining 48 MW to be installed on our Prydniprovskyi, Vovchansk and new Starokostiantyniv plant in FY2021.

Non-financial performance

Occupational health and safety

Our injury prevention system on crushing plants demonstrated a stellar performance in FY2019, as there were no recordable work-related injuries in our Oilseed Processing segment over the reporting period for the first time in the last decade.

To prevent health and safety accidents, each processing site has a dedicated health and safety specialist who ensures that workplaces comply with safety requirements. All our workers are equipped with coveralls and receive proper health and safety training annually. For more details on our health and safety performance, please refer to page 48 of this report.

Employee training and development

We dedicate a lot of effort to the training and professional growth of our people. Over the course of FY2019, 1.9 thousand participants employed by our Oilseed Processing segment invested a total of 30 thousand hours in development of their hard and soft skills. We engage employees in all six training and education programs we run: professional education, competency development trainings, one-time educating activities, corporate modular programs, trainings from internal trainers and distance learning. We also have a special corporate MBA program for our Oilseed Processing segment.

Energy consumption and emissions intensity

Oilseed Processing is our most eco-friendly segment, as 83% of energy consumed comes from renewable fuel (sunflower husk).

In FY2019, we continued the trend of energy intensity improvement, consuming the lowest ever 1,312 MJ per ton of sunflower seed crushed. We reduced total consumption of electricity and sunflower husk while increasing oilseed processing volumes.

Greenhouse gas emissions of the segment amounted to 3 thousand tons of CO_2 equivalent in FY2019, slightly up y-o-y on more natural gas consumed. GHG emissions intensity remains at the lowest ever level of 1.1 kg of CO_2 equivalent per ton of sunflower seed crushed.

Product quality and safety

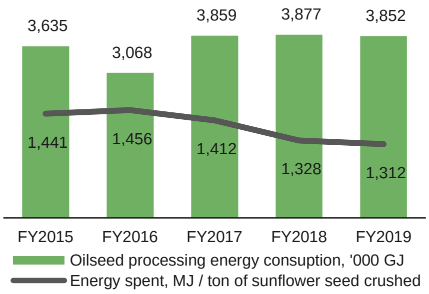
As the largest global producer of sunflower oil, we strive to set industry benchmarks in terms of product quality, guaranteeing the highest standards of goods we deliver to our customers.

All our crushing plants are certified under ISO 22000, ISO 9001 and GMP+B1. Our bottling facilities have FSSC 22000 certificates. Beyond that, our crushing plants have numerous other quality certificates which are required to sell products across the globe (please see "Product quality and safety certificates" on page 53).

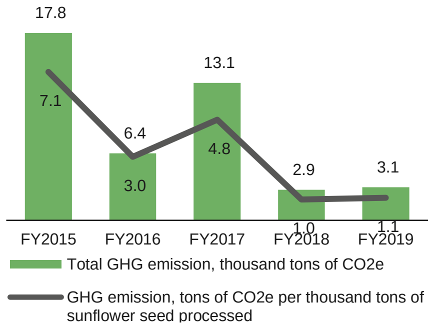
We supply bottled sunflower oil to reputable international retail chains (Auchan, Metro, Walmart, Maxima etc.), which serves as proof of the quality of our produce.

Our food safety and quality system is regularly tested by independent third-party auditors and constantly overseen by our internal food safety team. The audits' scope includes production, storage, distribution and supply processes. In FY2019, we passed 88 independent audits, conducted over 156 days.

Oilseed processing segment energy consumption and intensity ratio

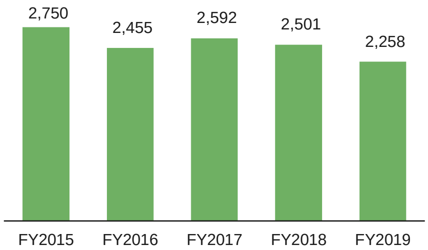


GHG emissions intensity ratio (Scope 1)



Number of segment employees (FTE)

As of 30 June of the respective year



Infrastructure and Trading

Unlocking Ukraine's potential in agriculture

Exported 6.1 million tons of grains and oilseeds from Ukraine

In the last decade, our Infrastructure and Trading segment transformed from an asset-light grain trading business into the biggest grain exporter from Ukraine with a powerful grain infrastructure platform. We connect more than 4,000 crop producers in Ukraine with global markets through our best-in-class integrated value chain, which includes the largest private silo network, one of the largest grain export sea terminals, the largest private grain railcars fleet and an extensive procurement network. The total EBITDA contribution of these businesses in FY2019 amounted to US$ 106 million, up 5% y-o-y.

In FY2019, we became the **undisputable local champion in grain export** volumes from Ukraine for the first time in our history, outperforming numerous multinational and local peers. We exported 6.1 million tons of grain from Ukraine, up 58% y-o-y, which is an important step in our Strategy 2021 execution.

We also added a new important business stream to our operations – grain railcars. These operations mitigate logistics risks to successfully deliver on our Strategy 2021, and also protects us from ever growing grain logistics costs in Ukraine.

We do not have plans to stop, setting a target of 8 million tons of grain to be exported by Kernel from Ukraine in FY2020. This new milestone will be achieved with the help of our new 4-million-tons grain export terminal we plan to put into operation in January 2020.

Although FY2019 grain harvest was a record in Ukraine, FY2020 crop size promises to be even more outstanding, driven by wheat and barley crop yields improvement. We believe in the long-term grain producing potential of Ukraine and we aim to help farmers in Ukraine to unlock it by sharing with them our farming know-how, providing working capital financing and access to our infrastructure. All these activities are structured through our "Open Agribusiness" initiative which we launched a year ago and consider an important instrument in further boosting productivity of farming business in Ukraine.

Revenue
US$ 3,140 million
+3.1x y-o-y

EBITDA
(before unallocated head office expenses)
US$ 106 million
+4.9% y-o-y

Infrastructure and Trading continued

Market overview

Key market factors important to follow for our Infrastructure and Trading segment performance include the harvest of grains in Ukraine, competition among grain traders in Ukraine and competition among grain infrastructure assets, along with other factors.

Grain harvest in Ukraine

In the season 2018/19 (the company's FY2019) Ukraine delivered the largest grain harvest in its history: 70 million tons[1], up 14% y-o-y. While wheat harvest reduced by 2 million tons to 25 million tons, harvest of corn boosted by almost 50% y-o-y to 36 million tons in FY2019 on extremely supportive weather conditions.

With reducing domestic consumption in Ukraine, grain export volumes accelerated in 2018/19 reaching 50 million tons, up 23% y-o-y, making Ukraine the 3rd largest grain exporter globally with 12% of global grain trade.

Outlook for FY2020 looks even more inspiring. Grain harvest in Ukraine is expected to increase above 73 million tons mostly driven by wheat with corn production remaining unchanged y-o-y. It will secure enough volumes for high grain infrastructure capacity utilization countrywide.

Competition among grain traders

In Ukraine we compete with established multinational trade houses (COFCO, Cargill, ADM, Bunge, Louis Dreyfus, Glencore) as well as with numerous local names, including Nibulon as the #2 exporter. While all the largest exporters have their own grain export terminals in ports, only some of them have inland silos and grain railcar fleets, not to mention farming business. All those factors combine as a key in winning the race for Kernel.

Grain infrastructure trends

Grain export terminals

We estimate current capacity of big specialized grain export terminals in Ukraine at ~60 million tons per year (including the recently commissioned Cargill's 5-million-ton terminal in the port of Pivdennyi). On top of that, there are ~15 million tons of capacity for small and unspecialized players, which are not efficient, often lacking the depth at berth and therefore are heavily underutilized.

The pipeline of new projects includes Kernel's 4-million-tons TransGrainTerminal and debottlenecking of various players to add, in total, a maximum 5 million tons more of annual transshipment capacity.

With 53 million tons of grain export expected for FY2020 and 4-5 million tons of annual oilseed export expected, port transshipment capacities are underutilized, which was reflected in recent weakness in export terminal margins marketwise.

Grain railcars business

Over the last several years, inefficient railway logistics became a barrier for the effective export of grain from Ukraine. The market faced a shortage of freight railcars and railway traction, which endangers the execution of export contracts and increases the costs for grain exporters. While the rolling stock market was deregulated in FY2018 and more private players started to invest in their own railcar fleet (including Kernel), railway traction is still a monopoly-owned by the national railway operator, causing inefficiencies in logistics.

Silo business

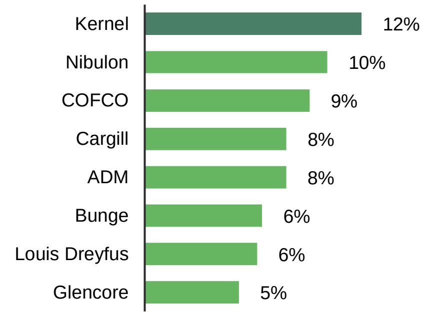
The most important trend in silo business also involves railway logistics. Aiming to improve the turnover of rolling stock, Ukrainian Railways adopted new rules for freight railcars assignment. Consequently, silos with capacity to load a full shuttle train (54 grain railcars) per day are primarily allocated with railway wagons during the high season. Therefore, numerous unproductive and inefficient grain storages face difficulties with getting access to railcars, and market players started investing in construction of new silos and debottlenecking of existing ones.

Kernel is one of the largest operators of modern high loading speed silos in Ukraine. At the end of FY2019, we added two facilities with shuttle train-loading capabilities to our operations as a part of our Strategy 2021 execution.

Global picture

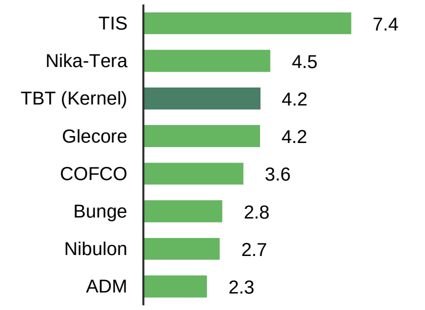
Ukraine is well-positioned to remain an important player in the international grain market, owing to both its large farmland area and strategic location on the Black Sea. Ukraine is ideally positioned for exports to the Mediterranean market as the closest major grain producer with a developed grain transshipment infrastructure offering logistics and cost advantages. There are deep-water commercial seaports connected to an extensive railway network serving most of the grain elevators in the country.

Top grain exporters from Ukraine in FY2019
% of total grain export



Source: STARK

Top export terminals in Ukraine in FY2019
million tons of grain throughput



Source: STARK

[1] Source: USDA

Infrastructure and Trading continued

Our business model

The Infrastructure and Trading segment comprises several interdependent business units serving as a supply chain connecting Ukrainian farmers with global markets: grain export business, silo services, export terminals, grain railcars, and Avere operations. On top of that, we account in this segment for a fee received for assignment of our transshipment quota on Taman terminal in Russia to a third party.

Grain export business

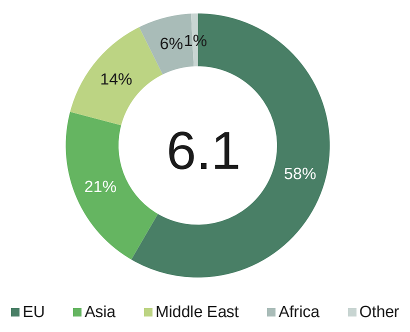
Being the largest grain exporter from Ukraine and one of the largest from the Black Sea region, Kernel is involved in buying grain from local farmers (including own farming division) and exporting it from Ukraine. In FY2019, we exported 6.1 million tons of grain from Ukraine, or 12% of the country's total grain export. We successfully navigate in this low-margin high-volume business by effectively combining the following pillars:

- **Professional procurement team** with country-wide presence and deep understanding of local trends and regional peculiarities;
- First-hand access to our **own infrastructure** in Ukraine – the largest private silo network, grain railcars fleet and deep-water export terminals;
- **Prudent risk management**: locking up the margins by selling grain through forward contracts in a similar time frame as when we purchase it from farmers on the spot market;
- **Relationship with farmers,** supported with a number of value-added initiatives: providing pre-crop financing to farmers (over US$ 90 million expected to be provided for the harvest of 2019, one of the largest providers of financing to farmers in Ukraine) and the Open Agribusiness initiative (sharing our know-how and providing various services to 3rd-party farmers).

We consider the combination of above-mentioned factors as one of our key competitive advantages.

We sell grain mostly on the FOB-basis in the ports of Black Sea to big international traders like Cefetra (19% of Kernel grain export volumes in FY2019), COFCO (12%) and Glencore (11%), as well as OLAM, Cargill, ADM and others. Traders then deliver grain to key export destinations, being Europe (56% of total Kernel grain export volumes in FY2019), Asia (21%), Middle East (14%) and Africa (8%).

Kernel grain export from Ukraine destinations
million tons



Silo services

We operate the largest private inland silo network in Ukraine of 34 silos with total grain storage capacity of 2.5 million tons. Our assets include very productive silos able to load shuttle trains (54 railcars) in one day; like Balyn which made 3.8x turnover in FY2019 with 0.5 million tons of grain intake, but also smaller and less efficient floor-type storages of which we systematically divest.

Silos located across the key grain producing regions in Ukraine provide grain in-take, drying, cleaning, storage, and off-loading services to our farming segment and to third-party farmers countrywide. Grain drying service has the highest added value, so profitability of the whole business line materially depends on the weather when harvesting: more rain positively effects margins for silo business; less rain negatively so. Our silos start grain intake with wheat in July and end with corn in December, thus being able to do more than 1.0x storage capacity turnover over the season.

In addition to typical services provided, our silo network serves as an important origination tool, enabling our procurement team to purchase grain and sunflower seeds from farmers within a 100-kilometer range from the harvested land, thus being the first-choice buyer to consider. Our inland silo footprint enables us to maintain close contacts with farmers and have better visibility on the Ukrainian grain supply.

Export terminals

In Ukraine, Kernel owns **TransBulkTerminal** - one of the largest facilities in the country with 4.8 million tons annual grain handling capacity, located in the deep-water Chornomorsk port, Odesa region. The facility is capable of servicing over-Panamax-sized vessels with deadweight of up to 100,000 tons and has a maximum loading at berth of 69,700 tons. Next to it, we are constructing a new 4-million-ton **TransGrainTerminal**. We have started using this facility to offload railcars and store grain already in FY2019, but the full commissioning of the asset is scheduled for FY2020.

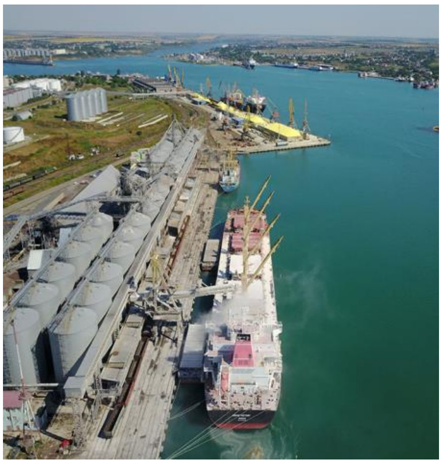
In Russian Federation, Kernel owns a 50% interest in **Taman** grain export terminal, a deep-water facility able to load Panamax vessels, which provides a materially cheaper logistic advantage. Being uninvolved in grain marketing operations in Russia since FY2018, we assigned our transshipment quota in the terminal to Glencore, the owner of another 50% stake in this venture, thus securing a budgeted level of earning from this asset.

The business enjoys high natural barriers to entry owing to the combination of high capital expenditures and limited availability of land plots for any new similar projects.

Silo in Balyn, Khmelnytskyi region
142 thousand tons storage capacity

- 5% of Kernel's total silo storage capacity
- 17% of silo business EBITDA in FY2019
- 539k thousand tons grain in-take volumes in FY2019 (3.8x storage capacity turnover)

Export terminal in the Chornomorsk Port
4.8 million tons annual transshipment capacity



- 4.6 million tons of grain, meal and sunflower oil transshipped in FY2019
- US$ 36 million EBITDA generated in FY2019

Infrastructure and Trading continued

Grain railcars

After the purchase of 500 brand-new railcars in 2018 and the acquisition of the business with 2,949 used railcars in February 2019, Kernel became the largest private operator of grain railcars in Ukraine with ~13% market share of total grain hoppers fleet in Ukraine. We use railcars to deliver grain from silos (owned by us and by other players) to the grain transshipment terminals in the ports. By owning the railcars, we save on lease payments, though we still pay for usage of railway traction and infrastructure.

Avere operations

Avere is a 72.5%-owned subsidiary of Kernel, with another 27.5% owned by the managing partners of Avere. It is a research and knowledge platform founded in FY2018 and headquartered in Geneva, Switzerland, with representative offices in USA and Singapore. Avere employs a highly qualified research, trading and execution team of approximately 30 specialists. Avere sells almost all sunflower oil produced by Kernel plants, purchasing sunflower oil from Kernel at market prices (FOB Black Sea) and paying Kernel a fee. Additionally, Avere helps to hedge Kernel's growing grain export volumes and farming produce. Finally, leveraging its expertise, Avere is involved in the merchandising and proprietary trading of grains, oilseeds and related products in the key world markets.

Case study: Transforming railway logistics in Ukraine

Problem: inefficient inland grain railway logistics in Ukraine not able to effectively handle steadily growing grain export volumes. Consequently, growing costs, resulting losses and bottlenecks put at risk the execution of our Strategy 2021 – doubling grain export volumes by 2021 against a FY2016 baseline year

Solution undertaken by Kernel – pro-active 3-stage approach:

1. Purchase 500 brand-new railcars **to test the market and operations**;
2. Acquire RTK-Ukraine with 2,949 grain railcars **to reach a scale for impact**;
3. Value-creative initiatives around our fleet **to transform the whole system**:
   - **Strict schedule shipments**: a joint project with state monopoly Ukrainian Railways to introduce movement of grain trains by strict schedule. Being the first such initiative in Ukraine, it aims to increase fleet turnover more than twice, provide for more efficient logistics planning by Kernel team, and improve the effectiveness of the whole system in case the project is widely adopted by other operators. We expect to transport 0.9 million tons of grain applying strict schedule scheme in FY2020.
   - **Transit-Hub**: a web-platform for cargo owners storing grain on nearby silos to combine their efforts in loading a single block train (54 railcars) which travels nonstop to a destination in the port without being split up or stored en route. Such an approach reduces shipping time and costs for grain exporters.

Result: Kernel became the 2nd-largest operator (after the state monopoly) of a grain railcar fleet in Ukraine, contributing to efficiency improvement of the whole industry.

Key developments

In FY2019, we became the largest grain exporter from Ukraine, for the first time in Kernel history. We outperformed numerous local peers and international players operating on the Ukrainian market, delivering to export markets 6.1 million tons of grain since 1 July 2018 to 30 June 2019. 67% of exported volumes comprised of corn, 26% - of wheat, and remaining of barley and other crops.

In FY2019, we pursued investments in railcar business: in addition to US$ 25 million invested into the purchase of 500 brand-new railcars last season, we obtained 2,949 used railcars by acquiring RTK-Ukraine LLC in February 2019 for US$ 65 million. We consider these investments of strategic importance, as it improves control over the value chain and protects from ever-growing logistic costs.

FY2019 was a year of the full-scale roll-out of our Open Agribusiness initiative. We organized three large meetings with 246 agriproducers in Ukraine operating in total 1.5 million hectares of land. On these meetings, we presented our program and advantages for farmers, disclosed our approach in precision farming, and demonstrated our fields and crop production technologies. As of the date of this report, other farmers shared information on over 390 thousand hectares of land with each other to make benchmarking within our Open Agribusiness program.

Driven by processes optimization and good coordination between our logistic and export terminal teams, our TransBulkTerminal provided record transshipment volumes in FY2019 of 4.6 million tons, including 4.2 million tons of grain and with remaining being sunflower oil and meal. The facility also set a new monthly record, transshipping 460 thousand tons of commodities, and we upgraded the notional capacity of the facility to 4.8 million tons per annum.

In FY2019, we initiated optimization of relations with 3rd-party truck carriers who transport sunflower seeds to our plants, sunflower oil and meal to ports, and grain to our silos and port terminals. We are introducing long-term contracts with 3rd-party carriers increasing predictability of their business and guaranteeing traffic volumes, and getting as a result reduction in tariffs, streamlining of our logistics and uninterrupted supplies.

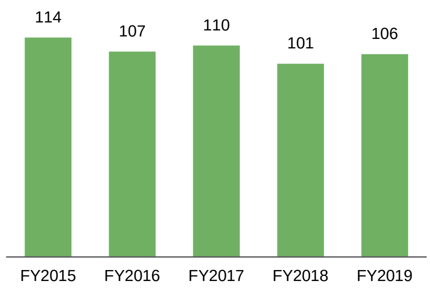
In FY2019, we constructed the first stage (grain in-take and storage capacities) of our new TransGrainTerminal in the port of Chornomorsk. The facilities are linked with our operating TransBulkTerminal, thus having a positive impact on the capacity of the last. The final commissioning of TransGrainTerminal is scheduled for FY2020.

In the reporting period, we continued to further optimize our asset base. Firstly, we have been disposing of small floor-type grain silos, which are inefficient with high costs and low capacity turnover and do not fit our business model. As a result, by the end of the year our one-time grain silo storage capacity reduced to 2.5 million tons. Secondly, we divested of a small export terminal located in Mykolaiv port. Kernel used to transship sunflower meal through this shallow-water facility, but the terminal was outdated and inefficient, without any strategic fit to Kernel operations. Stemming from the portfolio optimization, the headcount of the segment reduced 13% y-o-y, to 2,990 employees as of 30 June 2019.

Delivering on our Strategy 2021, we constructed two new silos and substantially

Infrastructure and Trading continued

Infrastructure and Trading segment EBITDA
US$ million



Infrastructure and Trading segment performance

		FY2018	FY2019	y-o-y
Grain export volumes	*thousand tons*	3,953	**6,094**	*54%*
Export terminal's throughput (Ukraine)	*thousand tons*	4,112	**4,606**	*12%*
Grain and oilseeds received in inland silos	*thousand tons*	3,292	**4,276**	*30%*
Revenue	*US$ million*	1,025	**3,140**	*3.1x*
EBITDA	*US$ million*	101	**106**	*5%*
EBITDA margin *per ton of grain exported*	*US$*	26	**17**	*(34%)*

upgraded two other silos, almost completing our US$ 65 million investment program in the silo business line. New capacities start contributing to our EBITDA as soon as in FY2020.

Performance overview

Historically we used to report Infrastructure and Trading segment as three sub-segments: grain marketing, silo services and export terminals. Though, recently we changed our approach to profitability management in these segments when taking managerial decisions and start looking at the margin through the whole value chain rather than the profitability of each separate business, also accounting for numerous intragroup transactions between our grain export, silo and terminal businesses.

Infrastructure and Trading segment generated US$ 106 million EBITDA in FY2019, flat as compared to the previous year. Among the factors pushing earnings up we need to mention:

- **Record volumes across all business lines**. In FY2019, Kernel became the largest grain exporter from Ukraine for the first time in its history, delivering 6.1 million tons of grain out of Ukraine, a tremendous 58% growth y-o-y. Of that, 4.2 million tons was transshipped through our TransBulkTerminal in the port of Chornomorsk, and the remaining transshipped through 3rd-party terminal in the port of Pivdennyi. Our silo business in-take volumes posted a hefty 30% y-o-y growth, to the highest ever 4.3 million tons, of which 3.3 million tons was supplied by our farming business, and in-take produced by other farmers amounted to 1 million tons.
- **Savings from the railcars business,** which added approximately US$ 15 million EBITDA to segment earning in FY2019;

At the same time, several factors restrained earning from growth in the reporting period, namely:

- **Weaker margins in infrastructure businesses**. Lack of rains during the harvesting period lowered demand for grain drying services (the most profitable services for our silos), and increased competition in the export terminals business negatively impacted margins of that our branch as well;
- **Loss generated by Avere** operations.

We were not exporting grain from Russia over the reporting period. Owning 50% in the deep-water grain transshipment terminal in Taman, Russia, we assigned our transshipment quota to a 3rd-party and received a fee of US$ 8 million in FY2019, which is included in the EBITDA of the segment.

EBITDA margin per ton of grain exported through our value chain reduced to US$ 17 diluted by increasing scale of our low-margin trading operations and Avere negative performance, while keeping contribution from our high-margin infrastructure businesses limited.

FY2020 outlook

We have a target to export over 8 million tons of grain and oilseeds from Ukraine in FY2020, with the key tailwinds being:

- **Commissioning of** our new **TransGrainTerminal** in the port of Chornomorsk with 4 million tons annual transshipment capacity. Ramp-up of the facility is not likely to take long, so we plan our two terminals in Ukraine to handle over 7 million tons of grain in FY2020;
- putting into operations two **new silos** and debottlenecking of several other silos, completed in the end of FY2019;
- **full-season utilization of the railcars** acquired in February 2019. We expect to transport 6.7 million tons of cargo (grains, oilseeds, sunflower meal) by our fleet in FY2020.

For FY2020, we plan to increase the share of CIF export sales (in ports of destination), reducing the sales on the FOB basis (in ports of Ukraine). It will simplify our logistics and allow us to earn additional profits.

Our procurement team plans to originate 5.5 million tons of grain from 3rd-party farmers in Ukraine in FY2020, with the intention to further increase it to 7 million tons beyond FY2020.

As in the two previous years, we will not be exporting grain from Russia, as we assigned our transshipment quota on Taman terminal to a 3rd party for the annual fee of US$ 9 million for the season of FY2020.

Profitability-wise, we expect flat margins in grain export operations and infrastructure businesses. A new bumper grain crop expected for FY2020 should be supportive for our plans.

FY2020 may become the beginning of new productivity growth stage for farmers in Ukraine. Farmland market reform has high chances to be finally adopted in the upcoming season, and it is generally believed to serve

TransGrainTerminal (projected design)

Infrastructure and Trading continued

as an impetus for further crop production intensification. Such a scenario is generally beneficial for our Infrastructure and Trading value chain, securing strong utilization of all the assets.

Non-financial performance

Occupational health and safety

Regretfully, we had one fatal accident in Infrastructure and Trading segment as a result of the breach of occupational safety regulation. The number of non-fatal injuries over the reporting period, unfortunately, increased to 11 from 2 a year ago. 8 such cases are trivial injuries which happened occasionally in its majority, but 3 incidents caused grievous bodily harm.

We remain committed to fully eliminate such accidents in the future, organizing health and safety trainings, workshops, and regularly inspecting our assets for compliance with health and safety requirements. We aim to have our health and safety systems at all our infrastructure units fully compliant with OHSAS 18001. The ultimate goal is to have no work-related injuries among our employees.

We declared FY2020 to be a year of job safety in our Infrastructure and Trading segment, allocating increased budgets for training and additional involvement of employees to the discussion of job safety. On top of that, selected KPIs on occupational health and safety were added to the performance assessment system for the key management of our assets: oilseed processing plants, silos and export terminals.

Employee training and development

We remain committed to the professional development of our employees. 1.1 thousand participants from Infrastructure and Trading segment were involved in our training and development activities in FY2019, investing more than 9,000 hours in total for training and professional development. The activities were focused on the development of hard and soft skills, various competencies and managerial abilities.

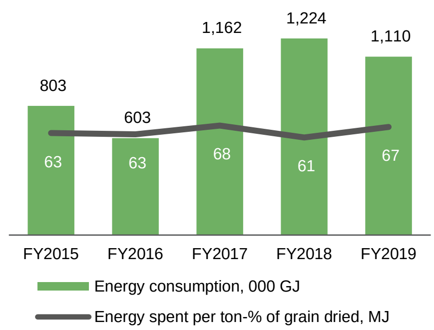
Energy consumption and emissions intensity

Our energy consumption within the infrastructure and trading division decreased by 9% y-o-y to 1,110 thousand gigajoules in FY2019, mainly due to the reduction of natural gas consumption given less demand for grain drying services in silo business line. At the same time, energy efficiency decreased by 11% in comparison to the previous year, with 67 megajoules spent for each percentage of moisture removed from one ton of grain dried, compared to 61 megajoules a year ago. The reason is the low humidity of the crops this season compared to the previous one.

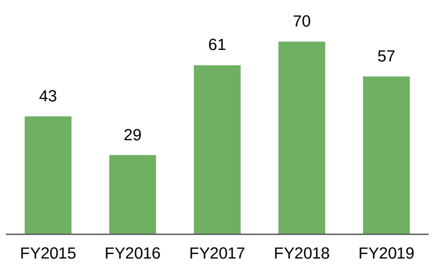
The factors driving energy consumption also impacted emissions of the division, which decreased to 57 thousand tons of CO_2 equivalent in FY2019.

For the full group disclosure of energy consumption, emissions and intensity ratios, see pages 45 and 46 of this report.

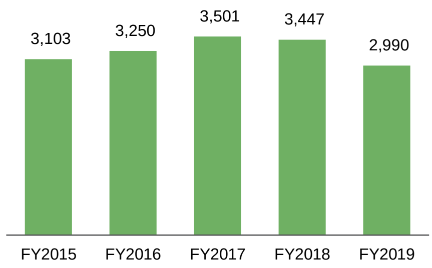
Infrastructure and Trading segment energy consumption



Infrastructure and Trading GHG emissions
thousand tons of CO_2 equivalent



Number of segment employees (FTE)
As of 30 June of the respective year



Farming

Shaping agribusiness in Ukraine to feed the world

Produced 3.3 million tons of key grains and oilseeds in FY2019

Kernel is the largest and one of the most technologically advanced crop producers in Ukraine, operating 530 thousand hectares of prime farmland. In just a decade we managed to increase the scale of our operations 7 times, completely transforming our crop production technology and boosting productivity to set industry benchmarks.

Notwithstanding the strong fundamentals for farming business in Ukraine, like top-quality soils globally and proximity to key markets, profitability in this business is extremely sensitive to the level of global grain prices and weather conditions in Ukraine. Given our exposure to price and weather risk (which we cannot control), we are focusing on what we can actually impact: costs and productivity.

#DigitalAgriBusiness
Kernel creates future

We are much more advanced in crop production technology than most other farmers in Ukraine, and we continue to invest in knowledge and processes optimization by developing our #DigitalAgriBusiness project. This solution will help us to increase the productivity of each separate field, and better plan and monitor our field works

The season of FY2019 deserves to be one of the most prominent in the history of our faming business. We achieved record yields and harvested the largest ever crop of grains and oilseeds. Weather conditions were close to ideal, prices contracting momentum was chosen appropriately, and our advanced farm management system allowed us to quickly and efficiently integrate the new landbank added to our operations in summer 2017. As a result, farming segment generated US$ 182 million EBITDA, up twice y-o-y, driving the performance of the whole company.

While we believe in the long-term potential of the farming business in Ukraine, short-term sentiments are less optimistic. Next year brings us land lease, fertilizers and labor costs inflation enhanced by Ukrainian currency appreciation. Crop yield for corn is expected to reduce, and global grain prices are not supportive at the beginning of the season. It makes us expect the contribution from our farming segment in FY2020 to be lower than the extremely good result generated in FY2019.

Revenue
US$ 602 million
+28% y-o-y

EBITDA
(before unallocated head office expenses)
US$ 182 million
+105% y-o-y

Farming continued

Our business model

Large-scale farming

Kernel is the largest crop producer in Ukraine, operating 530 thousand hectares of leasehold farmland including 513 thousand hectares under 2019 harvest. In FY2019, we produced 3.3 million tons of key crops. We operate in western, central and northern regions of Ukraine, rich with black soils and enjoying sufficient precipitation. The land bank is divided into 6 production clusters, with operational decision-making sufficiently decentralized to ensure quick reaction of production teams for any types of externalities. Central office is responsible for overall business strategy, procurement of key inputs and control over operations. Healthy competition between clusters stimulates constant efficiency improvements.

We retain a simple crop mix, with 45% of acreage attributable to corn, 27% to sunflower, 19% for wheat, 5% to soybean, with the remaining spread across other minor crops (for 2019 harvest, which will be sold over FY2020).

Leasehold land operations

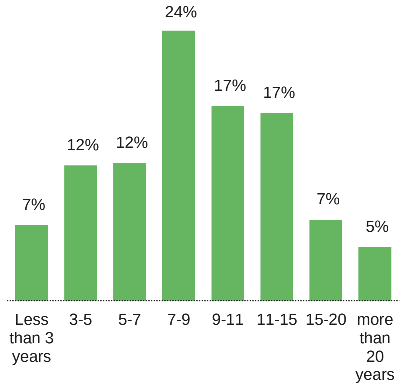
Close to 25% of agricultural land in Ukraine is owned by the state, municipalities and state-owned enterprises. Another 75% is owned by private individuals in small land plots with an average size of 4-10 ha depending on the region, who obtained the ownership rights during the land distribution process in 1990s following the collapse of Soviet Union.

All farmland in Ukraine has been under a sale moratorium for the past 18 years. First adopted in 2001, it was then extended by the parliament several times, suppressing the development of farming business in Ukraine. As a result, crop producers lease lands from its current owners, and since 2015, the minimum land lease term is 7 years, securing business operations for farmers.

Kernel leases land through contracts with an average maturity of 9 years. All lease contracts provide for the right of first refusal to prolong leases or to buy the land in case of the moratorium lifting in the future. For 18 thousand hectares of land we operate, we signed long-term (>70 years) land lease (‘emphyteusis’) agreements, whereby all rent payments are paid to the lessor in one installment at the signing of the agreement. It allows us to secure our operations for a much longer period compared to typical farmland lease contracts.

89% of the landbank we lease is owned by private individuals, and 11% is owned by state authorities.

Kernel’s farmland lease rights maturity
as % of total landbank

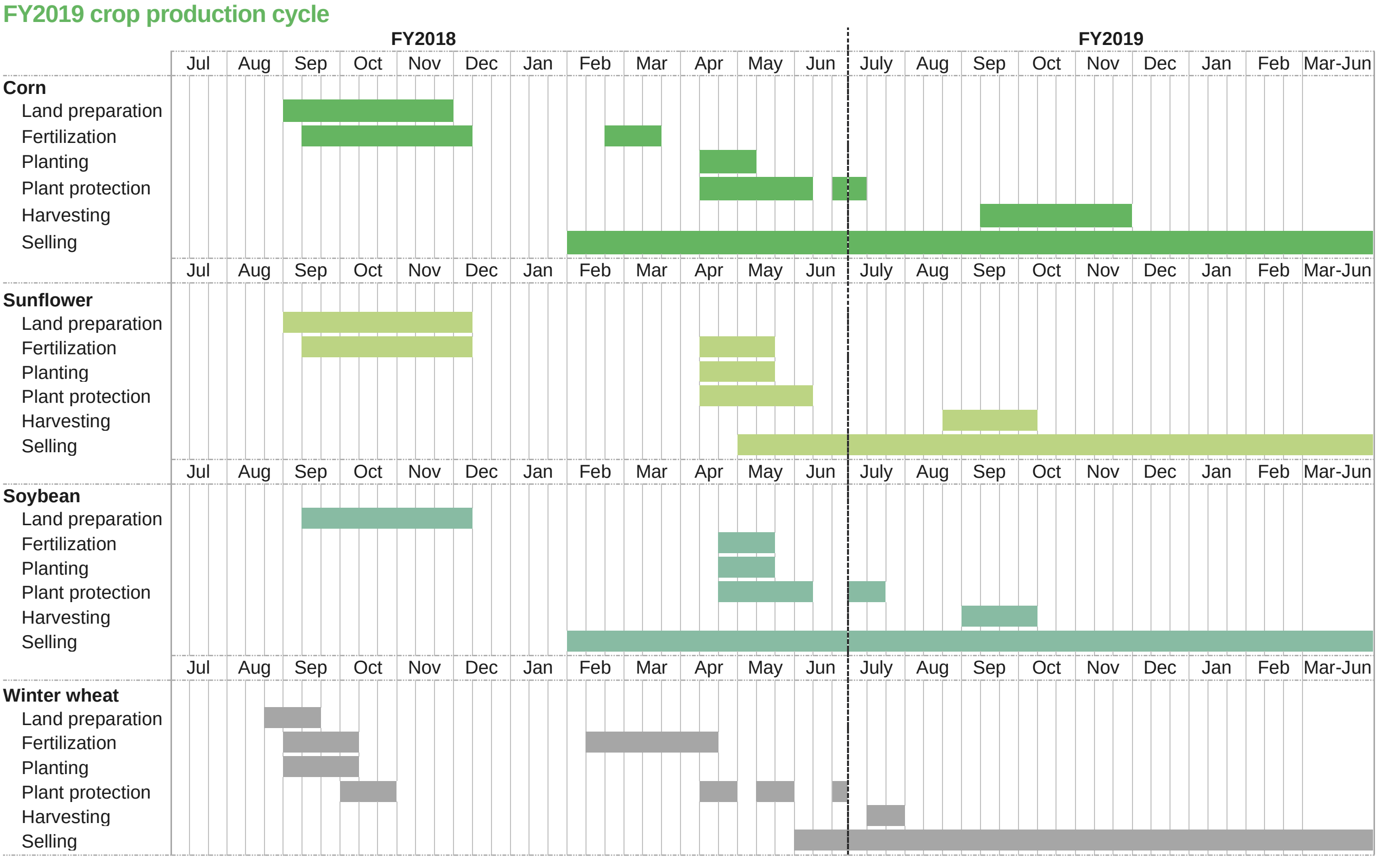


After presidential and parliamentary elections in Ukraine in 2019, and the appointment of a new government with quite liberal views, farmland market reform appeared again in the agenda. We estimate chances of farmland market liberalization in a year from date of publication of this report as quite high.

Efficient and sustainable production technology

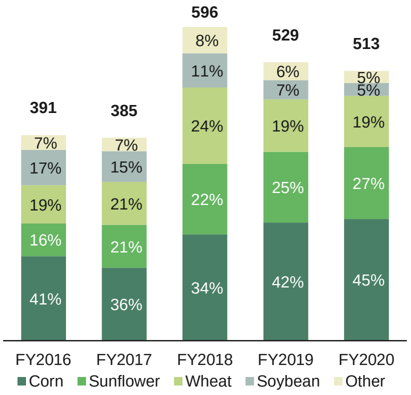
We take great care to ensure our operations maintain long-term productivity of soil by applying sustainable agronomy practices.

FY2019 crop production cycle

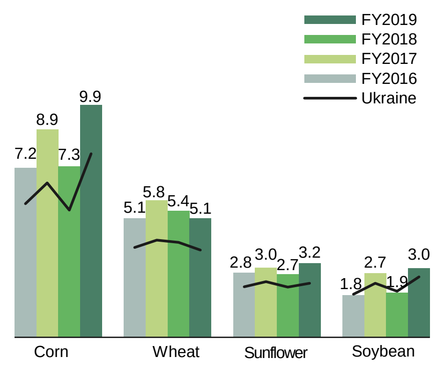


Farming continued

Kernel's acreage harvested by crops
thousand ha

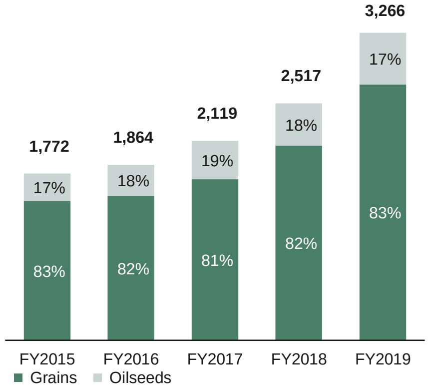


Kernel's crop yields [1]
tons per ha



Note 1: For comparison purposes, yields for FY2018 are provided for Kernel's initial lands (prior to land bank expansion in summer 2017) to avoid dilution effect.

Kernel's production of key crops
thousand tons



We do the significant portion of tillage and soil leveling in autumn, thus completing our spring planting campaign within a shorter time frame. We apply mostly differentiated tillage, rotating mini-till and deep-till technologies. We operate modern high-productive machinery and equipment with relatively low consumption of fuel and low level of emissions, driving energy efficiency.

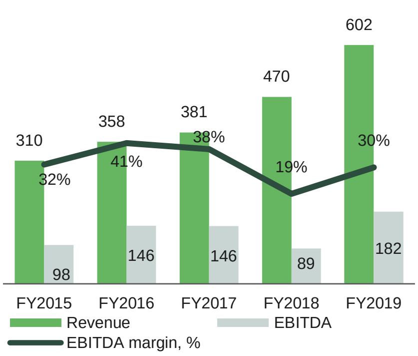
Save for a thousand hectares of irrigated land used for in-house seed production, all our farmland is rain-fed, with all the weather risks arising from that.

We apply balanced **fertilization** to enrich our soils, utilizing both organic and mineral fertilizers. Unlike the majority of farmers in Ukraine, we apply most of our fertilizers in autumn, ahead of the spring planting campaign. Autumn application provides for a longer time for fertilizers to be absorbed by the land, allows us to use liquid fertilizers that are more digestible compared to dry fertilizer, and results in faster completion of the spring planting campaign. For several years, we apply deep fertilizer placement (ca. 15-20 cm under the ground), thus concentrating around the plants' root system ensuring faster absorption and improving nutrient use efficiency.

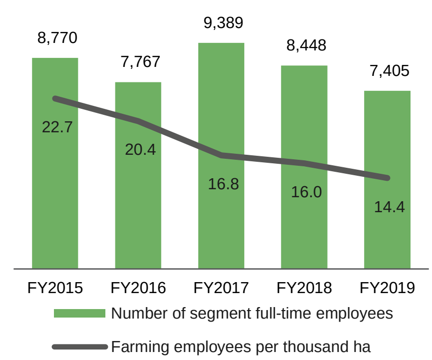
We apply best-quality non-GMO **seeds.** Most of it is grown in-house from premium parent seeds, sometimes jointly with established global seed producers, and the remaining is supplied by recognized global players. Our crop rotation cycle is designed to prevent the expansion of pathogens and pests and improve the soil structure.

We use only **crop protection agents** produced by established international companies and registered by the Ministry of Ecology and Natural Resources of Ukraine. Before wide application, we observe the pesticides in action on our test fields for at least three years. We widely use drones for crop monitoring to improve the quality of decisions about fertilizing and crop protection.

Profitability dynamics
US$ million



Number of segment full-time employees
As of 30 June of the respective year



Innovation-driven approach

We are entering a new era in farming business, when digital technologies and modern farming techniques will have a key role advancing operational excellence

We have 5 specialized R&D centers with 1,500 test fields and 60 employees, conducting over 2,000 tests annually. Additionally, each of our clusters is free to use up to 10% of acreage under control for experiments to test various new crop production techniques focused on productivity improvements.

Our crop yields are well above the country averages, and we share our know-how with other farmers in Ukraine through the Open Agribusiness initiative to improve their productivity and minimize environmental impact.

Key developments

In FY2019, we completed the first module (**Planning**) of our farming management ecosystem #DigitalAgriBusiness with all the basic functionality already used in operations. The system allows us to apply sophisticated IT solutions for the proper organization of processes and allocation of resources for sowing and harvesting campaigns. Now we are focused on the fine-tuning of the Planning module and also developing and implementation of the second module (**Monitoring**), including the monitoring of crops and the monitoring of machinery. To date, we have invested over US$ 3 million in the development of the product. Following the presentation of the product on the market, we see a demand in such solution from other local farmers, so we may consider the release of a commercial version of #DigitalAgriBusiness in the future.

Farming continued

In FY2019, we reduced headcount to 14 employees per thousand hectares as of 30 June 2019 from 16 as of 30 June 2018. As a result, total headcount in farming segment measured as of 30 June 2019 reduced by 13% (or more than 1 thousand) y-o-y, to 7,405 full-time employees. We understand there is further potential for labor productivity improvement, which will remain our focus for the next several years.

Considering the situation with fertilizers in Ukraine, we initiated the construction of the equipment for production of UAN (solution of urea and ammonium nitrate in water), which is widely applied as a fertilizer. We installed such equipment in one of our clusters, and plan to install similar units on our other clusters, investing US$ 0.5 million in total with less than a year payback period.

For FY2020 harvest, we further increased percentage of acreage under sunflower and corn – key crops for our production technology.

Perfromance overview

Our farming segment generated the highest ever EBITDA of US$ 182 million, up 105% y-o-y, with the following factors contributing to this achievement:

- **Supportive weather conditions** for late crops (corn, sunflower and soybean). In July, persistent above-normal precipitation along with seasonal temperatures were ideal to promote successful pollination. As a result, Kernel achieved record crop yields in our history;
- **quick and successful integration of farming businesses acquired in 2017**. FY2019 was the first year when we applied our full-cycle crop production approach on new lands, and we substantially improved the productivity there with minor further upside remaining. We demonstrated our ability to easily replicate our advanced technology on new lands boosting crop yields;
- **our efforts in productivity improvement**;
- proper **approach to price hedging**. We managed to catch relatively high prices within the season and successfully contracted our volumes.

With 529 thousand hectares harvested in FY2019, our farming segment generated US$ 344 EBITDA per hectare.

The largest cost categories in farming business in FY2019 were land lease costs (17% of total farming costs), fertilizers (15%), labor costs (13%) and costs of seeds (11%).

FY2020 outlook

In general, we share the prevailing negative sentiment towards farming segment performance in FY2020. Crop yield for corn as our key crop is expected to decrease in FY2020 as compared to unusually high base of FY2019, while crop yields for wheat and sunflower will improve. Growing cost base (mainly land lease costs, energy costs (fuel and fertilizers), and labor costs) coupled with the appreciation of local currency may pose some near-term downside risk on the performance of our farming business, especially considering weak grain prices at the beginning of the season.

Non-financial performance

Occupational health and safety

Our approach to work-related injury prevention resulted in the lowest number of accidents in our Farming segment over the last decade.

We had 2 non-fatal injuries in FY2019, 5x less than a year ago. Since it is still above our target of zero accidents, we are paying special attention to minimize such cases in the future by training our health and safety specialists, organizing labor safety trainings and informing all employees about each accident immediately after it occurs.

Employee training and development

Envisaging the highest potential in labor productivity improvement in farming as compared to other our segments, we pay special attention to professional development and training of our farming employees. In FY2019, 3.9 thousand participants employed by our Farming segment attended our training and development activities, investing in total 40 thousand hours for improving their professional and managerial skills, developing knowledge and competencies. A major portion of our professional education program is targeted on our farming personnel. We run fully equipped modern training facilities located in several of our farming clusters, where we organize module-based practical training programs taught by local and visiting trainers for our agronomists, engineers and other agribusiness specialists. Since 2013, we have organized a corporate MBA program for our agri managers and key specialists and also arrange numerous experience-exchange programs, crop tours and site visits. Finally, we conduct regular in-person meetings for representatives of our clusters, which are spread all over Ukraine, to share their experience and best practices.

Farming segment performance

		FY2018	FY2019	y-o-y
Revenue	*US$ million*	470	602	*28%*
EBITDA	*US$ million*	89	182	*105%*
Volumes sold	*thousand tons*	2,594	3,294	*27%*
Acreage harvested	*thousand ha*	596	529	*(11%)*
Revenue per hectare	*US$ / ha*	790	1,137	*44%*
EBITDA per hectare	*US$ / ha*	149	344	*131%*
EBITDA margin	*%*	18.9%	30.2%	*11.4pp*

Farming continued

Energy consumption and emissions intensity

Our practice in farming business is sustainable intensification of the farming: produce more food with less inputs.

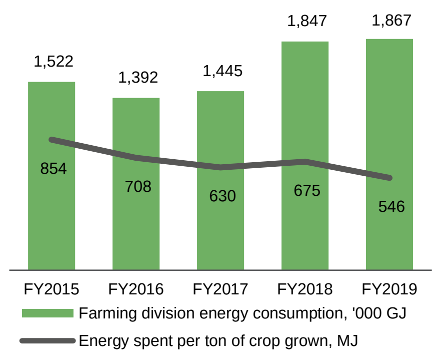
As a result of the farmland bank expansion, total energy consumed by our faming division increased by 28% y-o-y in FY2018 and remains stable in FY2019. However, the energy spent per ton of crop grown decreased by 19%, as the operations on the lands we acquired became as efficient as the operations on our initial lands. At the same time, a downward sloping trend in energy consumption intensity is obvious, reflecting our constant efforts in efficiency improvement. Emissions intensity remained at a record low 53 kg of CO_2 equivalent per ton of grain grown.

Giving back to local communities

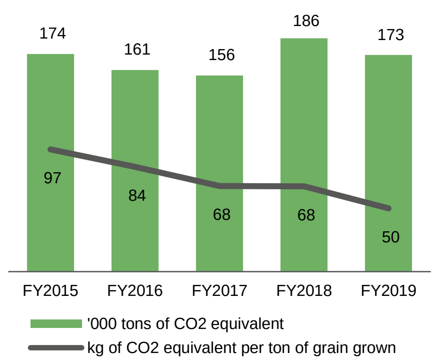
Rural communities within the scope of our farming operations are a key focus of our company's social and charity activities. More than two hundred of our employees serve as relationship managers with their respective communities, some working full-time in this role while others are part-time. Direct contact with local residents allows us to plan and execute our social activities in the most efficient way and receive direct feedback on the impact of our operations on communities.

Over the course of FY2019 our social expenses totaled US$ 2.3 million, comprising mostly investments into infrastructure (US$ 625 thousand, excluding spending related to our business needs), schools and kindergartens, as well as charity donations and other social spending facilitating sport, art and leisure activities. All our support of local communities is structured through the charitable foundation 'Together with Kernel', which runs its own website aimed at promoting our social activities and serving as a point of contact with local stakeholders.

Farming division energy consumption



Farming division GHG emissions (Scope 1)



Risk management

Risk management system

At Kernel Holding S.A., management defines risk as an event, action or lack of action, which can lead to non-achievement of the Company's objectives.

Kernel has an evolving system of risk management aimed at **preserving the stability and solvency of the Company under extreme conditions to preserve long-term sustainable value for shareholders.**

Based on **Risk Management Policy** (adopted by the Board of Directors in November 2018) and underlying policies and procedures, Kernel monitors and assesses its risk exposures on an ongoing basis and takes steps to minimize their impact.

Key roles

The Company's risk management is realized by the Board of Directors, executive management team and other management and staff, which starts from the strategy development and impacts all activities and processes of the Company. These activities aim at risk identification and risk management, in order to provide reasonable assurance of the Companies' goals achievement. Please see details at Key roles and duties in the risk management process chart.

Risk management cycle

The risk management cycle includes 5 stages: risk identification; risk assessment and prioritization; planning of risk management actions; actions implementation; measurement, control and monitoring.

Risk categories

The management classifies all risks under 5 categories:

1. Strategic (Business)
2. Operational
3. Financial
4. Regulatory
5. Sustainability

Top-10 risks identified for FY2020 includes risks from Strategic (Business) and Operational categories.

Key roles and duties in the risk management process

Board of Directors

- supervise the risk management process
- determine and approve the level of risk acceptability and Company's risk appetite
- decide on critical and significant risks
- review the risk related reports

Audit Committee

Assists the Board of Directors in the discharge of its risk management responsibilities

- formulating a description of the risks specific to the Company;
- overseeing adequacy and effectiveness of the Kernel's risk management system;
- reviewing the Company's policies on risk assessment and risk management.

Risk Committee of the Executive Management Team

- ensure the introduction and implementation of the risk management policy and procedures;
- develop and continuously improve an effective risk management and monitoring system, spreading the culture of decision-making in terms of risks, their valuation and likelihood of occurrence;
- coordinate roles and participants;
- identify, assess, manage and control key risks;
- coordinate updating and improvement of the internal control system.

CEO

- owner of the risk management process for the Company as a whole;
- responsible for implementing the risk management strategy and functioning of the effective risk management system.

Directors and executives

risk owners within their functional duties

- Identification of risks;
- Assessment of risks;
- Making and implementing decisions on risks mitigating actions.

Internal Audit

- assess the adequacy and effectiveness of risk management processes and internal controls in operations;
- assist Directors on operational risk identification, assessment and prioritization in operations;
- implementation, status monitoring, internal controls and mitigation activities of action plan of operational risks;
- assist, advice and consult management in improving the effectiveness of risk management and internal control systems in operations.

Kernel's risk identification and mitigation system

Risk management continued

Top-10 risks

This section includes a summary of the main risks that Kernel may face during the normal course of its business. However:

- this section does not purport to contain an exhaustive list of the risks faced by Kernel and Kernel may be significantly affected by risks that it has not identified or considered not to be material;
- some risks faced by Kernel, whether they are mentioned in this section or not, may arise from external factors beyond Kernel's control;
- where mitigations are mentioned in this section, there is no guarantee that such mitigations will be effective (in whole or in part) to remove or reduce the effect of the risk;
- investors may face other risks when dealing with Kernel securities (shares and bonds).

As a result of the latest review cycle, the Board approved Top-10 risks faced by the Group for FY2020 as depicted on chart below.

Key changes for FY2020 Top-10 risks against FY2019 Top-10 risks are:

→ Increased probability of risks related to **Trade position management** due to 1) expected increases in grain export volumes in FY2020 following the commissioning of TransGrainTerminal, and 2) Avere operations;

→ Higher estimated probability of **fraudulent activities risk** due to increased volumes of grain stored on 3rd-party silos as a result of expected growth in grain export volumes from Ukraine in FY2020;

→ **New top-10 risk**: failure to properly integration and manage new business (grain railcars).

Kernel FY2020 Top-10 risks

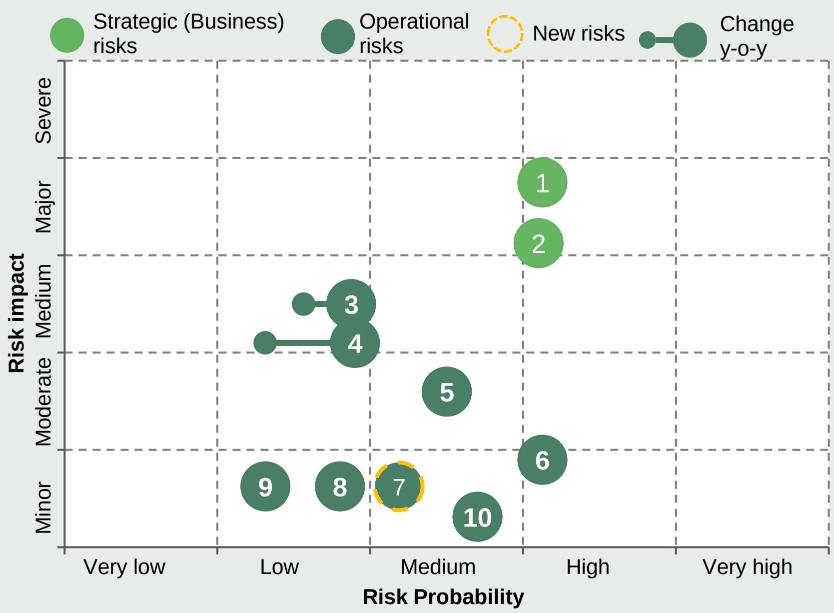
Strategic (Business) risks:

1. Weak harvest in Ukraine
2. Low global soft commodities prices

Operational risks:

3. Trade position management issues
4. Fraudulent activities
5. Investment projects issues
6. Crop loss due to late harvesting
7. New business management issues (railcars)
8. Failure to maintain the integrity of the leasehold farmland bank
9. General IT and information security risks
10. Human capital risks

Top-10 risks matrix



Other risks identified by the Company's management include (but are not limited to):

→ Increase in competition;

→ Compliance with environmental standards;

→ A prolonged period of weak economic growth, either globally or in the Company's key markets;

→ Economic policy, political, social, and legal risks and uncertainties in certain countries in which Kernel Holding S.A. operates;

→ Any loss or diminution in the services of Mr. Andrii Verevskyi, Kernel Holding S.A.'s chairman of the Board of Directors;

→ The risk that changes in the assumptions underlying the carrying value of certain assets, including those occurring as a result of adverse market conditions, could result in the impairment of tangible and intangible assets, including goodwill;

→ The risk of fluctuations in the exchange rate of the Ukrainian hryvnia to the US dollar;

→ The risk of disruption or limitation of natural gas or electricity supply;

→ The risk of disruptions in Kernel Holding S.A.'s manufacturing operations;

→ The risk of product liability claims;

→ The risk of potential liabilities from investigations, litigation, and fines regarding antitrust matters;

→ The risk that Kernel Holding S.A.'s governance and compliance processes may fail to prevent regulatory penalties or reputational harm, both at operating subsidiaries and in joint ventures; and

→ The risk that Kernel Holding S.A.'s insurance policies may provide inadequate coverage.

Risk management continued

<table>
<tr><th colspan="3">Kernel FY2020 Top-10 risks and mitigating factors</th></tr>
<tr><th>Risk</th><th>Possible impact</th><th>Mitigating factors</th></tr>
<tr><td>1. Weak harvest in Ukraine: low crop yields for Kernel farming business</td><td>• Subdued Farming segment EBITDA as a result of reduced total tonnage harvested due to unfavorable weather conditions while unchanged cost base.</td><td>→ Diversified land bank (in northern, central and western regions of Ukraine) reduces to some extent the overall Farming segment exposure to weather risks;
→ Insurance of winter crop related costs, and insurance against limited rainfalls and soil moisture content on some of our fields.</td></tr>
<tr><td>1. Weak harvest in Ukraine: sunflower seeds</td><td>• Lower capacity utilization of Company's oilseed processing plants due to physical deficit of the seeds on the market;
• Lower crushing margins due to higher competition among crushers for the limited supply of oilseeds.</td><td rowspan="2">→ Diversified origination base:
• Our oilseed processing plants are spread from the north-east to the south of Ukraine, with origination areas covering the whole sunflower seed growing belt in Ukraine, thus reducing our exposure to weather volatility in any particular region. We are also entering Western Ukraine by constructing greenfield oilseed processing plant there;
• Our grain procurement network cover most of the regions of Ukraine;
→ Comprehensive data-driven procurement strategy based on regional supply-demand balances composed from the official statistics, market consensuses, inputs from our farming and procurement teams, examination of crop conditions by monitoring of the satellite images, analysis of competitors and logistics bottlenecks;
→ Pre-crop financing of 3rd-party farmers conditional upon obligatory sale of future harvest (sunflower seeds and grain) to Kernel, thus covering part of our needs;
→ Volumes provided by our own farming production (~10% of sunflower seeds we process and almost half of grain we export);
→ "Open Agribusiness" platform serves to share our farming know-how with 3rd-party farmers (thus increasing their productivity) and to provide various services to crop producers (thus increasing their loyalty to Kernel as grain and oilseeds originator);
→ Improved control over logistics (own railcars) provides additional flexibility in accessing crop producers across the whole country;
→ Insurance against low crop yields in key our procurement regions.</td></tr>
<tr><td>1. Weak harvest in Ukraine: grain</td><td>• Lower profitability of grain export value chain (underutilized infrastructure capacities or depressed margins) given that major portion of our grain export volumes will be originated from 3rd-party farmers.</td></tr>
<tr><td>2. Low global soft commodities prices: grain</td><td>• Undermined profitability of our Farming segment (which is always in naturally long position as a typical upstream type of business) in case of low global grain pricing environment.</td><td>→ Hedging grain prices: we use various hedging tools, including CME corn and soybean futures and options, forward contracts for Black Sea origin premium and direct forward contacts. Physical delivery forward contracts are typically used for shorter duration hedging, normally within six months.
→ Long period of crop sales: we start selling next year's crop as soon as we have the initial understanding of the next year's production costs, considering also the entire value chain margin.
→ Detailed analysis of global soft commodity fundamentals: our subsidiary Avere provides the insight on the global soft commodity market, assisting us with the selection of timing and pricing of our hedging operations.</td></tr>
<tr><td>2. Low global soft commodities prices: sunflower oil</td><td>• Compressed margins in Oilseed Processing segment: low prices for sunflower oil reduce combined earnings shared by farmers and crushers in Ukraine in the short-term, and discourage farmers from expansion of acreage under sunflower in the long-term.</td><td>→ "Balanced book" policy to mitigate short-term price weaknesses. As we buy sunflower seed on a spot basis, within a similar time-frame we enter into forward contracts to sell sunflower oil, thus fixing the selling price and volumes in advance and locking our margin. While this policy allows us to mitigate some portion of the risk, a certain seasonality mismatch between sunflower seed procurement and demand for edible oils could cause our exposure to price volatility to rise during some periods;
→ More intense procurements at the beginning of the season, (when a huge supply of seeds post-harvest allows for negotiating more attractive sunflower seed prices) to partially mitigate long-term sunflower oil price weakness.</td></tr>
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Risk management continued

Kernel FY2020 Top-10 risks and mitigating factors		
Risk	**Possible impact**	**Mitigating factors**
3. Trade position management issues	• **Losses arising from our trade position mismanagement.** For example, an open position in sunflower oil may have adverse effect on the Company's earnings in case of significant movements in sunflower oil price.	→ **Trade position control system.** We set limits on the position (long / short) and control it on daily basis, limit Value at Risk and drawdown to control the position of traders. We have daily reporting on traders' positions/results. Contract execution and scheduling of shipments is centralized; → **"Balanced book" policy** (as described above).
4. Fraudulent activities	• **Losses from external frauds** (e.g. theft of company's grain stored on 3rd-party silos); • **Losses from internal frauds** (e.g. theft of company's inventories by employees, conflicts of interests etc.).	→ Diligent **analysis of suppliers and counterparties**; → Extension of **misappropriation assets insurance** (scope, assets, coverage, risks); → **Zero fraud tolerance** approach is widely communicated to employees and counterparties, as an anti-corruption clause is a must in our contracts with counterparties; → Continuous **improvement of business processes**: • centralization of a warehouse system in the Farming division; • improvement of a procurement model with additional controls; • development of analytical procedures aimed to fraud risk identification; • automation of processes (including electronic documents flow); → improvement of access and authorization system in accounting.
5. Investment project issues	• **Extra spending** beyond budgets. Our key investments include US$ 180 million investments into construction of greenfield oilseed processing plant in Western Ukraine, US$ 150 million "green" energy projects investments, and US$ 127 million investments into new grain export terminal; • **Lost profits** due to execution delays.	→ **Strong in-house expertise** in greenfield projects execution (including Bandurka greenfield processing plant, Balyn, Vesnianka and Lazirky silos etc.) with dedicated team of experienced professionals to manage new projects; → **Rigorous project management.** All projects are carefully analyzed and properly documented. Each project is organized by a charter of the investment project, which defines goals, budget, delivery milestones, schedules, deadlines, project team, definition/evaluation/response to the project risks, assessment of business case and feasibility study. In case of necessity, we organize quality control of project documentation for investment construction projects by an independent expert company. Technical specifications for new construction projects are evaluated, amended and approved by all related business segments; → **Proper oversight:** we have the deep involvement of the Investment Committee and supervision from the Strategic Committee.
6. Crop loss due to late harvesting	• **Partial losses of crop** due to delayed harvesting as a result of unfavorable weather conditions during harvesting campaigns and lack of capacity for crop transportation and storage;	→ More intensive **use of 3rd-party trucks**; → **Debottlenecking of our silos**: we constantly work on increasing the in-take, drying, cleaning and off-load capacities of our silos. We have recently commissioned construction of two greenfield silos, and significantly modernized another two silos. We also have had positive experiences of storing grain and oilseeds in ground plastic 'sleeve' bags, which allows us to reduce pressure on our infrastructure during harvest peak; → **3rd-party services**. We have an optionality to conclude agreements with other silos and export terminal facilities to facilitate grain and oilseeds flow.
7. New business management issues	• **Extra spending or lost profits** due to failure to properly integrate new grain railcar business, effectively organize railcars repair and maintenance works.	→ **New processes, procedures, controls** already in place; → **Experienced team** managing the integration process.
8. Failure to maintain the integrity of the leasehold farmland bank.	• **Reduction of Farming segment EBITDA** due to lower acreage under operations. The Company leases the land it farms from numerous individual owners across Ukraine for an average term of 9 years, but it may fail to prolong certain land lease agreements due to growing competition for the land plots with	→ Paying **market price for land lease**; → Maintaining the **excellent reputation of the Company** in the regions of operations. We try to positively differentiate ourselves from competitors through reliability, active support of the communities, and promoting the sustainability of our farming practices. We employ dedicated teams of relationship managers to the villages where we operate, who allow us to keep direct contact with our land lessors and

Risk management continued

Kernel FY2020 Top-10 risks and mitigating factors		
Risk	**Possible impact**	**Mitigating factors**
	other land operators, or due to willingness of landowners to cultivate the land themselves.	respond to community needs; → **Emphyteusis agreements.** For about 15 thousand hectares of land we operate, we signed long-term land lease ('emphyteusis') agreements, whereby all rent payments are paid to the lessor in one installment at the signing of the agreement. It allows us to secure our operations for a much longer period compared to typical farmland lease contracts; → **Rights of first refusal** to extend leasehold contract (or to buy the land once this option is available) embedded in all our land lease agreements; → Public **support of farmland market reform** in Ukraine and acting as an active market participant once the reform is completed.
9. General IT and information security risks	• **The loss or disclosure of key information** may threaten business operations and development of business; • **Interruption of business processes and decisions** which are dependent on the continuity of IT applications and infrastructure.	→ Implemented **IT business continuity and data recovery policy**; → **Multifactor authentication** (MFA) and **Rights Management System** (RMS) is being implemented to reduce the risk of documents, correspondence and other confidential data leakage; → Regular **testing of the IT recovery plan**; regular vulnerability testing from inside and outside; → **Backup data center**, constant modernization of data backup system; → **Patch management policy** – regular installations of critical and security patches on servers and workstations; → Special solution to **combat the APT and 0-day virus attacks** is being implemented.
10. Human capital risk	• **Interruptions in business and support processes** due to general staff shortage and inability to replace key employees given low qualification of new candidates.	→ **Competitive compensation**: the level we pay matches or exceeds the benchmark in our industries. We aim to increase further compensation levels to successfully compete with neighboring countries along the way; → **Talent management, professional development and education** of our employees. We have numerous education programs with extensive coverage (page 51) and system of individual development and career planning (page 49); → **Safe and convenient working conditions**. Improving working conditions and infrastructure for staff. → **Employee involvement** through effective KPI system, responsibility delegation, rewards for operation efficiency improvement, and team-building events → **Effective recruitment**: we use various tools and channels to recruit the best people on the market. We actively work with universities and the business community and have a separate Kernel Chance program to develop and solicit new associates.

Alternative Performance Measures

To comply with ESMA Directive on Alternative Performance Measures ("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**;
- **Segment EBITDA**;
- **Segment EBITDA margin**;
- **Investing Cash Flows net of Fixed Assets Investments**;
- **Net Fixed Assets Investments**;
- **Operating Cash Flows before Working Capital Changes**;
- **Free Cash Flows to the Firm**;
- **Debt Liabilities**;
- **Net Debt**;
- **Readily Marketable Inventories**;
- **Adjusted Net Debt**; and
- **Adjusted Working Capital**;

(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.

Before FY2019, the Group used to report such APMs as **Funds from Operations** and **Free Cash Flows**, but since FY2019 the Group consider these metrics as not relevant anymore, being distortive going forward. The first APM included purchases of property, plant and equipment distorting the operating cash generation capacity of the Group given the current heavy CapEx cycle for the Group. The second APM included dividends paid, thus distorting the cash flow available to repay debt and distribute dividends to shareholders. Instead, two additional APM's were introduced (as defined below): **Operating Cash Flows before Working Capital Changes** and **Free Cash Flows to the Firm**.

EBITDA and EBITDA margin

The Group uses **EBITDA**[1] as a key measure of operating performance, and which is defined as profit from operating activities adding back amortization and depreciation.

The Group defines **EBITDA margin** as **EBITDA** divided by revenue during the reporting period.

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

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

- **EBITDA** and **EBITDA margin** do not reflect the impact of finance 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 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 income / loss 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 main difference arise on transactions between entities of the Group with different functional currencies;
- **EBITDA** and **EBITDA margin** do not reflect the impact of other expenses; as such expenses are not a part of Group's core operations.

Reconciliation of profit before income tax to **EBITDA** and **EBITDA margin**:

in thousand US$ except the margin	FY2018	FY2019
Profit from operating activities	**139,565**	**269,207**
add back:		
Amortization and depreciation	82,975	76,303
EBITDA	**222,540**	**345,510**
Revenue	**2,403,003**	**3,992,133**
EBITDA margin	**9.3%**	**8.7%**

[1] In other documents (e.g. listing particulars) the Group could use the term Adjusted EBITDA, which is calculated as profit before income tax adding back net finance costs, net foreign exchange gain, net other expenses, share of income/(loss) of joint ventures, and amortization and depreciation, and coming to the same result as EBITDA

Alternative Performance Measures continued

Segment EBITDA and Segment EBITDA margin

The Group uses **Segment EBITDA** and **Segment EBITDA margin** as a key measures of segment operating performance. The Group defines **Segment EBITDA** as profit/(loss) from operating activities adding back amortization and depreciation.

The Group defines **Segment EBITDA margin** as **Segment EBITDA** divided by segment revenue during the reporting period.

Calculation of Segment EBITDA and Segment EBITDA margin:

in thousand US$	FY2018	FY2019
Oilseed Processing		
Profit from operating activities	60,214	92,598
plus Amortization and depreciation	16,464	16,419
Segment EBITDA	**76,678**	**109,017**
Segment revenue	1,393,491	1,493,272
Segment EBITDA margin	**6%**	**7%**
Trading and Infrastructure		
Profit from operating activities	91,968	92,601
plus Amortization and depreciation	8,870	13,134
Segment EBITDA	**100,838**	**105,735**
Segment revenue	1,024,579	3,139,916
Segment EBITDA margin	**10%**	**3%**
Farming		
Profit from operating activities	32,557	136,813
plus Amortization and depreciation	56,174	45,069
Segment EBITDA	**88,731**	**181,882**
Segment revenue	470,489	601,585
Segment EBITDA margin	**19%**	**30%**
Other		
Loss from operating activities	(45,174)	(52,805)
plus Amortization and depreciation	1,467	1,681
Segment EBITDA	**(43,707)**	**(51,124)**

Investing Cash Flows net of Fixed Assets Investmnets

The Group uses **Investing Cash Flows less Net Fixed Assets Investments** as a measure of its expenditures on investments other than property plant and equipment and which is defined as net cash used in investing activities adding back:

- purchase of property, plant and equipment;
- proceeds from disposal of property, plant and equipment.

Reconciliation of net cash used in investing activities to **Investing Cash Flows net of Fixed Assets Investments**:

in thousand US$	FY2018	FY2019
Net cash used in investing activities	(155,694)	**(241,404)**
Adding back:		
Purchase of property, plant and equipment	(146,565)	(166,988)
Proceeds from disposal of property, plant and equipment	7,053	9,754
Investing Cash Flows net of Fixed Assets Investments	**(16,182)**	**(84,170)**

Net Fixed Assets Investments

The Group uses **Net Fixed Assets Investments** as a measure of its expenditures on fixed assets maintenance and which is defined as net cash used in investing activities less **Investing Cash Flows net of Fixed Assets Investments** or alternatively may be calculated as cash used for purchase of property, plant and equipment less proceeds from disposal of property, plant and equipment.

Reconciliation of net cash used in investing activities to **Net Fixed Assets Investments**:

in thousand US$	FY2018	FY2019
Net cash used in investing activities	(155,694)	**(241,404)**
less:		
Investing Cash Flows less Net Fixed Assets Investments	(16,182)	(84,170)
Net Fixed Assets Investments	**(139,512)**	**(157,234)**

Operating Cash Flows before Working Capital Changes

The Group uses **Operating Cash Flows** as a measure of the cash generation of its core business operations and which is defined as net cash generated by operating activities less changes in working capital, including:

- change in trade and other accounts receivable;
- change in prepayments and other current assets;
- change in restricted cash balance;
- change in taxes recoverable and prepaid;
- change in biological assets;
- change in inventories;
- change in trade accounts payable; and
- change in advances from customers and other current liabilities.

Reconciliation of net cash generated by operating activities to **Operating Cash Flows before Working Capital Changes**:

in thousand US$	FY2018	FY2019
Net cash generated by operating activities	82,477	198,650
Less:		
Changes in working capital, including:	(31,235)	(93,897)
Change in trade and other accounts receivable	(7,902)	(131,516)
Change in prepayments and other current assets	(52,382)	(13,706)
Change in restricted cash balance	3,251	538
Change in taxes recoverable and prepaid	3,273	441
Change in biological assets	1,675	18,779
Change in inventories	9,866	(24,160)
Change in trade accounts payable	19,049	60,055
Change in advances from customers and other current liabilities	(8,065)	(4,328)
Operating Cash Flows before Working Capital Changes	**113,712**	**292,547**

Alternative Performance Measures continued

Free Cash Flows to the Firm

The Group uses **Free Cash Flows to the Firm** as a measure of the cash generation of its core business operations and which is defined as sum of net cash generated by operating activities and net cash used in investing activities**.**

Calculation of **Free Cash Flows to the Firm**:

in thousand US$	FY2018	FY2019
Net cash generated by operating activities	82,477	198,650
Net cash used in investing activities	(155,694)	(241,404)
Free Cash Flows to the Firm	**(73,217)**	**(42,754)**

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.

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 June 2018	As of 30 June 2019
Sunflower oil & meal	217,878	124,797
Sunflower seed	57,599	103,661
Grains	49,031	63,239
Other	43,945	65,914
Total	**368,453**	**357,610**
of which: ***Readily Marketable Inventories***	325,164	293,437

Debt Liabilities

The Group uses three metrics as the measure of its leverage and indebtedness, which consists of **Debt Liabilities**, **Net Debt** and **Adjusted Net Debt**. The Group defines **Debt Liabilities** as the sum of:

- bonds issued;
- interest on bonds issued;
- long-term borrowings;
- current portion of long-term borrowings;
- short-term borrowings; and
- obligations under finance lease (including current portion).

The Group defines **Net Debt** as **Debt Liabilities** less cash and cash equivalents. Finally, the Group defines **Adjusted Net Debt**, as Net Debt less readily marketable inventories.

Calculation of **Debt Liabilities, Net and Adjusted Net Debts** as at the dates indicated:

in thousand US$	As of 30 June 2018	As of 30 June 2019
Bonds issued	494,796	496,051
Interest on bonds issued	17,949	17,949
Long-term borrowings	2,812	63,680
Current portion of long-term borrowings	2,811	1,233
Short-term borrowings	224,773	183,692
Obligations under finance lease	7,710	5,230
Current portion of obligations under finance lease	3,236	2,484
Debt Liabilities	**754,087**	**770,319**
less: cash and cash equivalents	132,018	76,801
Net Debt	**622,069**	**693,518**
less: readily marketable inventories	325,164	293,437
Adjusted Net Debt	**296,905**	**400,081**

Adjusted Working Capital

The Group uses **Adjusted 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).

Reconciliation of total current assets to **Adjusted Working Capital** as at the dates indicated:

in thousand US$	As of 30 June 2018	As of 30 June 2019
Total current assets	**1,204,269**	**1,256,432**
less:		
Cash and cash equivalents	132,018	76,801
Assets classified as held for sale	14,689	2,079
Total current liabilities	475,516	479,760
add back:		
Short-term borrowings	224,773	183,692
Current portion of long-term borrowings	2,811	1,233
Current portion of obligations under finance lease	3,236	2,484
Interest on bonds issued	17,949	17,949
Adjusted Working Capital	**830,815**	**903,150**

Alternative Performance Measures continued

The Management believe 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
EBITDA	Profit from operating activities adding back 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.
EBITDA margin	**EBITDA** divided by revenue during the reporting period.	**EBITDA margin** is a metric widely used to measure profitability of Group's operations.
Segment EBITDA	Segment profit from operating activities adding back amortization and depreciation.	**EBITDA** is the main metric used by management of the Group to measure segment operating performance.
Segment EBITDA margin	**Segment EBITDA** divided by segment revenue during the reporting period.	**Segment EBITDA margin** is a metric widely used to measure profitability of Group's segment operations.
Investing Cash Flows net of Fixed Assets Investments	Net cash used in investing activities adding back purchase of property, plant and equipment, and 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.
Net Fixed Assets Investments	Net cash used in investing activities less **Investing Cash Flows net of Fixed Assets Investments**.	The Group 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.
Operating Cash Flows before Working Capital Changes	Net cash generated by operating activities less changes in working capital activities, including: • change in trade and other accounts receivable; • change in prepayments and other current assets; • change in restricted cash balance; • change in taxes recoverable and prepaid; • change in biological assets; • change in inventories; • change in trade accounts payable; and • change in advances from customers and other current liabilities.	The Group uses this APM as a pre-working capital measure that reflects Group's ability to generate cash for investment, debt servicing and distributions to shareholders.
Free Cash Flows to the Firm	Sum of net cash generated by operating activities and net cash used in investing activities**.**	The Group uses this APM as it reflects the cash generating capability of the Group to repay debt and distribute dividends to shareholders.
Readily Marketable Inventories	Agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil.	The Group uses this APM 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.
Debt Liabilities	Sum of bonds issued, interest on bonds issued, long-term borrowings, current portion of long-term borrowings, short-term borrowings; and obligations under finance lease (including current portion).	The Group uses this APM, as it is a useful measure of the leverage of the Group, which is widely used by credit investors and rating agencies.
Net Debt	**Debt Liabilities** less cash and cash equivalents.	The Group uses this APM, as it is a useful measure of the leverage of the Group, which is widely used by credit and equity investors and rating agencies.
Adjusted Net Debt	**Net Debt** less readily marketable inventories.	The Group uses this APM as a supplemental measure of the Group's liquidity, which shows the amount of Debt Liabilities not covered by cash and readily marketable inventories (highly liquid inventories).
Adjusted Working Capital	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 Group, as the Group is involved in trading and processing activities and hold large volumes of inventories on the balance. The Group 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.

Sustainability

We are committed to decoupling of the growth in production of food for the growing world population from ever-greater use of resources and environmental degradation.

This sustainability report has been prepared in accordance with the GRI Standards: Core option

Our approach

One of the major challenges the world faces is to feed a constantly growing population (+2 billion of people to feed by 2050) while envisaging arable land per capita reduction by 25% from 2020 to 2050, as per FAOSTAT expectations. We at Kernel aim to contribute to the solution of this challenge in a sustainable way.

Our approach to sustainable development is underpinned by principles stated in the Group's Code of Conduct and embedded throughout every level of our company. We aim to efficiently produce best quality products with the lowest possible consumption of resources and in strict compliance with regulatory, safety and product quality standards, thus minimizing our environmental footprint. As the largest crop producer in Ukraine, we not only follow the best sustainable long-term agronomy practices ourselves, but also seek to move the whole industry into a sustainable direction by sharing our valuable experience with other farmers. Finally, we strive to remain the best employer for our people and a reliable contributor to local communities in the regions of our operations.

FY2019 performance

In the reporting period, we achieved the lowest ever consumption of energy per ton of sunflower seed crushed in our Oilseed Processing segment and the record low energy spent per ton of grain/oilseed grown in our Farming segment. We reduced direct greenhouse gas emissions (Scope 1) and commissioned the first combined heat and power plant from our US$ 150 million renewable energy investment program. Additionally, we successfully completed sustainability inspection conducted by EIB and EBRD to attract over US$ 300 million long-term financing, substantially reduced high-consequence work-related injuries on group enterprises and continued to invest into the well-being of local communities where we operate and the development of our employees. For the recognition of our efforts, Kernel was included to top-20 socially responsible companies in Ukraine by reputable local media "Vlast Deneg".

Social spending in FY2019
US$ 2.3 million
-6% y-o-y

Energy consumption
6,857 terajoules
-2% y-o-y

Agenda for FY2020

In the next year, we plan to join the UN Global Compact (the world's largest corporate sustainability initiative), thereby declaring the company's commitment to implement 10 universal principles on human rights, labor, environment and anti-corruption. Together with that, we plan to integrate UN Sustainable Development Goals into our decision-making and reporting processes.

Like in FY2019, we will further strengthen our pursuit of sustainable development by implementing energy efficiency projects, expanding the coverage of our training and professional development programs, and by promoting the development of the rural regions where we operate with our contributions to the development of local communities.

Aside from this, we plan to widen the sustainability agenda discussed by the Board of Directors, including the development and adoption of a Kernel Sustainability Strategy, aiming to define selected goals, targets and actions for our sustainability approach.

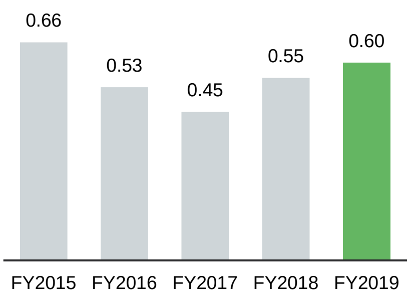
For the next year, we also aim to obtain independent external assurance of our FY2020 Sustainability report. Last time we undertook a similar exercise was in FY2015.

Sustainability highlights

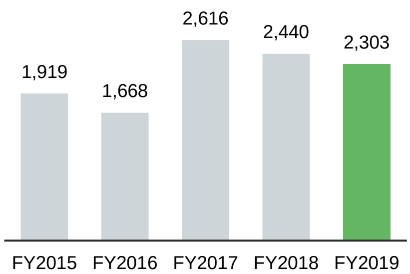
Key non-financial KPIs

		FY2015	FY2016	FY2017	FY2018	FY2019
Total number of full-time employees		15,229	14,075	16,103	15,116	13,397
Oilseed processing		18%	17%	16%	17%	17%
Grain and infrastructure		20%	23%	22%	23%	22%
Farming		58%	55%	58%	56%	55%
Headoffice and other		4%	4%	4%	5%	6%
Total injury accidents		19	16	14	16	17
incl. fatalities		1	1	-	4	1
Injury frequency rate	*accidents / million worked hours*	0.66	0.53	0.45	0.55	0.60
Total training expenditures	*thousand US$*	241	194	445	474	456
Total social spending	*thousand US$*	1,919	1,668	2,616	2,440	2,303
Direct (Scope 1) GHG emissions	*thousand tons of CO_2 equivalent*	236	198	232	260	234
Gross indirect (Scope 2) GHG emissions	*thousand tons of CO_2 equivalent*	76	72	80	86	88
Total energy consumption	*thousand gigajoules*	6,000	5,095	6,499	6,977	6,857
incl. renewable	*thousand gigajoules*	2,854	2,566	3,096	3,230	3,215
Energy spent per ton of sunflower seeds processed	*megajoules*	1,441	1,456	1,412	1,328	1,312
Energy spent per ton-% of grain dried	*megajoules*	63	63	68	61	67
Energy spent per ton of grain grown	*megajoules*	854	708	630	675	546

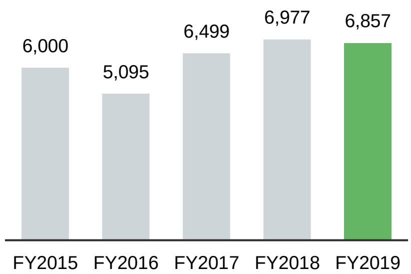
Rate of recordable work-related injuries
accidents / million worked hours



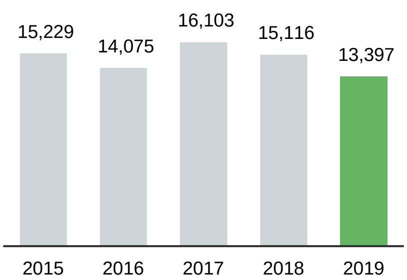
Total social spending
US$ thousand



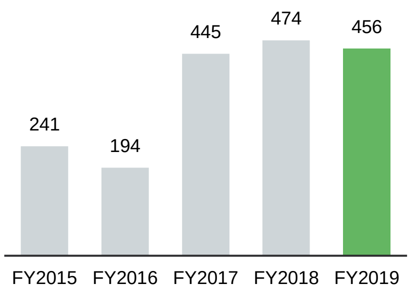
Total energy consumption
thousand gigajoules



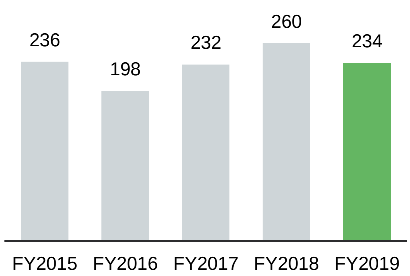
Total number of employees
Full-time equivalent, as of 30 June



Total training expenditures
US$ thousand



Total direct (Scope 1) GHG emission
thousand tons of CO_2 equivalent



Sustainability continued

Our approach to materiality and report content

Stakeholder inclusiveness

Based on management's view, media monitoring and constant interactions with stakeholders, the company has identified 11 stakeholder groups (please see chart "Key stakeholder groups and engagement channels"). Management periodically reviews the list of stakeholder groups.

We regularly engage with all identified stakeholder groups through various means: directly at meetings and events, and via media, including the corporate website, social networks and messengers and press. Public Facebook group "We are Kernel!" allows us to engage with over 7,000 people, and the corporate Telegram channel communicate information to almost 1,000 subscribers.

The Company engages with all the identified stakeholder groups, but for the purposes of this report management considers capital providers (shareholders and debt providers) and employees to be key target audiences, while engagement with other stakeholder groups is primarily done through other communication channels.

Report content

In selecting the content of this section, we pursued an overall goal of demonstrating Kernel's material economic, environmental, and social impacts to key target audiences, using the common language of GRI Standards.

As a result of stakeholder engagement process, we identified the interests, expectations and information needs of stakeholders we engage with through this sustainability report.

Our core values and principles:

- → Efficient use of resources
- → Openness to change and innovation
- → Integrity
- → Responsible leadership
- → Entrepreneurial spirit
- → Mutual respect and trust

This report focuses on material issues determined based on feedback obtained from employees and capital providers and a managerial assessment of the aspects' importance for the sustainable development of the company.

Environmental and social policies and standards of our lenders are another valuable source of guidance on materiality and governance of the Group's sustainability aspects. Our recent capital investments into grain storage, crushing, transshipment, and renewable energy infrastructure, envisaged by Strategy 2021, are co-financed by the European Bank for Reconstruction and Development and European Investment Bank, thus all the planned developments had to be structured to meet the requirements of Environmental and Social Policies of both institutions [1]. Binding measures required to align the Strategy 2021 activities with the policies, as well as to improve the Group's overall environmental and social management practices, have been identified in the course of a robust due diligence process, that provided us with external insights on our both strengths and areas for improvement in terms of sustainability.
Based on analysis of inputs collected from internal and external stakeholders, the shortlist of sustainability topics was developed. The materiality of shortlisted sustainability topics has been assessed against two criteria: 1) influence on stakeholder assessments and decisions; and 2) significance of economic, environmental and social impacts. The topics with the highest combination of scores for both criteria were defined as material.

Derived from the materiality exercise, the following list of topics subject to disclosure in the sustainability report was approved by executive management:

- Economic performance;
- Indirect economic impacts;
- Anti-corruption;
- Materials;
- Energy;
- Biodiversity;
- Emissions;
- Employment;
- Occupational health & safety;
- Training and education;
- Local communities;
- Customer health and safety.

Key stakeholder groups and engagement channels

	Kernel reports	Website	Hotline	Social networks	Direct engagement	External media	Corporate newspaper	Intranet	Events
Internal									
Employees	✓	✓	✓	✓	✓	✓	✓	✓	✓
Management	✓	✓		✓	✓	✓	✓	✓	✓
Shareholders	✓	✓			✓				✓
External									
Debt providers and rating agencies	✓	✓			✓				✓
Suppliers (incl 3rd party farmers)		✓		✓	✓				
Customers		✓		✓	✓				
National media		✓			✓				
Local media		✓			✓		✓		
Local communities		✓	✓		✓	✓	✓		✓
Local officials		✓			✓	✓	✓		✓
Regulatory authorities		✓			✓				

Other engagement channels include special publications, emails, interviews, and teleconferences.

[1] EIB Environmental and Social Standards; EBRD Environmental and Social Policy

Sustainability continued

GRI content index (see on page 54) summarizes disclosure of the listed topics in this report.

Notwithstanding the fact that the topic of soils does not match exactly with the available topic-specific Standards, we have chosen to disclose it, as soil properties are crucial for crop production, and can be largely influenced by the Group's farming operations. Since the topic relates to *provision services* of ecosystems, GRI 304: Biodiversity Standard has been applied for reporting on it.

Similarly to soils, climate change adaptation is pivotal to Kernel's ability to create value in future. Since no dedicated GRI standard is available for this topic, we opted to disclose it under *GRI 305: Emissions* for the reason of interrelation between climate change and GHG emissions.

Although not disclosed in this report, we acknowledge the materiality of our impact on water resources. While water consumption for crop production is moderate (only 0.2% of our landbank is irrigated), our oilseed processing operations are associated with substantial water volumes and more complex water use patterns. We realized that comprehensive disclosure of information on consumption of fresh water, and wastewater management requires more time and efforts than we had in our disposal. Therefore, a decision was made to postpone the disclosure for FY2020.

Topic boundaries

Impact	Material topics	Material within Kernel	Material outside Kernel	Topic boundary
Economic	Economic performance	✓	✓	All business units
	Indirect economic impacts	✓	✓	All business units
	Anti-corruption	✓	✓	All business units
Environmental	Materials		✓	Farming Oilseed Processing
	Energy	✓	✓	All business units
	Biodiversity		✓	Farming
	Emissions		✓	All business units
Social	Employment	✓	✓	All business units
	Occupational health & safety	✓	✓	All business units
	Training and education	✓	✓	All business units
	Local communities		✓	Farming
	Customer health and safety	✓	✓	Oilseed Processing

If not stated otherwise, boundaries for material topics includes Kernel subsidiaries where company has operating control. Our 50/50 Taman JV in Russia is not included in the scope of this Sustainability Report, as we cannot operate it solely for our benefit and have limited control over it. For more information, please refer to the chart "Topic boundaries".

Key developments

In FY2019, we approved a Corporate Social Responsibility and Sustainable Development Policy, which is publicly available on the Company's website. The policy defines the Company's goals as follows:

- **Social**: development of people's potential, giving back to local communities, and ethical and responsible labor practices;
- **Environmental**: keeping the integrity of the ecosystems the Company operates in, and minimization of the environmental footprint;
- **Economic**: reaching maximum profitability with the optimal usage of natural resources.

The measures taken for the Corporate Social Responsibility and Sustainable Development policy implementation shall be disclosed each year in the special section of the annual report.

In FY2019 we slightly changed the presentation format of the disclosure in our Sustainability section, aligning disclosure more to the GRI guidance.

Sustainability continued

Economic impact *(GRI 200)*

Economic performance *(GRI 201)*

The ultimate goal of our strategy is to maximize shareholders' value, which we aim to achieve through outstanding economic performance. Key strategic pillars behind that are a strong asset base, operational discipline and a geographic focus. We are currently undergoing CapEx-heavy cycle, which is expected to bring the Company's economic performance to a completely new level. Economic performance is the most important KPI for the management performance-based part of compensation.

Total economic value retained in FY2019 amounted to US$ 158 million, calculated as direct economic value generated (US$ 4,030 million) less total economic value distributed (US$ 3,871 million). This result more than four times exceeds the total economic value retained in FY2018.

Being a diversified agro-industrial business in Ukraine with leading positions across all business segments, we have significant direct economic impact on our stakeholders in areas of all our operations. Direct economic impact includes our purchasing of goods from suppliers, dividends paid to shareholders, wages and benefits paid to our employees, financial expenses paid to creditors, income taxes paid to the public sector, and community investments, as well as economic value retained for investments to increase the capitalization of the company.

Indirect economic impact *(GRI 203)*

Given the scale of our operations, we have a large indirect economic impact on some of our stakeholders.

We have one ambitious purpose in our approach: contribute to an increase of global food security by improving productivity and reducing costs along the food supply value chain we have impact on. We aim to unlock Ukraine's potential in agriculture, thus increasing the number of people fed in a sustainable way globally.

Economic value generated, distributed and retained *(GRI 201-1)*

US$ million

	FY2015	FY2016	FY2017	FY2018	FY2019
Direct economic value generated	**2,406**	**2,053**	**2,207**	**2,481**	**4,030**
Revenue	2,330	1,989	2,169	2,403	3,992
Net IAS 41 effect	(7)	20	(3)	19	9
Other operating income	83	45	41	59	28
Economic value distributed					
Operating costs	(2,077)	(1,766)	(1,942)	(2,341)	(3,760)
of which employee wages and benefits	(72)	(60)	(67)	(103)	(126)
Finance costs	(69)	(57)	(62)	(65)	(82)
Community investments	(2)	(2)	(3)	(2)	(2)
Other costs	(156)	19	(3)	(22)	(1)
Total charges	**(2,304)**	**(1,805)**	**(2,009)**	**(2,431)**	**(3,839)**
Income tax	(0)	(4)	(19)	6	(12)
Net income (loss)	**(2,305)**	**(1,809)**	**(2,028)**	**(2,425)**	**(3,851)**
Dividends paid	(20)	(20)	(20)	(20)	(20)
Total economic value distributed	**(2,325)**	**(1,829)**	**(2,048)**	**(2,445)**	**(3,871)**
Economic value retained	**81**	**224**	**158**	**35**	**158**

Data presented is calculated based on GRI recommendations using IFRS metrics on an accruals basis.

Our significant indirect economic impacts, among others, include:

- **Boosting productivity of farmers in Ukraine**. Our farming business achieves 15-40% higher crop yields than country averages, and since 2018 we widely share our knowledge in crop production with other farmers in Ukraine through the special program Open Agribusiness, designed to help farmers to increase their yields. We share our knowledge: results of our agrochemical laboratories; our practices in precision farming, differentiated fertilizing and planting, satellite and GPS-monitoring; research results from our R&D center, access to our RTK-stations etc. We also provide farmers in Ukraine with a range of high-quality services, like working capital financing, solutions through Kernel's #DigitalAgriBusiness platform, high-quality infrastructure services and trainings. In this way we contribute to the increase of their productivity and reduction of costs of food produced.
- **Improving grain railway logistics in Ukraine.** Other players in grain infrastructure start widely adopting new approach "Strict schedule shipments" to grain transportation, which was first introduced by Kernel together with the national monopoly Ukrainian Railways in 2019. The approach increases fleet turnover and thus reduced grain transportation costs. Additionally, through our "Transit-Hub" solution we simplify access to railway logistics for some unproductive silos which face difficulties when shipping grain to ports, due to not being productive enough to load a full block train (54 railcars) in one day. Our Transit-Hub platform allows such silos to combine their efforts in loading a single block train, thus improving their access to railway transportation services, given railway logistics constraints in Ukraine.

Combined with our efforts in **food supply value chain optimization**, it reduces the total cost of food, thus making it more affordable and contributing to the achievement of #2 UN Sustainable Development goal: Zero Hunger.

We also contribute to the development of rural areas in Ukraine, which suffer from high poverty rates, by investing in infrastructure (roads, schools, hospitals, kindergartens), simplifying access to medical services, and contributing to local budgets as a responsible taxpayer. Please see section "Local communities" for details.

Sharing knowledge with other farmers in Ukraine within Kernel's Open Agribusiness initiative

Sustainability continued

Anti-corruption and anti-fraud *(GRI 205)*

Operating in a region with high fraud and corruption risks and poor compliance practices, we understand all the negative impacts of corruption such as poverty, undermining the rule of law, misallocation of investments and the danger to the environment. Kernel is dedicated to imposing proper control and prevention mechanisms to reduce the risks of misconduct in areas of all our operations.

Our approach in this area is presented in the box at right "How we prevent fraud, corruption and other types of misconduct". In three years, we managed to create a comprehensive compliance system to minimize the risks of misconduct, which was recognized by our financing providers EIB and EBRD and by independent compliance auditor Baker Tilly.

As an ultimate punishment measure for fraudulent and corrupt activities, we dismissed 296 employees in FY2019, disclosing such cases to other employees as a preventive measure. Equal treatment here is applied to all employees: top-managers, white and blue collars.

For FY2020, we plan to further focus on integration of compliance into company operations and introduce a compliance risk-management system.

How we prevent fraud, corruption and other types of misconduct

What we adhere to

- **Zero tolerance** to any fraudulent/corrupt activities within the Company and its subsidiaries. Immediate disposal of employees and immediate ban on cooperation with partners suspected in prohibited practices;
- Proper **framework in place**:
  - **Code of Conduct** (since 2015);
  - **Corporate Governance Charter** (since 2018) also covering compliance issues;
  - **Anti-corruption policy**, fundamental document for our compliance system developed in accordance with the requirements of the anti-corruption legislation of Ukraine, the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the 'OECD Convention'), as well as the anti-corruption legislation of the countries in which Kernel operates;
- **Tone at the Top** initiative coming from the Board of Directors and Executive Management Team;

How we do it

- Anti-corruption clause in all Kernel agreements and tendering processes (since 2017);
- Code of Interaction with Suppliers (since 2019)**.** We require all our suppliers to follow the principle of strict legality, treatment of associates, environmental protection, business relations, and compliance with Corporate Code;
- In-depth documented **due diligence during KYC** procedure, conducted by a security service and compliance officer;
- **Conflict of interest** annual declaration procedure for over 5,000 participants in FY2019, with results carefully analyzed for risks and possible settlements;
- **Business gifts and hospitality rules** (since 2018) prohibiting presents and attendance of events that may influence business decision-making; e-register of business gifts and hospitality implemented;
- **Channels for informing** on misconduct:
  - 24 / 7 / 365 toll-free hotline (0-800-501-483) allowing anonymous calls. We received 110 calls reporting misconduct in FY2019 (up 29% y-o-y);
  - Form on company's website (since June 2019)
  - Special e-mails: dovira@kernel.ua and compliance@kernel.ua;

  We have **whistleblower protection** mechanism in place, managed by compliance officer;
- Diligent additional **screening** during the **employee selection process** (including Compliance officer involvement if needed), with specific attention paid to the employment of former government officials;
- **Regular assessment of risks** covering conflicts of interest, bribes, charitable contributions and sponsorships, gifts, hospitality.
- Increasing compliance-culture awareness among employees:
  - **Trainings and e-courses** (over 1,500 employees attended off-line trainings, all new employees go through on-line trainings);
  - **Regular** e-mail distributions;
  - **Promo materials and warnings** on the company website, intranet portal (with FAQ on the topic), corporate media, infodesks at company's assets, 5,000 printed anti-corruption manuals;
  - **Surveys among employees** on compliance understanding. According to the results of internal survey conducted in FY2018, all our employees are informed about rules and principles of Code of Conduct and Anti-corruption Policy, and 99.9% them know how to report fraud and corruption;
  - **Compliance promo-activities** in external and internal media and conferences.
- Compliance officer always available for providing assistance in case of disputable situations.

Environmental impact *(GRI 300)*

Operations and products of farming, grain processing and storage, crushing, and transportations have inherent elements that interact with the environment – environmental aspects. The use of chemicals, emissions into atmosphere, water consumption and wastewater discharge, if improperly managed, can cause adverse impacts on natural environment and public health.

To avoid adverse impacts, Kernel undertakes management measures commensurate to significance of identified aspects. Resources are allocated for functioning and professional development of the Group's Environmental Department of 10 full-time employees at Storage, Oilseed Processing, and Transshipment businesses. Environmental aspects of farming are covered by the scope of Environment, Health and Safety professionals work.

Being associated with relatively higher environmental risks, all but one our crushing plants implemented the requirements of the ISO 14001 standard, which specifies requirements for an effective environmental management system. We periodically train our environmental specialists under this standard. For one of our crushing plants, we aim to implement the ISO 14001 requirements over the course of FY2020.

Materials *(GRI 301)*

Materials is an important topic for us and our stakeholders to assess the environmental impact of Kernel operations. Our approach to materials is guided by the principle stated in the group's Code of Conduct: we strive to minimize the usage of resources and industrial waste. To implement this principle, we seek options to avoid the use of materials, to reuse, or to recycle it, and promote the use of renewable raw materials.

Our impact occurs mostly in our Oilseed Processing and Farming segments, whereas our Infrastructure and Trading segment is a service-type business of re-selling grain and providing logistics services, not consuming materials to any large extent.

Main **non-renewable materials** consumed by Kernel include mineral fertilizers and crop protection agents used by our farming business, and solvents and plastic packaging consumed by our Oilseed Processing segment.

Key **renewable materials** embrace sunflower seeds and cardboard packaging in our oilseed processing, and organic fertilizers and seeds for farming business. Seed usage varies based on shifts in crop mix and technology. For example, wheat planting requires 0.2 tons per hectare, while corn planting requires 0.02 tons per hectare of the respective seeds. Similarly, fertilizer usage varies because of

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changes in technology and the variety of available fertilizers with different nitrogen, phosphorus and potassium content.

We internally source a substantial portion of renewable materials used in farming, like seeds and wastes from cattle farming business used as organic fertilizers.

Roughly 3% of our produce is packaged and labeled (measured by tonnage), while the greater part of our produce is sold in bulk. For packaged items, we strictly follow the national regulations for which the product is destined. Typically, labeling is subject to a three-phase control and requires an authorized lab or third-party issued verification for any information exhibited on the markings.

Principal materials used *(GRI 301-1)*

thousand tons

	FY2015	FY2016	FY2017	FY2018	FY2019
Non-renewable materials					
Fertilizers (mineral)	128.0	146.0	171.0	179.7	213.4
Crop protection agents	1.8	1.8	2.3	2.3	3.3
Solvents used in oilseed processing	1.1	1.2	1.1	1.3	1.2
Packaging for bottled sunflower oil	2.8	1.5	3.9	3.3	3.7
Renewable materials					
Sunflower seeds *(from external suppliers)*	2,351.1	2,037.7	2,489.2	2,824.7	2,738
Sunflower seeds *(sourced internally)*	171.7	170.7	242.8	311.1	426.0
Packaging for bottled sunflower oil	2.2	2.3	3.3	3.0	3.1
Fertilizers *(organic, sourced internally)*	132.1	122.4	67.0	40.0	136.1
Seeds for farming *(sourced internally)*	20.5	34.0	32.0	32.9	46.5
Seeds for farming *(from external suppliers)*	5.5	8.0	5.7	11.6	9.9

The data excludes Infrastructure and Trading segment, which primarily provides services. Fuel volumes are excluded from the calculation and are presented in a separate disclosure.

Energy consumption *(GRI 302)*

As an agro-industrial holding, Kernel has a significant impact on the environment and economy through energy consumption. By boosting the energy efficiency of our operations and producing renewable energy we minimize our adverse impacts and contribute to the global climate change mitigation effort.

In FY2019, Kernel consumed 6,857 terajoules of energy, 1.7% down y-o-y, a sizable part of which comes from fossil fuels, thus resulting in GHG emissions. Although the largest share of consumed energy (56% of the group's total consumption) was associated with operations of **Oilseed Processing** business, over 80% of this energy came from renewable biomass fuel (sunflower seed husk). Our **Farming** segment's share of 27% derived from diesel and gasoline consumed by machinery for field works. Finally, the **Infrastructure and Trading** businesses consumed 16% of total energy, using natural gas for grain drying services and electricity for machinery and equipment powering.

In our **farming** business, we continuously upgrade our machinery fleet every 5-6 years with more powerful and larger size vehicles from recognized global suppliers, providing higher capacity and a lower specific consumption of fuel. Along with hardware improvement, we constantly raise the efficiency of our operations. GPS trackers installed in all our fuel-intensive fleet allow us to better monitor the actual fuel consumption and to run some machinery in auto-pilot mode for better execution of production technology implying lower fuel intensity. A fuel consumption remote monitoring system, widely applied by our farming companies, eliminates thefts of diesel.

In FY2019, we achieved the lowest ever energy spent per ton of grain grown in our farming business, which partially reflects our efforts in the optimization of business processes, and partially results from record crop yields achieved in FY2019.

In **Oilseed Processing** segment, all our crushing plants operate biomass fired boilers. Sunflower seed husk, the crushing process' byproduct, is the only fuel used. The produced steam is consumed mainly for technology purposes, while at one of the plants it is also sent to a turbine to produce electric energy. The surplus of electricity is supplied to the national

Energy consumption *(GRI 302-1)*

terajoules

	FY2015	FY2016	FY2017	FY2018	FY2019
Non-renewable fuel consumed	**2,459**	**1,923**	**2,647**	**2,928**	**2,835**
Natural gas	774	549	1,108	1,044	899
Diesel, gasoline	1,682	1,370	1,537	1,884	1,936
Other non-renewable	4	3	2	0	0
Renewable fuel consumed	**2,854**	**2,566**	**3,096**	**3,230**	**3,215**
Electricity consumed	**732**	**652**	**798**	**853**	**844**
Renewable energy produced and sold	**45**	**46**	**42**	**34**	**37**
Electricity	32	35	41	34	37
Heating	13	10	1	-	-
Total energy consumption	**6,000**	**5,095**	**6,499**	**6,977**	**6,857**
by division					
Oilseed Processing	3,635	3,068	3,859	3,877	3,852
Infrastructure and Trading	803	603	1,162	1,224	1,110
Farming	1,522	1,392	1,445	1,847	1,867
Other	41	32	33	29	29
by country					
Ukraine	5,720	5,094	6,496	6,977	6,857
Russia	280	1	3	-	-

Energy intensity *(GRI 302-3)*

megajoules

	FY2015	FY2016	FY2017	FY2018	FY2019
Energy spent per ton of sunflower seed crushed	1,459	1,408	1,428	1,340	1,325
Energy spent per ton-% of grain dried	63	63	68	61	67
Energy spent per ton of grain grown	854	708	630	675	546

Only energy purchased from external suppliers is included in energy consumption. Energy generated and consumed internally is excluded. Additionally, energy consumption figures exclude heating purchased from third-party suppliers due to the non-materiality of volumes.

The volumes of natural gas and diesel fuel used for energy production are measured by equipment installed at each point of consumption. The volumes of diesel fuel, petroleum and liquefied natural gas used in automobiles and agricultural machinery are calculated based on the actual fuel consumption by each unit of machinery. The volume of sunflower seed husk used to generate steam and electricity is accounted based on records from scales installed at each point of husk consumption. Electricity purchased and used is measured by metering devices.

Energy sold includes heating and electricity produced from sunflower seed husk burned at boilers located at our oilseed crushing plants. The volume of electricity sold is measured by equipment connected to the country's electricity grid. Heating sold is measured based on the volume of hot water supplied to external consumers and is measured by equipment installed at the point of consumption. All noted measuring equipment is certified and regularly checked for accuracy by independent external experts. The conversion of energy into joules is made using conversion factors sourced from GHG Protocol; Collection of emission indicators (specific emissions) of pollutants into the air by different productions (tome 1) prepared by Ukrainian Research Center for Technical Ecology (Donetsk, 2004); Methodology of the State Statistic Service of Ukraine.

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grid. In FY2019, this combined heat and power (CHP) unit has converted 181 thousand tons of sunflower husk into 552 thousand gigacalories of heat for production purposes and 10.3 million kWh of electricity (sold to 3rd parties), saving 11 thousand tons of greenhouse gases (CO_2 equivalent).

In order to upscale production of renewable energy, we are investing US$ 150 million to become the largest Ukraine producer of energy from biomass with 94MW installed electricity generation capacity (see "Case study: investments into green energy generation"). The first 6 MW CHP unit has already been installed, 40 MW are expected to be commissioned in FY2020, and the remaining 48 MW to be launched in FY2021.

As a result of our efforts, a new record was achieved in our crushing business in FY2019, when we spent just 1,312 megajoules of energy to crush 1 ton of sunflower seeds, our lower rate ever.

Biomass energy is also harnessed at our Kononivka grain storage facility. The investment of US$ 200 thousand has enabled replacing a diesel heat generator with 4 MW biomass-fired dryer consuming the site's by-products. The expected payback period is 5 years. In Silo business, we increased energy consumption per ton-% of grain dried due to the low humidity of the crops this season compared to the previous one.

Biodiversity *(GRI 304)*

Modern agriculture has enabled food production to increase dramatically, contributing much to improving food security and reducing poverty. However, these improvements, if improperly managed, may be associated with adverse impacts on natural environment and specifically on biodiversity. Globally, deforestation and other forms of land-use conversion, driven by the expansion of agricultural lands, are key reasons for biodiversity losses. Another threat derives from chemical pollution and application of pesticides.

Realizing these threats, we strive to fully eliminate any impact of our operations on biodiversity. In our farming business, we cultivate only lands which have been used for crop production for decades, and therefore we do not give rise to deforestation. We grow only crops which are typical for the regions of our operations. The Company does not carry on farming activities in reserved areas, national parks and areas with high biodiversity value, thus not affecting endangered species.

Kernel is strongly committed to sustainable long-term crop production practices as opposed to the short-term profit seeking. Our key target in sustainable farming is long-term soil productivity based on the following pillars:

- **Maintaining proper soil nutrients**. We follow the balanced crop rotation practice ensuring proper replenishment of nutrients in the soil and apply appropriate fertilization to restore nutrients absorbed by the crops. Once per 3-4 years (in line with our crop rotation cycle) we analyze the quality of soils at our fully equipped technological laboratory, and adjust our crop mix plans, production technology and fertilization practices if needed;
- **Preventing soil erosion**. Depending on crop cultivated, land location and soil pattern, we carefully select proper tillage technology to minimize soil erosion. For lands with soil erosion risk we implement soil-protective measures and adjust crop mix respectively. Additionally, we leave straw on the fields after the harvesting as it serves the organic fertilizer and prevents soil erosion;
- **Integrated pest management system,** which ensures thresholds are set for any pest control actions, and cultural methods aimed at reducing the exposure of plants to infection are applied prior to the use of pesticides. We comply with all applicable pesticides regulations and use only those crop protection agents, which are authorized for the use in Ukraine. We do not apply products forbidden by the Stockholm Convention on Persistent Organic Pollutants and/or products listed in Annex 3 of the Rotterdam Convention. Any new substances are first tested on our inspection fields, and only then widely adopted in our production process. Pesticides are stored in certified storages, subject to annual inspection by Sanitary Authority. Proper disposal of the empty containers is controlled.

The key waste produced by our farming segment is straw. We leave it on our fields after harvesting campaign is completed, and straw serves as an organic fertilizer, also preventing soil erosion. The major portion of waste generated by our silos is sold to third parties to be further used as a cattle feed or biofuel, and the remaining is disposed in landfills.

As required by some our customers, over 170 thousand hectares under corn and 34 thousand hectares under soybean (39% of farmland bank under crops) are annually certified for compliance with ISCC standards. ISCC (International Sustainability and Carbon Certification) is a globally leading certification system focused on securing traceable and deforestation free supply chains, and protection of land with high biodiversity value. It confirms our commitment to the highest sustainability requirements.

Emissions *(GRI 305)*

The Group's operations are associated with emissions of carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) - collectively referred as greenhouse gases (GHG), and other substances such as carbon monoxide (CO), nitrogen oxides (NO_X), sulfur dioxide (SO_2), PM, and hydrocarbons.

While the impacts of GHG are mainly perceived indirectly, through manifestations of climate change, other emissions have more straightforward effect on human health and ecosystems. We acknowledge our share of responsibility for these impacts and strive to minimize emissions. In line with mitigation hierarchy, we prefer prevention over end-of-pipe treatment. Resource efficiency is our key preventive strategy.

A large share of emissions stems from our energy consumption. Although nearly 50% of our current energy needs are already covered with renewable energy from biomass (which significantly reduces our GHG emissions), we keep investing in measures for rising efficiency and corresponding decrease of emissions, as described in the chapter *Energy consumption (GRI 302)* above.

Where prevention is not feasible, treatment equipment is applied: boilers at all our crushing plants (but one plant – installation planned for 2021) are equipped with electrostatic filters highly efficient (95-98%) in capturing PM. All grain handling installations at storage silos and transshipment terminals are equipped with cyclone filters. By 2021 several boilers will receive selective non-catalytic reduction equipment to lessen nitrogen oxide emissions.

All stationary sources of emissions in Ukraine are subject to permitting procedure that encompasses emissions inventory, dispersion modelling, and public disclosure of the outcomes in press. The modeling provides estimates on concentrations of emitted pollutants at neighboring sensitive receptors areas (housing, schools, hospitals, etc.). All companies of the Group operating stationary emission sources hold valid permits (covering GHG and other emissions), monitor emissions' parameters, and pay environmental tax (US$ 137 thousand in FY2019) accrued based on actual emissions volume.

When reporting our GHG emissions, we distinguish between *directs GHG emissions* from sources that are controlled by Kernel (Scope 1), and energy indirect GHG emissions that result from the generation of purchased electricity, heating, consumed by Kernel (Scope 2).

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A major portion of our direct (Scope 1) greenhouse gas emissions is produced by our farming business, mainly from combustion of fuels by machinery for field works and transportation. The contribution of enteric fermentation from our cattle farming is also substantial due to high global warming potential that has methane emitted by cows.

Though, it should be admitted that fertilizer application – another potentially large source of GHG emissions, stays unaccounted this year (except for ISCC certified fields). We plan to extend the accounting practice to the entire Kernel's land bank in order to present more comprehensive figures in our next Annual Report.

As to Scope 2 emissions, three quarters of them are associated with electricity consumed by our seed processing segment. Due to peculiarities of national electricity market there was no opportunity for direct contracts with electricity producers, therefore a unified specific emission factor has been applied for the national grid's energy mix.

Globally, agricultural sector is responsible for around 10% of GHG emissions that contribute to the greenhouse effect by absorbing infrared radiation, and by that to the climate change. Yet, the sector in its turn is intrinsically impacted by the climate change. Such impacts on the Group's operations, that are already occurring but expected to intensify, include reduced crop and pasture yields and quality, increased spread of crop diseases and pests. These impacts stem from changes in surface temperatures, the timing of seasons, and in the frequency and magnitude of severe weather events, such as droughts, floods, storms and heatwaves.

Besides harvest levels, climate change contributes to operational risks through hindered road transportation (asphalt roads closed during high temperatures) and maritime navigation (increased storms frequency and intensity), and increased risk of fires.

To respond to the abovementioned risks, we apply measures as follows:

- launched in November 2018 the *#DigitalAgriBusiness* project. Embracing field records for the past five years, climate and soil conditions, market and agronomic inputs, biochemistry and biophysics rules enhanced with the artificial intelligence solutions, machine learning and advanced analytics, it converts data into a single system assisting us in making smarter decisions. This unique planning tool enables us to more precisely model profitability scenarios, optimize resources and predict expenses;
- capture weather data using 49 real-time stationary weather stations, which have been installed since 2012 and fundamentally reorganized in FY2018.
- expand our land bank and operations in Northern, Central and Western regions of Ukraine that are less exposed to climate change risks;
- insurance of winter crop related costs, and insurance against limited rainfalls and soil moisture content on some of our fields;
- prepare GHG inventories that help us to understand the Group's exposure to related risks, identify emissions reduction opportunities, and communicate performance to internal management and external stakeholders.

Our most sizable impact in emissions reductions will occur after the commissioning of our renewable energy projects – 7 cogeneration heat and power units installed at our oilseed processing plants with a combined capacity of 94MW. Once working at full capacity and generating green energy from biomass, reduction of GHG emission is expected to amount at more than 700 thousand tons of CO_2 equivalent.

In addition to the disclosure in this report, Kernel also reports under the CDP Climate Change initiative, with reports available on CDP website.

Greenhouse gas emissions *(GRI 305-1, 305-2)*

thousand tons of CO_2 equivalent

	FY2015	FY2016	FY2017	FY2018	FY2019
Direct (Scope 1) GHG emissions	**236**	**198**	**232**	**260**	**234**
by gas type					
CO_2	204	168	207	235	**216**
CH_4	29	27	25	25	**18**
N_2O	0	0	0	0	**0**
by division					
Oilseed Processing	18	6	13	3	**3**
Infrastructure and Trading	43	29	61	70	**57**
Farming	174	161	156	186	**173**
Other	2	2	2	1	**1**
by country					
Ukraine	225	197	232	260	**234**
Russia	11	0	0	-	**-**
by source					
Fuel-sourced	162	129	172	200	**191**
Cattle Farming	71	67	60	60	**44**
Non fuel-sourced	2	2	-	-	**-**
Biogenic (Scope 1) GHG emissions	**280**	**252**	**304**	**317**	**316**
Gross indirect (Scope 2) GHG emissions	**76**	**72**	**80**	**86**	**88**
Other significant air emissions (non-GHG)					
Carbon oxide	0.7	0.7	0.4	0.5	**0.4**
Sulfur dioxide	0.3	0.3	0.2	0.3	**0.1**
Particulate matter	0.8	0.8	0.7	1.0	**1.4**

GHG emissions intensity ratio *(GRI 305-4)*

kg of CO_2 equivalent

	FY2015	FY2016	FY2017	FY2018	FY2019
per ton of sunflower seeds processed	7.1	3.0	4.8	1.0	**1.1**
per ton of grain grown	97	84	68	68	**50**

Scope 1 emissions are calculated based on volumes of fossil fuel used across the company and those generated by livestock. The company use financial control consolidation approach for emission. Emissions are calculated based on volumes of fuel consumed and conversion factors sourced from GHG Protocol (GHG Emissions from Stationary Combustion). The calculation excludes GHG emissions from the application of fertilizers and pesticides by our farming and the effect of carbon capture during the development of crops. Currently, we are examining available calculation methodologies. Emissions from livestock farming are calculated based on the average headcount of cattle for the reporting period and established regional normative levels for emissions per head. Scope 2 emissions represent emissions from purchased electricity. Some other substances such as hexane and nitrogen oxides are not disclosed due to immateriality. The conversion factor is calculated as the ratio of total emissions from electricity production in Ukraine sourced from UN GHG Inventory to energy production itself sourced from Ministry of Energy and Coal Mining. We use IPCC 5th Assessment Report rates for global warming potential calculation. We use direct (Scope 1) GHG emissions as a denominator to calculate the intensity ratios.

Sustainability continued

Social impact *(GRI 400)*

Employment *(GRI 401)*

Our goal is to find and attract the best people and develop and retain them to ensure sustainability of our operations and business model.

As of 30 June 2019, Kernel had 13,397 employees (FTE), including 12,794 permanently employed. Although we continue our headcount optimization program in the existing businesses, our investments under Strategy 2021 will create over 600 new jobs by 2021.

Trade unions representing employees functionate at Kropyvnytskyi, Prykolotne, Poltava and Vovchansk oil extraction plants, as well as on some our silo business entities.

There were no outstanding disputes between trade unions and Kernel business entities as of the date of this report.

Competitive remuneration

With people as our most valuable asset, we constantly strive to maintain competitive remuneration.

A fixed part of regular **monetary** compensation is set at the level which matches or exceeds the benchmark paid in our industries. The variable part depends on numerous KPIs, which are quite granular, including, for example, various indicators for each separate field in our farming business. What is more important, we provide employees all tools to directly affect KPI's and monitor the KPI's execution on close-to-online basis, thus trying to keep them involved as much as possible. Following the example from our farming business, agronomists can observe the results of their work online using our own system and third-party solution Cropio.

Apart from regular compensation, employees receive one-time monetary incentives for achievements and business efficiency improvements, as discussed in "Case study: promoting employee engagement within Kernel".

We strictly follow the principle that, in case of staff reduction in a team of employees due to labor productivity improvements (which is inevitable in our business), the salary pool is not reduced, but rather shared with the other team members.

Finally, monetary compensation includes such socially oriented components as fixed payments in case of retirement and monetary support in case of employee's personal life difficulties.

Average salary in FY2019 increased by 23%

Personnel benefits

- Competitive salary (regular monitoring of labor market)
- Guaranteed compliance with all the legal labor requirements (incl. parental leaves)
- Training and development of personnel, formation of personnel reserve
- Occupational health and safety, including respective insurance
- Financing sport initiatives of the employees
- Material assistance to employees facing difficult life circumstances
- Rewards and other benefits dedicated for special events (birth, marriage)
- Retirement provisions and privileged pensions for employees at hazardous jobs

Human capital indicators

As of 30 June of the respective year

	FY2015	FY2016	FY2017	FY2018	FY2019
Total number of employees	**15,229**	**14,075**	**16,103**	**15,116**	**13,397**
by geography					
Ukraine	14,642	14,010	16,048	15,066	13,355
Russia & other	587	65	55	50	42
by age					
less than 30 years old	3,099	2,755	2,775	2,648	2,322
30-50 years old	8,440	7,822	8,597	7,647	7,615
more than 50 years old	3,690	3,498	4,731	4,821	3,460
by gender					
Male	11,050	10,048	11,307	11,148	9,897
Female	4,179	4,027	4,796	3,968	3,500
by level					
Managers	1,166	1,040	1,157	991	885
Specialists	3,081	3,141	3,841	3,959	3,665
Workers	10,982	9,894	11,105	10,166	8,847
by business division					
Oilseed Processing	2,750	2,455	2,592	2,501	2,258
Infrastructure and Trading	3,103	3,250	3,501	3,447	2,990
Farming	8,770	7,767	9,389	8,448	7,405
Headoffice and other	606	603	621	720	744
by employment contract, by region					
Permanent	14,602	13,626	15,659	14,724	12,794
Ukraine	14,020	13,561	15,605	14,674	12,752
Russia & other	582	65	54	7	0
Seasonal and temporary	627	449	444	392	603
Ukraine	622	449	443	392	603
Russia & other	5	0	1	0	0
by employment contract, by gender					
Permanent	14,602	13,626	15,659	14,724	12,794
Male	10,313	9,717	10,956	10,882	9,383
Female	4,289	3,909	4,703	3,842	3,411
Seasonal and temporary	627	449	444	392	603
Male	489	331	351	289	514
Female	138	118	93	103	89
by employment type, by gender					
Permanent	14,747	13,606	15,459	14,774	13,143
Male	10,586	9,828	11,029	11,002	9,774
Female	4,161	3,779	4,431	3,772	3,369
Seasonal and temporary	482	469	644	342	254
Male	216	220	278	169	123
Female	266	248	365	173	131
%-age of women in executive management	29.0%	40.0%	33.3%	25.0%	18.2%
%-age of women on Board of Directors	25.0%	25.0%	37.5%	37.5%	37.5%

Note: Differences are possible due to rounding. Headcount data include FTE (full-time equivalent) employees as at 30 June of the respective period

Sustainability continued

Case study: promoting employee engagement within Kernel

Purpose: increase employee engagement, cultivate entrepreneurial spirit within the company

Approach: we have several programs to reach the purpose

1. **Kernel Agribusiness League of Champions.** Since 2014, we annually award employees for the best achievements in our farming business. We organize a large gala performance inviting over 700 employees from all company farming clusters. We award the best machinery operators, best agronomists for each crop, best engineer team and other for both individual and team achievements. In FY2019, we provided 52 awards in 9 categories. The award ceremony is streamed online via corporate YouTube channel. Results of the champions are 15-30% higher than average for the company, and applied practices are widely adopted thereafter within the company.

   There are two important elements of the award. The average **monetary award** amounts to US$ 900 per employee, with total FY2019 award pool of over US$ 1 million. But quite often **public recognition** is even more important. We award the best teams and employees in front of their colleagues, widely cover the winners in our corporate media and social networks. Winners get the chance to award new winners at next year ceremony.

   We consider League of Champions as one of the most important projects for employee engagement and promotion of healthy competition in our farming business. Since FY2019, we organized similar events for other departments: oil extraction plants, silos, terminals, procurement and logistics.

2. While Champions' League awards the best achievements within the season, our **Super League** contest awards the best achievements among production teams on crushing plants, silos, terminals and the best farming cluster mechanized unit for each month.

3. In all our segments we launched the initiative **"We have an idea!"**, whereby each employee may propose efficiency improvement solutions and receive a monetary award if their solution is chosen for implementation by the initiative jury. The winners are announced in corporate media, on our Facebook page and honor boards, promoting an entrepreneurial spirit and attitude to work within the company. In FY2019, 112 initiators provided 192 ideas for productivity improvement, of which 98 were implemented. Average payment to initiators amounts to US$ 1.2 thousand.

as compared to FY2018, and we expect further compensation growth in FY2020.

Our **non-monetary** compensation includes additional paid leave in case of special family events, numerous events organized for employees' children, gifts, trainings and education programs, various discounts for employees (vaccination, tickets for sport, art and culture events etc.).

We fully comply with local labor legislation and pay all salary-related taxes and social contributions, despite somewhat losing competitive advantage versus those market players who are involved in shady operations.

Individual development system and career planning

In FY2019, we more than doubled the number of people participating in standardized performance appraisals, from 238 employees in FY2018 to 514 in FY2019. We expanded coverage of employees in our Oilseed Processing business, and also added selected employees from silo business.

All new employees attend several adaptation meetings, where managers from various departments present their activities. Such practice allows newcomers to better understand the business of the Company from various angles, thus making them more productive from their first days.

We have a special program, **Internal Kernel Chance**, designed to create a talent pool within the group for key positions. We carefully select participants through self-nomination,

Sustainability continued

professional testing, assessment of competencies and assessment of achieving efficiency indicators. Then we draw up a Development plan for soft and hard skills and a list of precision tasks and measurable goals. Over the course of the program we control the progress and, following the completion, create talent pool for appointment to vacant position and set tasks for the next period. In FY2019 74 employees participated in the program

Working with universities

In Ukraine, we cooperate with 28 specialized universities. All of them participate in "Kernel Chance" – a paid internship program for undergraduates and graduates allowing them to work in the company for several months under the mentorship of our professionals, learn theoretical and practical aspects of the selected area, and propose the area for optimization. Following the evaluation process, the best students get job offers from Kernel, and once employed, undergo intensive on-job training and rigorous mentoring, thus creating a ready-made career plan. Since the launch of the program in 2011, we employed 297 "Kernel Chance" alumni, the majority of whom have proven to be such a talented staff, that they earned a special "MBA for Challengers" internal training course. In FY2019, we received 61 applicants for the program.

For 90 people in FY2019, Kernel became the first workplace.

In FY2019, Kernel together with other Ukrainian agricultural companies, PWC Ukraine and the National University of Life and Environmental Sciences of Ukraine created a specialized 1.5-year master program in agriculture "Agrokebety" for up to 50 students. The purpose of the program is to prepare a new generation of agribusiness managers with a universal set of skills in agronomy, agriculture engineering and business management. After the curriculum is polished, the program is planned to be spread among other universities, thus improving the quality of higher education in agriculture in Ukraine. As a Gold Partner of the project, Kernel contributes funding to the program, provides tutors and mentors for students, and organizes internships for students.

Employee engagement

In FY2019, we have launched an annual AgriChallenge project, under which 78 participants of our corporate MBA program spent several days working outside office as blue collars at company's assets. As a result of the AgriChallenge, a number of initiatives on automation and process efficiency improvement have been collected: 10 - completed and 7 - are being implemented. Besides collected improvement initiatives, benefits of the project include improved cross-functional interaction at different levels, and participants enhanced understanding of operational activities. We plan to make such field visits regular with an increased number of participants.

To evaluate our impact, we hired an independent marketing and social research company InMind, which conducted the engagement study of employees in our Farming and Oilseed Processing segments and head office in 2017-2018. The study covered such topics as employee work satisfaction, loyalty and engagement, benchmarking Kernel results with market averages. Results demonstrated that Kernel employee satisfaction level is 19-24% above the market averages, employee loyalty is 12-61% higher than market averages, and employee engagement level exceeds the one of peers by 5-59% depending on the segment analyzed.

Occupational health and safety *(GRI 403)*

Operating in the region with historically poor work-related safety culture, we pay special attention to the improvement of occupational safety and remain committed to providing adequate working conditions in compliance with labor legislation at all Kernel sites.

We have a system of hazard identification, and ranking, which serves as a basis for creating a proper preventive system. All job positions in the company's subsidiaries are classified by risk exposure, which determines the frequency of compulsory safety trainings we regularly organize for all our employees. Workplaces and production processes are organized as a way to comply with safety requirements and regulations. Workers are fully equipped with required special work clothes and take a regular medical examination as prescribed in their role.

Being high-risk assets, all our crushing plants meet the requirements of OHSAS 18001 from which we plan to migrate to ISO 45001 in the near future, and we are working on implementing such requirements on our grain infrastructure assets as well. The ultimate goal is to have health and safety systems at most of our production units fully compliant with ISO 45001.

Our occupational health and safety framework, as well as numerous OHSAS 18001 requirements, are regularly inspected by third-party auditors as a part of more complex audits organized for various product certification purposes. Additionally, we had over 60 audits and inspections run by our internal team, members of which constantly undergo trainings under ISO 45001 and are supervised by a group level health and safety committee.

We declared FY2020 to be the year of occupational safety in our Infrastructure and Trading segment, allocating increased budgets for trainings and additional involvement of employees to the discussion of job safety. On top of that, selected KPIs on occupational health and safety were added to the performance assessment system for the key management of our assets: oilseed processing plants, silos and export terminals.

As a preventive measure to work-related injuries, we installed 26 alcohol detectors at entrances to our key infrastructure and

Work-related injuries *(GRI 403-9)*

	FY2015	FY2016	FY2017	FY2018	FY2019
Recordable work-related injuries	**19**	**16**	**14**	**16**	**17**
Oilseed Processing	2	2	2	1	-
Infrastructure and Trading	12	3	2	3	11
Farming	5	11	10	12	6
of which					
Fatalities	**1**	**1**	**-**	**4**	**1**
Oilseed Processing	-	-	-	1	-
Infrastructure and Trading	1	-	-	1	1
Farming	-	1	-	2	-
High-consequence work-related injuries (excl. fatalities)	**10**	**8**	**5**	**6**	**5**
Oilseed Processing	2	1	-	-	-
Infrastructure and Trading	6	2	2	1	3
Farming	2	5	3	5	2
Hours worked, million	29	30	31	29	28
Rate of recordable work-related injuries	0.66	0.53	0.45	0.55	0.60
Rate of fatalities as a result of work-related injury	0.03	0.03	-	0.14	0.04
Rate of high-consequence work-related injuries (excl. fatalities)	0.35	0.26	0.16	0.21	0.18

Injury data is collected in accordance with local regulatory requirements in Ukraine and Russia and does not include minor (first-aid level) injuries and does not include contractors working on-site. Injury rates are calculated as total accidents occurred over the period divided by the actual hours worked (in millions) over the period.

Sustainability continued

production assets in FY2019. We plan to install 26 more in FY2020.

By following this approach, we aim to reach a healthy and injury-free working environment for all Kernel entities.

Regretfully, we had one fatal accident in our Infrastructure and Trading segment, caused by breach of occupational safety regulation. The number of high-consequence work-related injuries (excluding fatalities) in FY2019 reduced to 5 from 6 a year ago. While high-consequence work-related injuries reduced in FY2019 as compared to FY2018, we understand that the current level is unacceptable, and we aim to further reduce it.

Talent development *(GRI 404-1, 404-3)*

	FY2015	FY2016	FY2017	FY2018	FY2019
Training expenditures, thousand US$	241	194	445	474	456
Training hours	135,426	150,612	83,943	78,477	92,073
Average hours of training per employee	8.9	10.7	5.2	5.2	6.9
by gender					
Male	9.7	12.8	5.6	5.3	7.3
Female	8.0	6.3	5.8	5.7	5.6
by employee category					
Managers	*n/d*	*n/d*	*n/d*	*n/d*	27.6
Specialists	*n/d*	*n/d*	*n/d*	*n/d*	13.7
Workers	*n/d*	*n/d*	*n/d*	*n/d*	2.0
% of workforce taking part in standardized performance appraisals	1.0%	1.3%	1.1%	1.6%	3.8%

Training and education *(GRI 404)*

We treat people as our key competitive advantage and extensively invest in the development of their hard and soft skills. We have numerous training and education programs for all our business units and for various professions and career bands. Our purpose is to continuously develop human capital within the organization.

Our education activities are structured in six different directions:

- **Professional education**, focused mainly on agribusiness, where we see the highest potential for implementing cutting-edge farming approached in our operations. Based at fully equipped modern training facilities located in several of our farming clusters, we organize module-based practical training programs taught by local and visiting trainers for our agronomists, engineers and other agribusiness specialists. Similar programs are also organized for our crushing and infrastructure divisions. Over 4.2 thousand participants were covered by professional education programs in FY2019.

  Additionally, we organize numerous experience-exchange trips in Ukraine and abroad for our specialists, including attendance of exhibitions and site visits.

- Ad-hoc **competency development trainings** tutored mostly by external trainers and organized depending on business needs. Over 0.5 thousand participants attended such programs in FY2019.

- **One-time educating activities** includes master-classes, conferences and seminars led by both internal and external trainers, as well as one-time courses for new managers. Almost 0.8 thousand participants subscribed for such activities in FY2019.

- **Corporate modular programs** include corporate MBA and other programs for executives. First initiated for agri managers and key specialists in 2013, corporate MBA program then emerged into 6 separate programs for oil production, logistics, agriculture and other divisions, educating 0.6 thousand participants in FY2019. Each program has two workshops per year consisting of case studies, team-based assignments and a final project, and is tutored by lecturers who teach at certified MBA programs. A special version of Corporate MBA is available to high potential specialists and members of our personnel reserve pool.

- **Training from internal coaches**. A pool of 31 internal coaches provides various 8-hour-average learning programs, promoting knowledge and experience sharing within the company. The program was launched in 2017 and proved to be extremely popular, with 1.2 thousand participants attending the trainings in FY2019.

- **Distance learning**, including e-courses, online-tests, webinars. The core element here is Kernel Hub – a distance learning and knowledge web/mobile platform. Developed in 2014, Kernel Hub allows any employee to take hard- and soft-skills learning e-courses, get access to accumulated in-house expertise and e-books from various fields of personal and professional development. In FY2018, we did a pivotal upgrade of the system aimed on further expansion of user base, whose number reached 1 thousand in FY2019.

Additionally, each year we organize a one-week on-campus executive education program in a high-ranked global business school for a group of our top-level executives.

We offer a **mentorship program,** which is designed to accelerate the adaptation of new employees and develop their hard skills. The program manager assigns mentors to new employees, and structures, formalizes and oversees mentor-employee relationships. Mentors get monetary incentives and proper training to improve their coaching skills and ability to provide feedback. First introduced in 2015, the program has proven to be a useful tool and successfully extended in FY2019, increasing the number of mentors from 74 in FY2017 to 81 in the reporting period.

In FY2018, we also launched a mentorship program designed for soft skills improvement. The program now includes 33 mentors and 21 mentees. Both categories received proper training before the launch of the program: workshops, training for mentors and master-classes for mentees.

Since 2014, we have made progress on implementing a unified approach to planning individual development, the coverage of which increased in FY2019 to 514 employees (vs 180 employees in FY2017), including employees from a central office, and management and key staff from regional branches. The assessment conducted as a part of this program is used to identify key areas for growth, improve career planning and provide better visibility of the ambitious talent pool, their training needs and prospects.

Within the company, we are creating an internal talent pool of highly skilled professionals who will not only share their expertise with their colleagues and help them grow professionally, but also be the leaders in Kernel's strategy and corporate culture.

In FY2019, we increased the number of trained employees by 12% y-o-y, to 8.3 thousand.

Local communities *(GRI 413)*

By leasing lands on territories of 617 local councils in Ukraine and having the majority of our employees working and living in rural areas, we strongly interact with local communities. Villages in Ukraine suffer from high poverty rates, accelerating urbanization, an a lack of access to basic services and infrastructure. As a reputable long-term partner, Kernel shares responsibility for the development of

Sustainability continued

neighboring local communities, so our purpose is to continuously contribute to the improvement of local communities' well-being in the regions of our farming operations.

Striving to better understand the needs of local communities and to get feedback about our social activities, we benefit from:

- **a team of 225 dedicated relationship managers** who serve as our representatives in rural regions, communicate with landowners, local officials and opinion makers, help with offering seasonal and full-time jobs in Kernel to people in rural regions. The team has proven to be useful and effective, and we treat it as one of our competitive advantages, as a limited number of other crop producers in Ukraine apply such practice;
- **a countrywide 24/7 toll-free hot line (0 800 50 10 59).** We received 1,450 calls in the reported period (17% growth y-o-y), up to 70% of which covers questions related to local communities, proving the efficiency of this tool;
- **a constant dialogue with local municipalities**.

Over the course of FY2019 our investments in the well-being of local communities totaled to US$ 2.3 million, comprising investments into infrastructure (US$ 625 thousand, excluding spending related to our business needs), schools and kindergartens, as well as charity donations and other social spending facilitating sport, art and leisure activities. All our support of local communities is structured through the charitable foundation 'Together with Kernel', which runs its own website razom.kernel.ua (in Ukrainian) aimed at promoting our social activities and serving as a point of contact with local stakeholders. In 2018, donations covered 905 villages, including 196 schools and 146 rural health posts which received support from Kernel to buy equipment and make repairs.

In FY2019 we launched a test project "**Health of communities**" in one of the regions where Kernel leases farmland. Since access to healthcare services there is limited, we acquired and fully equipped a medical car and hired a professional doctor, who regularly visits villages and provides medical services.

While keeping our contributions at a stable sizable level, we are changing the spending paradigm by moving from numerous donations covering day-to-day communities' needs to investing into larger projects with strong long-term spillover effect. As a part of that, we are progressing in the advancement of social entrepreneurship in rural regions. As an example, one of our farming clusters helps local municipalities create municipal enterprises, to which Kernel contributes with various machinery and equipment. Such enterprises then provide services to municipalities and local people. As of the date of this report, we helped to create 6 such enterprises with 33 new jobs created.

Social spending *(GRI 413-1)*
thousand US$

	FY2015	FY2016	FY2017	FY2018	FY2019
Total social spending	1,919	1,668	2,616	2,440	2,303
incl. infrastructure	1,025	749	1,049	760	625

Social spending includes only direct expenses by the Company.

Since 2011 we publish and freely distribute over 60,000 copies of a monthly newspaper to a rural audience, customized to the region of our operation. It covers local news, provides legal and other advice on various topics relevant for rural regions, presents available vacancies in the Company's subsidiaries together with career success stories, and discloses Kernel's social and business activities. Unprecedented by its scale, the project is especially valuable in remote rural areas where access to information is limited.

We also contribute to local communities' development indirectly, by creating jobs and opportunities there. At the same time, we understand that in the long-term our constant efficiency improvements in farming operations result in gradual reduction of the full-time headcount. Through our employees, we are spreading corporate culture, knowledge and skills, and leaving other positive footprints in rural areas we are unable to touch it in other ways. We are also disseminating best farming practices, which are quickly adopted by small neighboring farmers.

Finally, being a responsible taxpayer committed to full compliance with tax payments, we indirectly support local communities, as a sizable portion of the taxes we pay goes directly to local budgets. In FY2019, we paid US$ 62 million (UAH 1.7 billion) taxes, a substantial portion of which was directed to local budgets, supporting the well-being of local communities.

As a recognition of our efforts in FY2019, our charity fund "Together with Kernel" has won the National Charity Award "Charity Ukraine" in one of 23 nominations among 964 contestants.

Customer health and safety *(GRI 416)*

Being the largest global producer of sunflower oil, the largest crop producer in Ukraine and the largest grain exporter from Ukraine, we are committed to setting the benchmark in terms of product quality, guaranteeing the highest standards of goods we deliver to our customers. Our impact occurs across all our business lines, but most significantly in the oilseed-processing segment, where we touch the final customer with our bottled sunflower oil product. Other business lines deliver mostly commodity-type products or related services with globally recognized product quality characteristics.

We maintain a preventive food management system, targeted at addressing the risk of potential biological, chemical and physical hazards in production processes. It ensures the traceability of products across the entire value chain under our control.

All our oilseed processing plants are certified under the **ISO 22000** standard (integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application of procedures developed by the Codex Alimentarius Commission), under quality management system **ISO 9001**, and have **GMP+B1** certificates which ensure feed safety and quality for our protein meal production. Food safety systems on our bottling facilities are certified under **FSSC 22000**. Six our plants are certified under **Kosher**, two plants – under **Kosher Passover**, one plant under **Badatz** and **Badatz Passover**, and five plants obtained **Halal** certification. Three of our plants are **FDA**-registered, which opens the USA market to our bottled sunflower oil. All our crushing facilities obtained registration allowing for the export of sunflower meal to China, and one plant obtained the registration to sell sunflower oil to South Korea. Three of our companies were certified to sell sunflower meal to Belarus. Our Bandurka asset is certified under **ISCC EU**. Finally, our crushing plant in Poltava is certified under **IFS** and successfully passed **BSCI** audit (grade "A"), which confirmed the corporate social responsibility of our business and simplifies our access to retailers in EU.

Our export terminals are certified under **ISO 9001 and GMP+B3** (for operations with sunflower meal). Our laboratory in Poltava is accredited under **ISO 17025** standard, which allows us to widen the scope of the analysis conducted at our own facilities.

Our trading subsidiaries has **GMP+B3**, **GMP+B3, B4** and **ISCC EU** certification.

All our farming subsidiaries meet the **ISCC EU** requirements for corn, wheat, soybean, and

Sustainability continued

rapeseed production, covering 170 thousand hectares under corn and 34 thousand hectares under soybean. The standard indicates prerequisites set for biofuel supply chain sustainability under the Renewable Energy Directive.

In FY2019, we expanded the coverage of 7 existing certificates by adding more products under the certificates' umbrella and obtained 4 new certificates.

In FY2019, we initiated implementation of HACCP principles on 23 our grain silos. We expect to complete this project in FY2020, and also to extend the implementation for the remaining silos.

Our purpose is to deliver the best quality products to our customers and eliminate any incidents of non-compliance with regulations, as well as expand geographies of product export as a result of recognition of our customer health and safety approach.

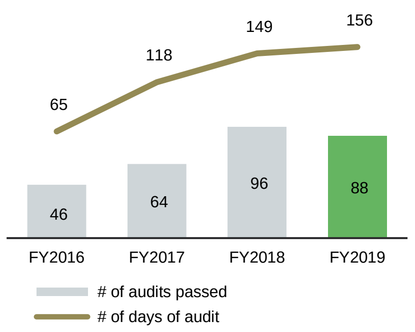
There were no incidents of non-compliance with regulations concerning the health and safety impacts of products and services within FY2019.

We supply bottled sunflower oil to reputable international retail chains (Auchan, Metro, Walmart, Maxima etc.), and sell grain and meal to big international soft commodity traders.

For FY2020, we plan to obtain registration for export of meal to Belarus at two more of our crushing plants, get IFS certificate for Prykolotne plant, and prolong BSCI certification at Poltava facility.

Our food safety and quality system is regularly tested by independent third-party auditors and constantly overseen by our internal food safety team. The audits' scope includes production, storage, distribution and supply processes. In FY2019, we passed 88 independent audits, taking in total 156 days.

Number of independent quality audits passed



Product quality and safety certificates and registrations

Standard	*Oilseed processing plants*								*Terminals*		*Trading*		Total
	Bandurka	Vovchansk	Kropyvnytskyi	Poltava	Prykolotne	BSI	Prydniprovskyi	Ellada	TransBulkTerminal	TransGrainTerminal	Kernel-Trade	Inerco	
ISO 9001	✓	✓	✓	✓	✓	✓	✓		✓				8
ISO 22000	✓	✓	✓	✓	✓	✓	✓	✓					8
GMP+B1	✓	✓	✓	✓	✓	✓	✓	✓					8
GMP+B3									✓	✓	✓		3
GMP+B3, B4												✓	1
BSCI				✓									1
FSSC 22000				✓	✓								2
Kosher	✓		✓	✓	✓		✓	✓					6
Kosher Passover				✓	✓								2
Badatz					✓								1
Badatz Passover					✓								1
Halal	✓		✓	✓	✓			✓					5
ISCC EU	✓										✓	✓	3
IFS				✓									1
China (meal)	✓	✓	✓	✓	✓	✓	✓	✓					8
Belarus (meal)			✓	✓			✓						3
Total	7	4	7	11	10	4	6	5	2	1	2	2	61

✓ Certificates obtained in FY2019
✓ Certificates with expanded coverage in FY2019

Sustainability continued

GRI Content Index

In accordance with the GRI Standards: Core option

GRI	Disclosure	Reference (page) or direct response
101: Foundation 2016		
102: General Disclosures 2016		
	1. Organizational profile	
102-01	Name of the organization	Kernel Holding S.A.
102-02	Activities, brands, products, and services	Our business model (p.7), Kernel at a Glance (p. 8), brands (p. 8), website
102-03	Location of headquarters	Kyiv, Ukraine
102-04	Location of operations	Key Kernel assets are in Ukraine (p.8) In Russia, Kernel has a 50% stake in Taman grain export terminal as a JV with Glencore, but we do not operate it solely for our benefit and have limited control over it. Therefore, this asset is not included in the scope of this Sustainability Report.
102-05	Ownership and legal form	Group structure (p. 61), Share capital and significant shareholdings (p. 61)
102-06	Markets served	• **Geographic locations:** sunflower oil sold in bulk (p. 15), bottled sunflower oil (p. 15), grain export markets (p.21) • **Sectors served**: food and agriculture • **Types of customers and beneficiaries**: global soft commodity traders and processors of agricultural commodities, feed compounders, retail chains and distributors.
102-07	Scale of the organization	• **Total number of employees**: (p. 48) • **Total number of operations**: three business segments: Oilseed Processing, Infrastructure and Trading, Farming (see p.7) • **Net sales**: key highlights (p.11) • **Total capitalization**: market capitalization (p. 10; for updated figures please see Kernel profile on Warsaw Stock Exchange website); credit metrics (p. 12) • **Quantity of products or services provided**: Kernel at a Glance (p. 8)
102-08	Information on employees and other workers	a. Human capital indicators (p. 48) b. Human capital indicators (p. 48) c. Human capital indicators (p. 48) d. Workers who are not employees perform insignificant portion of activities e. Significant variations in the numbers includes only seasonal variations of employees in Kernel farming business, which does not exceed 5% of total headcount. f. Data compiled by Kernel employee accounting system
102-09	Supply chain	• Our Business Model (p.7) • **Types of suppliers**: independent farmers-suppliers of grain and oilseeds, suppliers of inputs to crop production (seeds, fertilizers, crop protection agents, fuel), suppliers of other inputs (natural gas, energy)
102-10	Significant changes to the organization and its supply chain	**Significant changes to the organization**: Note 1 to the Consolidated Financial Statements (p. 79), Oilseed Processing (p. 13), Infrastructure and Trading (p. 19), Farming (p. 25) There were no significant **changes to** Kernel **supply chain** in FY2019.
102-11	Precautionary Principle or approach	The Group's entities apply the Precautionary Principle through maintaining compliance with the Law of Ukraine on Environmental Impact Assessment (EIA), that has been adopted in 2017 as a part of Ukraine's commitment to harmonize domestic legislation with the EU requirements, specifically DIRECTIVE 2011/92/EU. The law establishes principles and mechanisms of integration of environmental considerations into a decision-making process for economic activities that may have material environmental impacts. The EIA is carried out at a planning phase, prior to commencement of the activities (such as construction), and includes preparation and public disclosure of an EIA Report, public consultations, scrutiny and conclusion by the competent authority. In FY 2019, following requirements of the law: • 9 EIA procedures have been initiated by the Group's farming enterprises (2), crushing plants (5), and sea terminals (2) • 2 Environmental Impact Assessment reports for the Group's planned developments have been prepared by qualified consultants

Sustainability continued

GRI	Disclosure	Reference (page) or direct response
		• 1 Public consultation sessions have been held • 1 Conclusions On EIA have been issued by competent authorities, based on examination of EIA reports and inputs collected in the course of public consultations.
102-12	External initiatives	Kernel endorses the following externally-developed economic, environmental and social charters, principles, and other initiatives: • International Labour Organization's Fundamental Principles and Rights at Work; • United Nations Global Compact (UNGC); • United Nations Universal Declaration of Human Rights; • Carbon Disclosure Project (CDP); • Global Reporting Initiative (GRI).
102-13	Membership of associations	Kernel, through its subsidiaries, is a member of several industry associations in Ukraine, including: • European Business Association (incl. Logistics Committee); • American Chamber of Commerce; • Ukrainian Grain Association; • Ukrainian Agrarian Association; • U.S.-Ukraine Business Council; • Federation of Oils, Seeds and Fats Associations; • Grain and Feed Trade Association; • UkrOliyaProm; • Ukrainian Network of Integrity and Compliance.
	2. Strategy	
102-14	Statement from senior decision-maker	Chairman's speech (p. 5) Our approach (p. 39)
	3. Ethics and integrity	
102-16	Values, principles, standards, and norms of behavior	Our values and principles (p. 41) Business ethics and compliance section on our website
	4. Governance structure	
102-18	Governance structure	a. Governance structure of the organization (p. 61) b. Company does not have a separate committee responsible for decision-making on economic, environmental, and social topics on the Board of Directors level. Respective responsibilities are attributable to people in the management team.
	5. Stakeholder engagement	
102-40	List of stakeholder groups	Key stakeholder groups and engagement channels (p.41)
102-41	Collective bargaining agreements	Approximately 94% of total employees were covered by collective bargaining agreements as of 30 June 2019
102-42	Identifying and selecting stakeholders	'Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' on p. 41. Although the frequency of our engagement varies, we are intent on staying engaged with all our stakeholders in areas of mutual interest
102-43	Approach to stakeholder engagement	Key stakeholder groups and engagement channels (p.41)
102-44	Key topics and concerns raised	Key stakeholder groups and engagement channels (p.41), Stakeholder inclusiveness (p.41). Also discussed throughout this report.
	6. Reporting practice	
102-45	Entities included in the consolidated financial statements	Notes 1 to the Consolidated Financial Statements (p.79). Certain sustainability information does not include data for all entities, which is highlighted in each case
102-46	Defining report content and topic Boundaries	An explanation of the process for defining the report content and the topic Boundaries (p.41). Implementation of the Reporting Principles for defining report content (p. 41): • Stakeholder Inclusiveness • Sustainability Context • Materiality • Completeness • Accuracy • Balance • Clarity • Comparability

Sustainability continued

GRI	Disclosure	Reference (page) or direct response
		• Reliability • Timeliness
102-47	List of material topics	Topic Boundaries (p.42)
102-48	Restatements of information	Restatement carried out in the following standards: • GRI 305-1, 305-2 Emissions Reason – change in calculation methodology • GRI 302-1 Energy Reason – change in calculation methodology • GRI 301-1 Materials Reason – Change in historical data methodology for Associated process materials / solvents used in oilseed processing
102-49	Changes in reporting	There were **no significant changes** from previous reporting periods **in the list of material topics and topic Boundaries**.
102-50	Reporting period	Financial year 2019 ended 30 June 2019. See also Note 1 to the Consolidated Financial Statements (p. 79).
102-51	Date of most recent report	22 October 2018, as a sustainability section of the FY2018 annual report
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Michael Iavorskyi, ir@kernel.ua; sustainability@kernel.ua
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI content index	p.54
102-56	External assurance	FY2019 Sustainability report has not been externally assured. The Company obtained independent external assurance report for FY2015 Sustainability report. The Company expects to obtain independent assurance report for FY2020 Sustainability report.

Sustainability continued

GRI	Disclosure	Reference (page) or direct response
Material topics		
	Economic performance	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Economic performance (p. 43), Strategy (p. 9), Topic boundaries (p. 42). Also discussed throughout the strategic report.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
201: Economic performance 2016		
201-1	Direct economic value generated and distributed	Economic value generated, distributed and retained (p. 43)
201-4	Financial assistance received from government	Note 27 'Other operating income' to the Consolidated Financial Statements (p. 115).
	Indirect Economic Impacts	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Indirect economic impact (p. 43), Local Communities (p. 51), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
203: Indirect Economic Impacts 2016		
203-1	Infrastructure investments and services supported	Local Communities (p. 51)
203-2	Significant indirect economic impacts	Indirect economic impact (p. 43)
	Anti-corruption	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Anti-corruption (p. 43), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
205: Anti-corruption 2016		
205-1	Operations assessed for risks related to corruption	a. All company's operations are assessed for risks related to corruption. Following the assessment, company identified 19 risk areas assigning each specific inherent risk level; b. Significant risks related to corruption identified through the risk assessment, among other, include: • obtaining undue benefits, which leads to financial losses and may affect the reputation of the Company; • conflict of interest; • combination of work in the Kernel Group of Companies with work for another company or entrepreneurial activities.
205-2	Communication and training about anti-corruption policies and procedures	a. Kernel anti-corruption policies and procedures have been communicated to **all** Kernel governance body members; b. Kernel anti-corruption policies and procedures have been communicated to **all** Kernel employees; c. Kernel anti-corruption policies and procedures have been communicated to **all** Kernel business partners. We have a mandatory anti-corruption clause in all agreements with business partners, and suppliers are communicated with our Code of interaction with suppliers; d. All Kernel governance body members have received training on anti-corruption; e. Total number of employees that have received anti-corruption trainings since 2018: 2,643 (19.7% of total number of employees). All that employees are based in Ukraine. Breakdown by category: Executive Management Team – 11; heads of departments and structural subdivisions – 90; Heads of lines and functions – 560; Employees of departments / lines / functions exposed to high compliance risk – 482; Other employees – 1,500;
205-3	Confirmed incidents of corruption and actions taken	a. 74 confirmed incidents of corruption in FY2019 (mostly thefts and frauds by abuse of position); b. Total number of confirmed incidents in which employees were dismissed or disciplined for corruption; c. There were 25 confirmed incidents in FY2019 when contracts with business partners were terminated or not renewed due to violations related to corruption; d. We are not aware of public legal cases regarding corruption brought against the Kernel group and its employees during FY2019.

Sustainability continued

GRI	Disclosure	Reference (page) or direct response
		Materials
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Materials (p. 44), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
301: Materials 2016		
301-1	Materials used by weight or volume	Principal materials used (p. 45)
		Energy
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	The Company is not subject to any government or industry-specific policy for energy use, while the renewable energy produced from biomass at the Company's sites falls under the legal incentive scheme (feed-in tariff). Management approach disclosed in 'Energy consumption within the organization' (p.45), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
301: Energy 2016		
302-1	Energy consumption within the organization	a-g. Energy consumption (p. 45)
302-3	Energy intensity	a. Energy intensity (p. 45); b. Organization-specific metric (the denominators) chosen to calculate the energy intensity ratios: volumes of sunflower seeds processed (for Oilseed Processing Segment), ton-percentages of grain dried (for Infrastructure and Trading Segment) and volumes of grain and oilseeds produced (for Farming segment); c. All the energy consumed by respective business segment (fuel, electricity, heating etc.) was included to calculate the respective energy intensity ratios; d. All the ratios use energy consumption within the organization;
		Biodiversity
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Biodiversity (p. 46), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
304: Biodiversity 2016		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Biodiversity (p. 46)
		Emissions
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Environment (p. 43), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
305: Emissions 2016		
305-1	Direct (Scope 1) GHG emissions	a. Emissions (p. 46) b. Emissions (p. 46) c. Emissions (p. 46) d. Base year not applicable e. Emissions (p. 46) f. Emissions (p. 46) g. Emissions (p. 46)
305-2	Energy indirect (Scope 2) GHG emissions	Greenhouse gas emissions (p. 47)
305-4	GHG emissions intensity	Greenhouse gas emissions (p. 47)
		Employment
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Employment (p. 48), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
401: Employment 2016		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	a. Standard benefits for full-time employees in Ukraine (p. 48). Same benefits are provided to temporary and part-time employees. b. Ukraine is considered as a significant location of operations for the purposes of GRI 401-2 disclosure.

Sustainability continued

GRI	Disclosure	Reference (page) or direct response
	Occupational health and safety	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Occupational health and safety (Oilseed Processing) (p. 18) Occupational health and safety (Infrastructure and Trading) (p.24) Occupational health and safety (Farming) (p.28) Occupational health and safety (p. 48), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
403: Occupational Health and Safety		
403-1	Occupational health and safety management system	a. Kernel has implemented an occupational health and safety management system (OHSMS), in accordance with Ukrainian regulatory requirements. All crushing plants have implemented OHSMS in line with OHSAS 18001 Standard; b. OHSMS covers **all** Kernel employees, activities and workplaces.
403-9	Work-related injuries	a. Work-related injuries (p. 50). Main types of work-related injuries include slips, trips and falls; b. Not applicable; (insignificant number of such workers) c. The work-related hazards that pose a risk of high-consequence injury are mostly physical, as these types of hazards contributed most high-consequence injuries historically and in the reporting period. Hazards are determined reactively as a result of high-consequence injury. Most such cases occur either because of non-adherence to occupational health and safety instructions, or because of personal negligence. Therefore, actions taken to minimize risks of this hazard include more intense training and instructions on occupational health and safety; d. Actions taken to eliminate other work-related hazards include, among others, installation of alcohol detectors in all company's industrial and infrastructure assets and re-design of business processes with high potential risks; e. Rates have been calculated based on 1,000,000 hours worked; f. No workers have been excluded from this disclosure; g. No other contextual information necessary to understand how the data have been compiled.
	Training and education	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Training and education (p. 51), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
404: Training and Education		
404-1	Average hours of training per year per employee	Training and education (p. 51)
404-2	Programs for upgrading employee skills and transition assistance programs	a. Training and education (p. 51); b. Transition assistance programs provided to facilitate continued employability are described in section "Training and education" (p. 51). We do not provide any specific transition assistance programs to facilitate management of career endings resulting from retirement or termination of employment, apart from one-off severance payment or retirement benefit.
404-3	Percentage of employees receiving regular performance and career development reviews	Talent development (p. 51)
	Local communities	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Local communities (p. 51), Topic boundaries (p. 42).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
413: Local Communities 2016		
413-1	Operations with local community engagement, impact assessments, and development programs	Local communities (p. 51), Social spending (p. 52). We estimate that more than half of our operations (by labor count) are actively involved in local community engagements, though the frequency and depth of engagement differs by region.
413-2	Operations with significant actual and potential negative impacts on local communities	Kernel is not aware of any significant negative impacts on local communities as a result of its activities.
	Customer health and safety	
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Customer health and safety (p. 52), Topic boundaries (p. 42).
103-2	The management approach and its components	

Sustainability continued

GRI	Disclosure	Reference (page) or direct response
103-3	Evaluation of the management approach	
416: Customer Health and Safety 2016		
416-1	Assessment of the health and safety impacts of product and service categories	We assess health and safety impacts for improvement for all our significant products.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	There were no incidents of non-compliance with regulations and/or voluntary code concerning the health and safety impacts of products and services within the reporting period;

Corporate Governance

Main Characteristics of Kernel

Group structure

Kernel Holding S.A. is a public limited liability company (société anonyme) incorporated on 15 June 2005 under the laws of the Grand Duchy of Luxembourg (RCS Luxembourg B109173) and having its registered address 19 Rue de Bitbourg, L-1273 Luxembourg. Kernel Holding S.A. is a holding entity for the group of companies (altogether 'the Group' or 'the Company' or 'Kernel') and has its share listed on the main market of the Warsaw Stock Exchange (Bloomberg ticker: KER PW) since November 2007. The list of primary subsidiaries is disclosed on page 79 of this report.

Share capital and significant shareholdings

The issued capital of the Kernel Holding S.A. as of 30 June 2019 consisted of 81,941,230 fully paid ordinary single class shares, all ranking pari passu and having equal voting rights and no special control rights attached to any of the shares.

According to notifications received by the company, three shareholders owned more than 5% of Company's shares as of 30 June 2019:

- Namsen Limited, a legal entity directly controlled by the Chairman of the Board of Directors and founder of the business, Mr. Andrii Verevskyi, owning 39.93% of shares;
- Julius Baer Group, controlling between 5% and 10%;
- Cascade Investment Fund, holding between 5% and 10%;

Ownership structure

	Shares owned	%-age owned
Namsen Limited	32,716,775	39.93%
Other[1]	49,224,455	60.07%
Total	**81,941,230**	**100.00%**

Note 1: including two shareholders controlling between 5% and 10% of total shares: Julius Baer Group and Cascade Investment Fund.

The company held no treasury shares as of 30 June 2019.

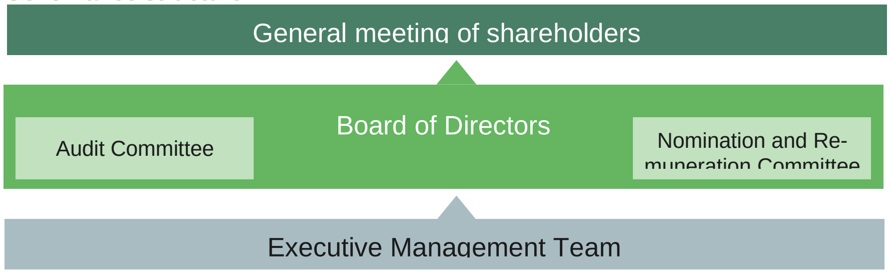
As of 30 June 2019, there were 5,150,000 outstanding options granted to the senior managers of the Group, of which 3,875,000 were vested (3,000,000 options at PLN 75 strike price and 875,000 options at PLN 29.61 strike price). The remaining 1,275,000 options (at PLN 29.61 strike price) become vested in December 2019. Each option provides for the right to acquire one ordinary share of the Company.

Corporate governance framework

Kernel is committed to high standards of corporate governance and is subject to the corporate governance framework determined by:

- the corporate law of the Grand Duchy of Luxembourg as a place of incorporation (including voluntary compliance with most of the provisions of the X Principles of Corporate Governance of the Luxembourg Stock Exchange); and
- corporate governance rules set out in the Best Practices of Warsaw Stock Exchange Listed Companies 2016 ("Best Practices") as a place of shares listing. Kernel complies with most of the standards of "Best Practices", except for the recommendations included in items IV.R.2 and the detailed principles included in items I.Z.1.16, I.Z.1.20, IV.Z.2, VI.Z.4. At the same time, the Board of Directors decided that the recommendations and detailed principles, marked as items II.Z.11, III.Z.6. and IV.R.3 do not apply to the Company. The respective statement of compliance is published on Company's website under section "Board of Directors and Corporate Governance".

Governance structure



Key internal documents laying out the principles of corporate governance are Kernel Holding S.A. Articles of Association and Corporate Governance Charter, both available on Company's website.

In FY2019, Kernel's efforts in enhancing corporate governance practices were recognized by EBRD and EIB, as both institutions approved loans to Kernel following the very granular inspection of corporate governance, compliance and environmental practices adopted by the company.

General Meeting of Shareholders

General Meeting of Shareholders is the highest governance body of the Company, having the broadest power to order, carry out or ratify all acts relating to the operations of the Company. All the details about organizing and functioning of the general meeting of shareholders are listed in the Articles of Association and Corporate Governance Charter, both published on Company's website.

The annual general meeting held on 10 December 2018:

- approved the management report of the Board of Directors, consolidated financial statements of the Company and standalone annual accounts of the Kernel Holding S.A., and the report of the independent auditor for the year ended 30 June 2018;
- granted discharge to the directors of the Company for the exercise of their mandates in FY2018;
- renewed the mandates of seven of the directors and approved the fees of executive and non-executive directors for the year ended 10 December 2019;
- granted discharge to the independent auditor and reappointed Deloitte Audit as independent auditor of the Company for one-year term mandate.

There were no extraordinary meetings of shareholders of Kernel Holding S.A. in FY2019.

The next annual general meeting of shareholders is scheduled for 10 December 2019.

All the documents and resolutions adopted by the shareholder meetings are available on Company's website.

Board of Directors

Company is managed by the Board of Directors ("the Board"), which is the ultimate decision-making body, except for the powers reserved for the general meeting of shareholders by law, the Articles of Association and the Corporate Governance Charter. The Board is vested with the broadest powers to perform all acts of administration and disposition in compliance with the Company's corporate purpose. The Board resolves to take its decisions objectively, in the best corporate interest of the Company. The Board is collectively responsible and accountable to the shareholders for the proper conduct of the business, the long-term success of the Company, the effectiveness of the reporting system and the corporate governance framework.

Corporate Governance continued

Effective and experienced leadership

Kernel Holding S.A. is governed by the Board of Directors composing of eight members, including three non-executive independent directors. Biographical details of the Board as at 30 June 2019 are as follows (with further details available on Company's website).

Andrii Verevskyi, 45

Chairman of the Board, Founder

Tenure: 12 years
Skills and experience:
Founded the Group's business in 1995, holding various executive positions within the Group. Presently, he oversees the strategic development and overall management of the Group.

Board Committee:
Nomination & Remuneration Committee

Nathalie Bachich, 45

Non-executive independent director

Tenure: 3 years
Skills and experience:
With over 15 years' experience in international investment banking, Nathalie spent the majority of that time in Equity Capital Markets.

Board Committee:
Nomination & Remuneration Committee, Audit Committee

Andrzej Danilczuk, 56

Non-executive independent director

Tenure: 12 years
Skills and experience:
His rare know-how combines with a strong understanding of western corporate culture and modus operandi and a deep knowledge of local culture and business practices in the Black Sea region.

Board Committee:
Chairman of the Nomination & Remuneration Committee, Audit Committee

Sergei Shibaev, 60

Non-executive independent director

Tenure: 7 years
Skills and experience:
Occupied different managerial roles with international consultancy and financial services firms including PWC, ING Barings, Deloitte & Touché and Roland Berger, among others

Board Committee:
Chairman of the Audit Committee

Yevgen Osypov, 43

Chief executive officer

Tenure: 2 year
Skills and experience:
Mr. Osypov is responsible for the day-to-day management of the Company's subsidiaries, execution of strategy, budgets, and Board decisions. He completed several educational programs in Harvard Business School.

Board Committee:
None

Anastasiia Usachova, 48

Chief financial officer

Tenure: 12 years
Skills and experience:
Ms. Usachova is responsible for the overall financial management of Kernel. She holds an MBA degree from IMD (Switzerland).

Board Committee:
None

Viktoriia Lukianenko, 44

Chief legal officer

Tenure: 12 years
Skills and experience:
Ms. Lukianenko is responsible for providing legal advice and counseling in all aspects of Kernel's business operations.

Board Committee:
None

Yuriy Kovalchuk, 38

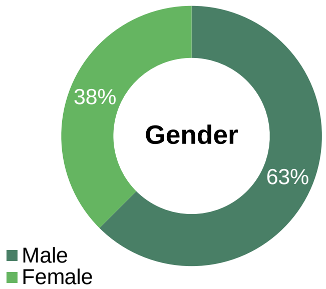
Corporate investment director

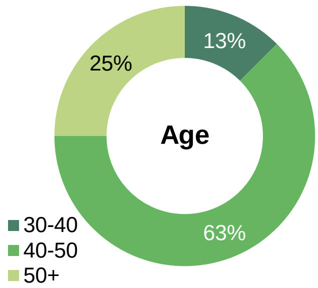
Tenure: 8 years
Skills and experience:
Mr. Kovalchuk contributes to strategy formulation and is responsible for the execution of investment projects. Yuriy has been a Fellow with Association of Chartered Certified Accountants (FCCA), since September 2013.

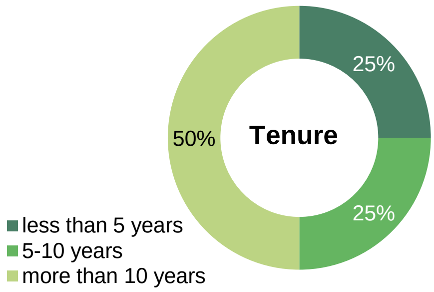
Board Committee:
None

Corporate Governance continued

Composition of the Board of Directors as of 30 June 2019







The responsibilities of the Board include approval and review of strategies and policies, governance of the Company and management supervision. More detailed responsibilities are specified in Company's Corporate Governance Charter.

All Directors are equally accountable for the proper stewardship of the Company's affairs. The non-executive directors have a responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the Directors to promote the success of the Company for the benefit of its shareholders, while having regard to, among other matters, the interest of employees, the fostering of business relationships with customers, suppliers and other stakeholders, as well as promoting the impact of the Company's operations on the communities and the environment in which the business operates.

The Board approves every investment, divestment, acquisition, disposal and funding transaction exceeding in value 5% of average 12 months trailing daily market capitalization of the Company.

Board composition

The Board is composed of 8 directors, of which 5 executive (including a Chairman) and 3 non-executive independent directors. There were no changes in the composition of the Board in FY2019.

The non-executive directors are experienced and influential individuals from a range of industries and countries with an appropriate mix of skills and business experience to contribute to the proper functioning of the Board and its Committees.

The mandate of the Chairman expires at the annual general shareholder meeting in December 2020. The mandates of all other directors expire at the annual general shareholder meeting in December 2019.

Nomination and Remuneration Committee regularly review the composition of the Board to ensure that the Board has an appropriate, diverse and balanced mix of competences, skills, experience, background and knowledge of the Company's affairs. Key principles governing the processes of nomination, appointment and re-election of Directors are described in the Company's Corporate Governance Charter, published on Kernel's website.

Board diversity

Diversity among Directors makes the Board high-performing and efficient, serving the best interests of the Company's key stakeholders. The Company benefits from nationality, gender, age, experience and industry expertise diversity among Directors. The diversity within the Board is enhanced by Kernel's Equality, Diversity and Inclusion Policy, which was adopted in 2018. The policy is on constant basis considered by the Nomination and Remuneration Committee of the Board and Executive Management Team when making employee and management appointment decisions.

Directors consider the diversity among Board members while evaluating the Board's effectiveness.

During the annual Board evaluation process conducted in FY2019, most directors recognized the sufficient range of expertise, attitudes and external relationships within the Board members.

Directors' independence

Each non-executive director annually provides the other members of the Board with a statement of meeting the independence criteria indicated in Annex II of the European Commission Recommendation of 15 February 2005. The statements are published on Company's website.

As per statements received in August 2019, all non-executive directors meet the independence criteria.

Conflict of interest

A Corporate Governance Charter adopted in May 2018 pays special attention to disclosing conflicts of interests among Board members. Any Director having a direct or indirect conflict of interest must inform the Board thereof and shall refrain from deliberating or voting on the relevant item of the agenda. Any conflict of interest should be properly declared and documented.

Members of the Board shall refrain from professional or other activities which might cause a conflict of interest or adversely affect their reputation as members of the governing bodies of the Company, and where a conflict of interest arises, immediately disclose it.

The following non-exhaustive list is an example of the duties that shall be followed by the Directors:

- duty not to accept any benefits from third parties, which may give rise to a personal financial interest and/or gain;
- duty to disclose any interest in a proposed transaction or arrangement with the Company and a separate and independent duty to disclose any arrangement with the Company; and
- duty to avoid conflicts of interest unless authorized.

There were no cases of conflict of interest among Directors declared over the course of FY2019.

As of August 2019, non-executive directors occupied the following positions in companies outside the Group:

- Mr. Shibaev is an Independent Director and Audit Committee Chair at RESO Garantia, an Independent Director and Audit Committee Chair at Bank Zenit, an Independent Director and Audit Committee Chair at Katren.
- Mr. Andrzej Danilczuk is a Director at Koepta Brokers Sarl and a Director at Agroil S.A.
- Ms. Nathalie Bachich does not occupy positions in companies outside the Group.

Corporate Governance continued

Board committees

The Board has two committees appointed amongst its members:

- Audit Committee;
- Nomination & Remuneration Committee (hereinafter "N&R Committee");

The Board believes this structure is sufficient enough to ensure its efficient performance of duties and tasks, as certain specific matters are heard first by specialized bodies with explicit professional experience, and only then considered by the Board.

Following the regular annual review in FY2019, the Board does not see a necessity to establish new committees.

Board self-evaluation

Following the best standards of corporate governance, the Board regularly undertakes a formal self-evaluation of its performance and effectiveness as a collective body, operating efficiency, composition, organizational structure, compliance with the rules of good government and relationship with the executive management and other stakeholders. The survey conducted in FY2019 identified no major issues with regards to the items mentioned above. Board recognized the quality and timeliness of the information provided to the Board, quality of Board practices and meetings, appropriate composition of the Board, adequate Board roles and responsibilities, proper established committee practices etc.

Corporate secretary and independent advice

All directors can consult with the corporate secretary. The corporate secretary is available to provide assistance and information on governance, corporate administration and legal matters as appropriate. Directors may also seek advice on such matters, or on other business-related matters relating to the performance of his duties, directly from independent professional advisors, if so desired, at the Company's expense.

Board activity report

The Board held 7 scheduled meetings in FY2019, of which 2 where physical meetings in Luxembourg in 5 meetings were via teleconference, with an average attendance rate of 84%.

Typically, at each meeting, the Chairman of the Board, together with the Chief Financial Officer, report on strategy implementation, present recent developments and management accounts. The workplan of the Board for FY2019 included, among others, the following items:

- review of Company's mid-term strategy and approval of budget;
- review and approval of annual, semi-annual and quarterly accounts; review of operations updates;
- review of management accounts and financing transactions;
- review of the progress of implementation of corporate governance best practices;
- supervision of the risk management process: approval of top risks for the Company and mitigation plan, review of reports on top risks mitigation activities; update on implementing the risk management system; review of risk limits. In particular, in FY2019 the Board approved Kernel Risk Management Policy;
- updates from Audit Committee and N&R Committee;
- various ad-hoc items (M&A updates, updates on market situation, Avere performance review).

Over the course of FY2019, the Board also approved financing and M&A transactions and amended Corporate Governance Charter via circular resolutions.

Remuneration of the Board of Directors

US$ thousands

	FY2015	FY2016	FY2017	FY2018	FY2019
Chairman of the Board	117	200	200	250	200
Three non-executive Directors	250	264	269	268	260
Four executive Directors	50	44	40	50	40
Total Board of Directors	**417**	**508**	**509**	**568**	**500**

Excluding reimbursement of travelling expenses incurred by Directors in performing their duties

Accountability and audit

Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the strategic report on pages 7-29. The financials of the group, its liquidity position, borrowing facilities and applicable terms are described in the financial statement's accounts.

Current economic conditions have fostered the development of a number of risks and uncertainties for the Company, in particular in regard to global soft commodity prices and harvest expectations. Details can be seen in the Risks and Uncertainties section of this report, pages 30-34.

Directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about the future trading and production performance, as well as debt requirements.

The results show that the Company should be able to operate within the levels of its available capital. Therefore, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the annual report and accounts.

Takeover disclosure

The Company's shares are in electronic form and are freely transferable, subject only to the provisions of law and the Company's Articles of Association. There are no agreements between the Company and its employees or directors providing for compensation of the loss of office or employment (whether through resignation, purported redundancy, or otherwise) that would occur because of a takeover bid. Options granted under management incentive plans incorporate accelerated vesting in the event of a takeover.

The Company in the ordinary course of business has entered into various agreements with customers and suppliers around the world. Some of the Company's borrowing agreements, which either by their nature or value may represent significant agreements, do provide for the right of termination upon a change of control of the Company. The commercial sensitivity of these agreements prevents their details from being disclosed.

Except for the preceding disclosure, there are no other significant agreements to which the Company is a party that take effect, alter, or terminate upon a change of control following a takeover of the Company.

Audit Committee

The Audit Committee is a continuously operating collective body of the Board. It consists of three members including a chairman, all of whom are non-executive independent directors. The members have competence in accounting and audit, and the competence relevant to the sector in which the company is operating. The Audit Committee is fully capable of overseeing the affairs of the Company in the areas of adequacy and effectiveness of the Kernel's system of financial reporting, internal controls and risk management.

The functioning and key responsibilities of the Audit Committee are described in the Articles of Association, and further specified in the Corporate Governance Charter. Both

Corporate Governance continued

documents available on Company's website.

Audit Committee activity report

The Audit Committee had 5 meetings in FY2019, of which 2 were physical meetings in Luxembourg and 3 were meetings via teleconference. Most members of the Audit Committee attended all the meetings of the committee over the reported period. Chief Executive Officer, Chief Financial Officer, head of internal audit and compliance officer were invited to all the meetings of the Audit Committee. CFO attended all the meetings of the Audit Committee, head of internal audit and compliance officer attended 80% of meetings each. All the meetings were also attended by representatives of the Company's external auditor, Deloitte. During its meetings, Audit Committee had one closed session with the external auditor and one with the internal auditor to communicate without the presence of executives. Additionally, decisions of the Audit Committee were taken via 5 circular resolutions signed over the course of FY2019.

To execute its key functions and discharge its responsibilities as outlined in the Corporate Governance Charter, the Committee, during FY2019:

- assisted the Board in **monitoring the reliability and integrity of the financial information provided.** The Committee reviewed the quarterly, semi-annual and annual financial reports, reviewed critical accounting policies and management estimates, among other things;
- conducted **oversight over the performance of the internal audit function**, including the review of the internal audit activities and action plans and reports. To further enhance the internal audit function, Audit Committee approved the Internal Audit Charter. The committee had one meeting with the Head of Internal Audit of the Company without the presence of executives;
- conducted **oversight over the performance of the external audit function** including review of the annual audit plan and scope of semiannual accounts review and areas of focus, review of auditor reports, presentations and additional auditors report, management letter review. The Audit Committee had one face-to-face discussion with the external auditors in the absence of executives. The Audit Committee monitored the fee cap of non-audit services, and review of the contract with auditors (including review of expected fees for the audit and consulting services) and independence of external auditor;
- conducted **oversight over the risk management function**. The Audit Committee assisted the Board in the discharge of its risk management responsibilities, monitoring and examining the effectiveness of the Company's internal control and risk monitoring system; reviewing top risks, risk mitigation plans and results of risk mitigation activities, overseeing group risk management procedures; reviewing trade management position risk mitigation activities (including Avere). The Audit Committee also reviewed Kernel group-wide business continuity plan (including Avere IT business continuity plan);
- conducted **oversight over the compliance function**, including implementation of the Corporate Governance Charter provisions, compliance with good corporate governance practices with respect to the functioning of the Audit Committee, and reviewing reports from Kernel Compliance Officer on the progress achieved in the enhancement of Company's compliance function;
- **discussed various ad-hoc items**, including communications with Commission de Surveillance du Secteur Financier.

After each meeting, the chairman of the Audit Committee reports to the Board on key matters.

Over the course of FY2019 Audit Committee conducted annual self-evaluation procedure, which indicated potential areas of Audit Committee performance and activities improvement and resulted in clear action plan based on results of the self-evaluation procedure.

Exercising its right to obtain independent professional advice, granted by the Corporate Governance Charter, Audit Committee received in FY2019 professional advice from legal advisor with respect to correspondence of Audit Committee activities to the EU audit market reform.

Internal audit

As an integral part of the system of internal control, the Company established an internal audit division headed by an experienced professional reporting directly to the Audit Committee and to the CEO of the Company as a chairman of the Risk Committee within the Executive Management Team and working closely with the Board.

The Internal Audit shall provide independent and objective assurance and consulting services in the areas of internal controls and risk management, aimed at improving the operations and performance of the Company and its subsidiaries.

The independence rules defined in generally accepted international standards of the professional internal audit practice apply to members of internal audit division.

Main responsibilities of internal audit are:

- to maintain continuous support for the Directors on the operational risk management, internal controls and mitigation activities by undertaking regular or ad hoc reviews;
- to provide independent and objective evaluation of effectiveness and efficiency of internal control systems within operational framework of the Company;
- to assist personnel and management of the Company in improving the effectiveness of risk identification and internal control systems in operations; advise and consult them regarding how to effectively execute their responsibilities, including recommendations on specific improvements in policies and procedures; and
- to assist in open and two-way communication among internal and external auditors, management and personnel, Audit Committee and the Board.

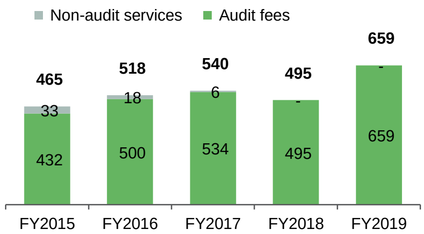
External auditor

Deloitte Audit S.a.r.l. ("Deloitte"), with its registered office at 560 rue du Neudorf, L-2220 Luxembourg and register number B 67 895 with the Luxembourg Trade and Companies' Register, acts as an external auditor of Kernel's consolidated and standalone accounts since FY2012. Annual general meeting of shareholders held on 10 December 2018 appointed Deloitte as Kernel's external auditor also for the year ended 30 June 2019. In compliance with the EU statutory audit legislation requirement for key audit partners to rotate after a maximum of seven years, new Deloitte partners led Kernel's external audit process starting from FY2019.

Deloitte attended all four meetings of the Audit Committee in FY2019, presenting the results of the annual audit, additional auditor's report, management letter, review of the semi-annual accounts and audit plan for FY2019 among other things. Audit Committee also had one meeting with Deloitte without presence of the executives. The Audit Committee review and monitor the level of fees paid by the Company to external auditor, preapprove permissible non-audit services and monitor the cap on non-audit fees.

Audit fees in FY2019 amounted to US$ 659

External auditor's fees
US$ thousand



Corporate Governance continued

thousand, as compared to US$ 495 thousand in FY2018. Like in FY2018, external auditors were not providing Kernel with non-audit services in FY2019.

Nomination and remuneration

Compensation principles

The Company's compensation policies and management incentive plans reward performance, sustainable growth and long-term value creation for all stakeholders. Remuneration programs for the Board and Executive Management Team are competitive, internally equitable and straightforward.

The compensation of the Board for execution of Directors' duties consists of fixed fees, without any performance-based variable component, pension, retirement or similar benefits provided by the Company. This ensures a certain degree of independence when it comes to fulfilling the Board's duties towards the Executive Management Team. On top of that, Directors are reimbursed for certain travel, hotel and other expenses related to the exercise of their duties. The fees paid to the independent directors and the fees paid to executive directors are approved at the annual general shareholders' meeting.

Compensation of the Executive Management Team is based on a pay-for-performance principle, rewarding sustainable growth and long-term value creation for shareholders. A significant portion of remuneration comes from a variable part depending on Company's performance. For details, please see the figure below.

The remuneration of the Executive Management Team is proposed by the Chairman of the Board in accordance with the remuneration policies and incentive plans drawn up by the N&R Committee and is reviewed and, if necessary, adjusted by the N&R Committee on an annual basis. The Board shall approve any long-term management incentive plan.

Remuneration policies and incentive plans, as well as amounts, are reviewed by the N&R Committee on an annual basis and, if required, adjusted by the Board.

Members of the executive management team are not granted any pension, retirement or similar benefits provided by the Company, apart from those required by the law.

The Company believes that remuneration policy strongly contributes to the long-term shareholder value creation and the company's stability.

Compensation structure of the Executive Management Team

Base salary	The fixed part of the compensation is determined at the discretion of the Board considering the respective position and the individual profile of the manager in terms of qualifications, skill set, and experience. All amounts are fixed and paid in cash, monthly.
Short-term variable bonus	The annual variable monetary bonus is calculated as a percentage of the EBITDA less the financial expenses, with exact parameters determined by the Nomination & Remuneration Committee. A minimum threshold level is required to activate the pay-out. The bonus rewards for the short-term financial performance of the Company.
Long-term management incentive plan	A management incentive plan is a reward for performance of the Company over the long-term period and shall align the interests of the Executive Management Team with those of the shareholders by delivering a substantial portion of share options in the Company as compensation. The plan is duly reviewed by the Nomination & Remuneration Committee and approved by the Board. Each option is granted non-vested, with a vesting period from three to five years, carrying no rights to dividends and voting, and to be executed in cash.

Nomination and Remuneration Committee

The Nomination and Remuneration committee is a continuously operating collective body of the Board. It is established from amongst the members of the Board and consists of three members, including a chairman elected by the members of the N&R Committee amongst themselves. The majority of the members of the N&R Committee (including the chairman) are independent nonexecutive Directors.

The role of the N&R Committee is to assist the Board in fulfilling its responsibilities by reviewing, advising and making recommendations to the Board, the Chairman and the CEO on the nomination to the Board and Executive Management Team and their remuneration. The N&R Committee assists the Board in nominating and assessing candidates for both directorship and managerial positions, establishing and reviewing the compensation principles and strategy. N&R Committee also supports the Board in preparing the Board's remuneration proposals to the shareholders' general meeting. A detailed list of N&R Committee responsibilities in available in Corporate Governance Charter, published on Company's website.

Nomination and Remuneration Committee's activity report

The N&R Committee held two scheduled meetings during the reporting period, discussing the composition of the Board, performance of the CEO and the Executive Management Team, changes within key management personnel, and settled on the management compensation for FY2019 standing at US$ 5,518 thousand (including a short-term variable bonus of US$ 3,099 thousand) for 12 key executives, as compared to the total compensation of US$ 3,294 thousand (including a bonus of US$ 827) a year ago for 12 executives.

There were no new management incentive plans approved over FY2019, and no significant amendments to the Executive Management Team remuneration policy in FY2019.

Executive Management Team

The Executive Management Team is responsible for the overall financial and operating results of the Company's subsidiaries, heading operating segments and providing support functions on a daily basis. The Executive Management Team focuses on strategy implementation, financial and competitive performance, commercial and technological developments, succession planning and organizational development.

Remuneration of the Executive Management Team

US$ thousands

	FY2015	FY2016	FY2017	FY2018	FY2019
Total remuneration	**8,564**	**6,476**	**5,699**	**3,294**	**5,518**
Base salary	2,564	2,276	2,409	2,467	2.419
Short-term variable bonus	6,000	4,200	3,290	827	3,099
# of executive managers	**14**	**10**	**10**	**12**	**12**

Corporate Governance continued

The Executive Management Team is headed by the Chief Executive Officer (the "CEO"), who is appointed and removed by the Board and report directly to the latter. The role of the CEO has been established in FY2018. The CEO is responsible for the day-to-day management of the Company's subsidiaries, execution of strategy, budgets, and Board decisions. The CEO delegates his/her responsibilities to other members of the Executive Management Team.

The Executive Management Team consists of 12 professionals including CEO. All the members of the Executive Management Team other than CEO are appointed and removed, as applicable, by the Board upon proposal by the N&R Committee after prior consultation with the CEO, save where he is subject of the procedure. The full list of the members of the Executive Management Team, including short biographies for each member is available on the Company's website.

Responsibilities of the Executive Management Team are described in more detail in Company's Corporate Governance Charter, available on Company's website.

There are various committees operating on the Executive Management Team level: Strategic Committee, Investment Committee, Trade Committee, with executive directors

In FY2019, Executive Management Team created a risk committee with CEO of the Company acting as a chairman of this committee. The responsibilities of the committee include, among others, the implementation of the risk management policy and procedures together with development and continual improvement of an effective risk management system. See more details in section Risk management system.

Compliance system

In December 2016, Kernel initiated a **Corporate Compliance Program** ("**CCP**") – an action plan of bringing Company's compliance system in accordance with best international standards. Progress on CCP implementation was monitored each quarter by Baker Tilly, with final report presented in summer 2019, after completion of the CCP in June 2019. Baker Tilly recognized a significant progress achieved in the implementation of Kernel's Compliance Program due to the actual execution of both internal and external control activities, highlighting also the aspects for further continuous improvement.

Our efforts in enhancing corporate governance and compliance practices were recognized by such reputable institutions as European Investment Bank and EBRD, which provided Kernel with financing over the course of FY2019 after a very granular inspection of corporate governance, compliance and environmental practices adopted by the company.

Since 2017, compliance function within Kernel is headed by a dedicated Compliance Officer, who reports directly to CEO and Audit Committee of the Board, as well as attends all Audit Committee meetings.

Compliance at Kernel is focused on the following areas:

- **preventing fraud, corruption and other misconduct** (see details in section Anti-corruption and anti-fraud);
- **managing risk of cooperation with unreliable counterparties and international sanctions**. We improved the process of checking our contractors for sanctions risk in FY2019. Compliance officer and security department check business partners for compliance risks: sanctions, corruption, money-laundering, terrorism financing;
- making company activities **compliant with** various **external initiatives** (GDPR, equality, diversity, and inclusion initiatives, etc.).

Compliance risks are generally assessed among other risks in Kernel risk management system.

In FY2019 Kernel became a member of Ukrainian Network of Integrity and Compliance (UNIC), thus publicly committing itself to promoting the UNIC's principles of doing business ethically and responsibly, supporting a good business reputation and constantly improving the integrity standards in accordance with the best international practices.

Investor Relations

Kernel constantly put efforts on establishing adequate and efficient communication with shareholders, bondholders and other capital providers and targets the expansion of investors base.

The means for that include:

- **non-deal roadshows.** We had two NDRs in FY2019 after publication of annual and semiannual reports, meeting equity and credit investors in Poland, Western Europe and Scandinavia, USA and Canada;
- **investor conferences.** In FY2019, we met with equity and debt investors at 12 conferences in Europe and USA, organized by Auerbach Grayson, WOOD, J.P. Morgan, Bank of America Merrill Lynch, Citi, PKO BP, Erste, Dragon Capital, Goldman Sachs, and HSBC. Of that, 3 conferences we attended for the first time. The full list of conferences is published on our website;
- **regular annual Investor Days**. In May 2019, Kernel organized for investors a 3-day visit to company assets (farming cluster, silo, 2 oilseed processing plants, and export terminal) and a meeting with top management in Kyiv office;
- **ad-hoc meetings** and calls with investors;

Company is covered by 7 sell-side equity analysts and 3 credit analysts (full list published on our website).

All reports, presentations and other materials are available to stakeholders on the Company's website https://www.kernel.ua/.

Kernel Holding S.A. Investor Calendar

Q1 FY2020 Operations Update	22 October 2019
Q1 FY2020 Financial Report	27 November 2019
Annual general shareholders' meeting	10 December 2019
Q2 FY2020 Operations Update	21 January 2020
H1 FY2020 Financial Report	28 February 2020
Q3 FY2020 Operations Update	23 April 2020
Q3 FY2020 Financial Report	29 May 2020
Q4 FY2020 Operations Update	20 July 2020
FY2020 Financial Report	30 October 2020

Independent Auditor's Report

To the Shareholders of
Kernel Holding S.A.
19, rue de Bitbourg
L-1273 Luxembourg

INDEPENDENT AUDITOR'S REPORT

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Opinion

We have audited the consolidated financial statements of Kernel Holding S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 30 June 2019, the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Valuation of biological assets	
Under IAS 41, the Group has to measure biological assets at fair value as of reporting date. As of 30 June 2019, the carrying amount of biological assets consisted primarily of current biological assets (mainly crops in fields) in amount of USD 309,030 thousand. Crops in fields are measured using the discounted cash flow technique. The key assumptions used in the preparation of forecasts (see Note 13 to the consolidated financial statements) are: • expected yields; • prices; • discount rates.	We obtained an understanding of controls surrounding valuation of biological assets. We challenged management's assumptions with reference to historical data (yields) and, where applicable, external benchmarks (prices) and market data noting the assumptions used fell within an acceptable range. We performed an independent recalculation of fair value of biological assets as of 30 June 2019 using actual prices subsequent to year end, median actual yields for last five years and a discount rates calculated by our internal valuation specialists. We tested the accuracy and methodology of valuation models. We tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity calculations. We considered the appropriateness of the related disclosures provided in the consolidated financial statements (Note 13 to the consolidated financial statements).

Independent Auditor Report continued

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of goodwill	
Annually, as of the reporting date, or as required per IAS 36 "Impairment of Assets" more frequently, if there are indicators that the carrying amount of goodwill is no longer recoverable, the Group performs an impairment test. The Group manages its goodwill at the group of cash generating unit ("CGU") level. Impairment is tested with reference to fair value less cost to sell or the value-in-use, typically based on the cash flow forecast for each CGU. Impairment considerations were significant to our audit because the goodwill balance of USD 107,735 thousand as of 30 June 2019 is material to the consolidated financial statements. In addition, management's assessment process is complex, involves judgment and is based on assumptions, which are affected by expected future market and economic conditions. The key assumptions with the most significant impact on the cash flow forecasts (see Note 17 to the consolidated financial statements) were: • The discount rate ("WACC"), which is based on the weighted average cost of capital. • Terminal growth rate. • Business assumptions, including but not limited to expected operating margins, future production and sales volumes, which are volatile. Further, key considerations included determination of CGUs, whether the value in use calculation and valuation method used complied with the requirements of IFRS.	We obtained an understanding of controls around goodwill impairment test. Our procedures included, among other, using internal valuation experts to assist us in evaluating the assumptions and valuation methodologies used by the Group, in particular those relating to the methodology and data used to estimate the WACC of each CGU's value-in-use estimate. We have also focused on those assumptions that have the most significant effect on the determination of the recoverable amount of goodwill by performing sensitivity analysis. More specifically: We performed audit procedures on impairment models relating to sunflower oil and export terminal CGUs. We evaluated reasonableness of the models by comparing the assumptions made to internal and external data. In particular, we: • compared short-term revenue growth rates to the latest approved budgets and found them to be consistent; • challenged the reasonableness of the assumptions in management's forecasts with reference to past performance, market conditions and external benchmarks, where applicable; • assessed the historical forecasting and budgeting accuracy; • tested the integrity and mathematical accuracy of the models; • tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity calculations; • prepared our independent estimation of value-in- use for the tested CGUs and compared amount obtained to the carrying value of non-current assets of these CGUs. We also considered the adequacy of the Group's disclosures in respect of goodwill impairment testing (Note 17 to the consolidated financial statements) and whether disclosures, related to the sensitivity of the valuation model used, properly reflecting the risks inherent in such assumptions.
Revenue recognition	
The Group sells different commodities, goods and services to various counterparties as disclosed in Note 25, and operates in different business and geographical segments as described in Note 6 in the consolidated financial statements. ISAs require an auditor in assessing risk of material misstatement to presume fraud risk in revenue recognition. Given the high volume of underlying transactions and high number of counterparties, we consider a risk that goods can be sold to certain counterparties per prices lower than market prices, with part of the profit margin arising from those sales not included into the consolidated statement of profit or loss.	We obtained an understanding of controls in respect of completeness of revenue. We have disaggregated revenue population for first-class counterparties (public companies, companies with good reputation identified in prior periods), and less known counterparties or new counterparties ("second tier counterparties"). For second tier counterparties we have performed background search to obtain information about these counterparties. We have compared sales prices for a sample of transactions with such counterparties to market prices at the date of the transactions. Additionally, we have performed analysis for companies owned by management and the Major Equity Holder and ensured that no such companies are related to the Group's customers.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the Corporate Governance Statement, but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Independent Auditor Report continued

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we concluded that there is a material misstatement of this other information; we are required to report this fact. We have nothing to report in this regard.

Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the « Réviseur d'Entreprises Agréé » for the Audit of the Consolidated Financial Statements

The objectives of our audit are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N°537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identity and asses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor Report continued

Report on Other Legal and Regulatory Requirements

We have been appointed as « Réviseur d'Entreprises Agréé » by the General Meeting of the Shareholders on 10 December 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 8 years.

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the management report (in corporate governance section) and as published on the Group's website http://www.kernel.ua is the responsibility of the Board of Directors. The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audited services referred to in the EU Regulation No 537/2014 on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

For Deloitte Audit, *Cabinet de révision agréé*

Marco Crosetto,
Réviseur d'entreprises agréé
Partner

27 September 2019

Statement of the Board of Directors' Responsibilities for the Preparation and Approval of the Consolidated Financial Statements

for the year ended 30 June 2019

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

We confirm that to the best of our knowledge and belief:

- The consolidated financial statements of Kernel Holding S.A. (the 'Company') presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies; and
- The Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

27 September 2019

On behalf of the Board of Directors

Andrii Verevskyi	**Anastasiia Usachova**
Chairman of the Board of Directors	Director, Chief Financial Officer

Selected Financial Data

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

		USD[1]		PLN		EUR	
		30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
I.	Revenue	3,992,133	2,403,003	15,042,756	8,529,459	3,499,903	2,014,918
II.	Profit from operating activities	269,207	139,565	1,014,399	495,386	236,014	117,025
III.	Profit before income tax	190,406	50,054	717,469	177,667	166,929	41,970
IV.	Profit for the period from continuing operations	178,504	55,954	672,621	198,609	156,494	46,917
V.	Net cash generated by operating activities	198,650	82,477	748,534	292,753	174,155	69,157
VI.	Net cash used in investing activities	(241,404)	(155,694)	(909,634)	(552,636)	(211,639)	(130,549)
VII.	Net cash generated by financing activities	29,102	76,121	109,659	270,191	25,514	63,827
VIII.	Total net cash flow	(13,652)	2,904	(51,441)	10,308	(11,970)	2,435
IX.	Total assets	2,463,600	2,210,514	9,198,097	8,276,164	2,163,287	1,897,505
X.	Current liabilities	479,760	475,516	1,791,232	1,780,332	421,277	408,183
XI.	Non-current liabilities	637,814	557,394	2,381,342	2,086,883	560,064	478,467
XII.	Issued capital	2,164	2,164	8,080	8,102	1,900	1,858
XIII.	Total equity	1,346,026	1,177,604	5,025,523	4,408,949	1,181,946	1,010,855
XIV.	Number of shares	81,941,230	81,941,230	81,941,230	81,941,230	81,941,230	81,941,230
XV.	Profit per ordinary share (in USD/PLN/EUR)	2.31	0.64	8.71	2.26	2.03	0.53
XVI.	Diluted number of shares	82,820,378	82,887,231	82,820,378	82,887,231	82,820,378	82,887,231
XVII.	Diluted profit per ordinary share (in USD/PLN/EUR)	2.29	0.63	8.62	2.23	2.01	0.53
XVIII.	Book value per share (in USD/PLN/EUR)	16.49	14.29	61.57	53.50	14.48	12.27
XIX.	Diluted book value per share (in USD/PLN/EUR)	16.31	14.12	60.90	52.87	14.32	12.12

[1] Please see Note 3 for the exchange rates used for conversion

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2019	As of 30 June 2018
Assets			
Current assets			
Cash and cash equivalents	8, 36	76,801	132,018
Trade accounts receivable, net	3, 9, 33, 36	183,196	92,355
Prepayments to suppliers and other current assets, net	3,10	129,822	113,342
Corporate income tax prepaid	24	8,484	6,937
Taxes recoverable and prepaid, net	11	118,575	114,695
Inventory	12	357,610	368,453
Biological assets	13	309,030	289,436
Other financial assets	36	70,835	72,344
Assets classified as held for sale	14	2,079	14,689
Total current assets		**1,256,432**	**1,204,269**
Non-current assets			
Property, plant and equipment, net	15	764,686	588,127
Intangible assets, net	16	114,942	104,466
Goodwill	17	107,735	103,691
Investments in joint ventures	32	51,252	52,218
Deferred tax assets	24	8,447	18,536
Corporate income tax prepaid		4,374	4,645
Other non-current assets	18, 33	155,732	134,562
Total non-current assets		1,207,168	**1,006,245**
Total assets		**2,463,600**	**2,210,514**
Liabilities and equity			
Current liabilities			
Trade accounts payable	36	136,043	73,629
Advances from customers and other current liabilities	19, 33	104,976	104,898
Short-term borrowings	20	183,692	224,773
Current portion of long-term borrowings	21	1,233	2,811
Interest on bonds issued	23, 29, 36	17,949	17,949
Other financial liabilities	36	35,867	51,456
Total current liabilities		**479,760**	**475,516**
Non-current liabilities			
Long-term borrowings	21	63,680	2,812
Obligations under finance leases	22	5,230	7,710
Deferred tax liabilities	24	29,010	19,570
Bonds issued	23	496,051	494,796
Other non-current liabilities	7, 33, 36	43,843	32,506
Total non-current liabilities		**637,814**	**557,394**
Equity attributable to Kernel Holding S.A. equity holders			
Issued capital		2,164	2,164
Share premium reserve		481,878	481,878
Additional paid-in capital		39,944	39,944
Equity-settled employee benefits reserve		9,111	8,114
Revaluation reserve		62,249	43,815
Translation reserve		(734,396)	(724,054)
Retained earnings		1,489,996	1,318,872
Total equity attributable to Kernel Holding S.A. equity holders		1,350,946	**1,170,733**
Non-controlling interests		(4,920)	6,871
Total equity		1,346,026	**1,177,604**
Total liabilities and equity		**2,463,600**	**2,210,514**
Book value		1,350,946	1,170,733
Number of shares	37	81,941,230	81,941,230
Book value per share (in USD)		16.49	14.29
Diluted number of shares	37	82,820,378	82,887,231
Diluted book value per share (in USD)		16.31	14.12

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Profit or Loss

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2019	As of 30 June 2018[1]
Revenue	25, 33	3,992,133	2,403,003
Net change in fair value of biological assets and agricultural produce	13	9,140	18,699
Cost of sales	26, 33	(3,653,762)	(2,261,230)
Gross profit		**347,511**	**160,472**
Other operating income, net	27	28,228	59,092
General and administrative expenses	28, 33	(106,532)	(79,999)
Profit from operating activities		**269,207**	**139,565**
Finance costs, net	29, 33	(82,319)	(65,099)
Foreign exchange gain, net	30	12,860	5,375
Other expenses, net	31, 33	(8,376)	(30,980)
Share of (loss)/income of joint ventures	32	(966)	1,193
Profit before income tax		**190,406**	**50,054**
Income tax (expenses)/benefit	24	(11,902)	5,900
Profit for the period from continuing operations		**178,504**	**55,954**
Profit for the period		**178,504**	**55,954**
Profit for the period attributable to:			
Equity holders of Kernel Holding S.A.		**189,464**	**52,143**
Non-controlling interests		(10,960)	3,811
Earnings per share			
From continuing operations			
Weighted average number of shares	37	81,941,230	81,941,230
Profit per ordinary share (in USD)		2.31	0.64
Diluted number of shares	37	82,820,378	82,887,231
Diluted profit per ordinary share (in USD)		2.29	0.63

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

[1] During the year ended 30 June 2019, the Group has changed its accounting policy due to IFRS 15 adoption and changed presentation of Distributions costs and included them in Cost of sales. Comparative information was reclassified respectively. Please see Note 3 for more details and description of changes in accounting policy and reclassifications made

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	30 June 2019	30 June 2018
Profit for the period	**178,504**	**55,954**
Other comprehensive income/ (loss)		
Items that will not be reclassified subsequently to profit or loss:		
Gain on revaluation of property (Note 15)	25,833	–
Income tax related to components of other comprehensive income (Note 24)	(4,650)	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(10,979)	(16,574)
Other comprehensive income/(loss), net	**10,204**	**(16,574)**
Total comprehensive income for the period	**188,708**	**39,380**
Total comprehensive income/(loss) attributable to:		
Equity holders of Kernel Holding S.A.	200,305	35,547
Non-controlling interests	(11,597)	3,833

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders									
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
Balance as of 30 June 2017	**2,164**	**481,878**	**39,944**	**7,014**	**43,815**	**(707,458)**	**1,285,671**	**1,153,028**	**4,581**	**1,157,609**
Profit for the period	—	—	—	—	—	—	52,143	52,143	3,811	55,954
Other comprehensive (loss)/income		—	—	—	—	(16,596)	—	(16,596)	22	(16,574)
Total comprehensive (loss)/income for the period	—	—	—	—	—	**(16,596)**	**52,143**	**35,547**	**3,833**	**39,380**
Distribution of dividends	—	—	—	—	—		(20,485)	(20,485)	—	(20,485)
Effect of changes in non-controlling interests	—	—	—	—	—	—	1,543	1,543	(1,543)	—
Recognition of share-based payments (Note 2)	—	—	—	1,100	—	—	—	1,100	—	1,100
Balance as of 30 June 2018 (as previously reported)	**2,164**	**481,878**	**39,944**	**8,114**	**43,815**	**(724,054)**	**1,318,872**	**1,170,733**	**6,871**	**1,177,604**
Effect of IFRS 9 implementation (Note 3, 9)	—	—	—	—	—	—	(314)	(314)	—	(314)
Balance as of 1 July 2018 (restated)	**2,164**	**481,878**	**39,944**	**8,114**	**43,815**	**(724,054)**	**1,318,558**	**1,170,419**	**6,871**	**1,177,290**
Profit/(Loss) for the period	—	—	—	—	—	—	189,464	189,464	(10,960)	178,504
Other comprehensive income/(loss)	—	—	—	—	21,183	(10,342)	—	10,841	(637)	10,204
Total comprehensive income/(loss) for the period	—	—	—	—	21,183	(10,342)	**189,464**	200,305	(11,597)	188,708
Distribution of dividends (Note 2)	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Disposal of subsidiaries	—	—	—	—	(1,626)	—	1,626	—	—	—
Effect of changes on minority interest	—	—	—	—	—	—	(290)	(290)	(194)	(484)
Recognition of share-based payments (Note 2)	—	—	—	997	—	—	—	997	—	997
Transfer of revaluation reserve	—	—	—	—	(1,123)	—	1,123	—	—	—
Balance as of 30 June 2019	**2,164**	**481,878**	**39,944**	**9,111**	**62,249**	**(734,396)**	**1,489,996**	**1,350,946**	**(4,920)**	**1,346,026**

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2019	As of 30 June 2018
Operating activities:			
Profit before income tax		190,406	50,054
Adjustments for:			
Amortization and depreciation		76,303	82,975
Finance costs, net	29	82,319	65,099
Movement in allowance for doubtful receivables		7,905	997
Other accruals	31	5,036	44,870
Gain on disposal of property, plant and equipment		(605)	(791)
Net foreign exchange gain		(13,840)	(12,179)
Write-offs and (reversal)/impairment loss	16, 17, 31	(116)	577
Net change in fair value of biological assets and agricultural produce	13	(9,140)	(18,699)
Gain on bargain purchase	7, 31	—	(2,309)
Share of loss/(income) of joint ventures	32	966	(1,193)
Gain on sales of subsidiaries	7, 31	(4,833)	(2,972)
Net loss/(gain) arising on financial assets classified as at fair value through profit or loss		23,662	(23,137)
Other losses		10,234	—
Operating profit before working capital changes		368,297	183,292
Changes in working capital:			
Change in trade and other accounts receivable[1]		(131,516)	(7,902)
Change in prepayments and other current assets		(13,706)	(52,382)
Change in restricted cash balance		538	3,251
Change in taxes recoverable and prepaid		441	3,273
Change in biological assets		18,779	1,675
Change in inventories		(24,160)	9,866
Change in trade accounts payable		60,055	19,049
Change in advances from customers and other current liabilities		(4,328)	(8,065)
Cash generated from operations		274,400	152,057
Interest paid		(76,233)	(69,482)
Interest received		3,829	5,106
Income tax paid		(3,346)	(5,204)
Net cash generated by operating activities		198,650	82,477
Investing activities:			
Purchase of property, plant and equipment		(166,988)	(146,565)
Proceeds from disposal of property, plant and equipment		9,754	7,053
Purchase of intangible and other non-current assets		(25,375)	(15,670)
Acquisition of subsidiaries, net of cash acquired	7	(56,272)	(46,512)
Disposal of subsidiaries	7	11,313	24,706
Amount advanced for subsidiaries		3,873	(1,996)
Amount advanced to related parties		(10,085)	—
Proceeds from disposal of financial assets		—	23,290
Payment to acquire financial assets		(7,624)	—
Net cash used in investing activities		(241,404)	(155,694)
Financing activities:			
Proceeds from borrowings		577,983	777,599
Repayment of borrowings		(516,713)	(680,026)
Payment of dividends	2	(20,485)	(20,485)
Financing for farmers		(11,083)	—
Net cash generated by financing activities		29,702	77,088
Effects of exchange rate changes on the balance of cash held in foreign currencies		(600)	(967)
Net increase in cash and cash equivalents		(13,652)	2,904
Cash and cash equivalents, at the beginning of the year		90,069	87,165
Cash and cash equivalents, at the end of the year		76,417	90,069

For non-cash financing activities please see Note 8.

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

[1] Includes movement in other financial assets

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements

for the year ended 30 June 2019 (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').

Kernel Holding S.A has been a publicly traded company since 2007. Its ordinary shares are traded on the Warsaw stock exchange.

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. As of 30 June 2019, the Group employed 13,397 people (15,116 people as of 30 June 2018).

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 June 2019 and 30 June 2018, 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 and voting rights as of 30 June 2019	30 June 2018
Jerste S.a.r.l.	Holding companies.	Luxembourg	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%
Avere Commodities SA		Switzerland	60.0%	60.0%
Ukragroinvest LLC		Ukraine	100.0%	100.0%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%
Kropyvnytskyi OEP PJSC[1]		Ukraine	99.2%	99.2%
Ekotrans LLC [2]		Ukraine	0.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%
Prydniprovskyi OEP LLC		Ukraine	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0%	100.0%
Bilovodskyi KHP PJSC		Ukraine	91.12%	91.12%
Unigrain-Agro (Semenivka) LLC[3]	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	0.0%	100.0%
Agrofirma Arshytsya LLC[4]		Ukraine	0.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%
Vyshneve Agro ALLC[3]		Ukraine	0.0%	100.0%
Prydniprovskyi Kray ALLC		Ukraine	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%
Agro Invest Ukraine LLC[5]		Ukraine	0.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%
AF Semerenky LLC		Ukraine	100.0%	100.0%
Hovtva ALLC		Ukraine	100.0%	100.0%
Buymerske PE[6]		Ukraine	0.0%	100.0%

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 27 September 2019.

[1] The company was renamed from Kirovogradoliya PJSC
[2] The company was disposed on 30 July 2018
[3] The company merged with Prydniprovskyi Kray ALLC
[4] The company merged with Hovtva ALLC
[5] The company merged with Hliborob LLC
[6] The company merged with AF Semerenky LLC

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (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 issued capital of the Holding as of 30 June 2019, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value (30 June 2018: 81,941,230). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 June 2019		As of 30 June 2018	
Equity holders	**Shares allotted and fully paid**	**Share owned**	**Shares allotted and fully paid**	**Share owned**
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	32,716,775	39.93%	32,344,404	39.47%
Free float	49,224,455	60.07%	49,596,826	60.53%
Total	**81,941,230**	**100.00%**	**81,941,230**	**100.00%**

As of 30 June 2019 and 2018, 100% of the beneficial interest in the Major Equity Holder was held by Andrii Mykhailovych Verevskyi (hereinafter the 'Beneficial Owner').

As of and during the year ended 30 June 2019, the fair value of the share-based options granted to the management was USD 9,111 thousand and USD 997 thousand was recognized as an expense (part of payroll and payroll related expenses), with a corresponding increase in equity over the vesting period (as of and during the year ended 30 June 2018: USD 8,114 thousand and USD 1,100 thousand, respectively).

On 10 December 2018, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share amounting to USD 20,485 thousand.

On 25 April 2019, the dividends were fully paid to the shareholders.

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

On 18 June 2018, the Company received a notification from Julius Baer Group Ltd, regarding the acquisition of shares in Kernel Holding S.A. that on 8 June 2018 it had crossed 5% threshold. The Julius Baer Group Ltd held 5,098,297 shares in the Company, representing 6.22% of the share capital.

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 June 2019 and 2018, may not be distributed as dividends.

3. Summary of Significant Accounting Policies

Basis of Preparation and Accounting

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment for bulk and bottled oil segments, assets held for sale, biological assets, agricultural produce and certain financial assets and liabilities - measured at fair value. The consolidated financial statements have been prepared on a going concern basis.

The Group's Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's Subsidiaries' accounts under local accounting regulations, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Adoption of New and Revised Standards

In the current year, the Group has adopted a number of new and revised IFRS standards that became effective as of 1 July 2018.

IFRS 15 Revenue from Contracts with Customers

IIFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers.

The core principle of IFRS 15 is that an entity should recognize 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 standard introduced a 5-step model to revenue recognition where entities have to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

The Group elected the modified retrospective method (without practical expedients) with the effect of initially applying this standard recognized at the date of initial application as of 1 July 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 July 2018. As the majority of the Group's revenue is derived from commodity sales, for which the point of recognition is dependent upon contract sales terms (Incoterms), the transfer of risks and rewards as defined by IAS 18 and the transfer of control as defined by IFRS 15 could differ. The application of IFRS 15 has an impact on the Group's commodity sales as it may be necessary to recognize a separate performance obligation and allocate part of the transaction price to a carriage and fright services incorporated in some contracts that the Group undertakes to perform. The Group allocates the transaction price based on the relative stand-alone selling prices of the commodities and supporting services. The revenue from these carriage and fright services is recognized over time.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has been entitled for receipt of consideration from the customer. Contract liabilities are included in advances from customers and other current liabilities line item.

As of 30 June 2018, there were no incomplete contracts, which will materially affect revenue recognition retrospectively. As such, the adoption of this standard has had no material impact in respect of timing and amount of revenue recognized by the Group and accordingly retained earnings have not been impacted by the first application of the standard.

The Group's accounting policies for its revenue streams are disclosed in detail in note below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. However, in context of IFRS 15, the Group decided to change its accounting policy for presentation of distribution costs as illustrated below in paragraph 'Change in Accounting Policy'.

The adoption of IFRS 15 has had no material impact with respect to timing of recognition for carriage, freight and insurance services

IFRS 9 Financial Instruments

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.

The Group reassess classification of financial assets from four to three primary categories (amortized 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 amortized cost. In addition, IFRS 9 introduced an expected credit loss ("ECL") impairment model, which means that anticipated as opposed to incurred credit losses are recognized resulting in earlier recognition of impairments.

In accordance with the transitional guidance, comparative figures have not been restated for prior year other than certain presentation changes. Therefore, the difference between the carrying amount of financial instruments under IAS 39 and the carrying amount under IFRS 9 has been recognized in the opening retained earnings as at date of initial application as of 1 July 2018.

The following summarizes the impact of transition to IFRS 9 on the opening balance of reserves, retained earnings and non-controlling interest:

- Presentational changes primarily in the trade accounts receivable (Note 9) and prepayments to suppliers and other current assets (Note 10) disclosures to reflect the business model and cash flow characteristics of these assets and liabilities and group them into their respective IFRS 9 category or other IFRS classification;
- Additional disclosure around classification and measurement of financial instruments; and
- An additional net credit loss allowance of USD 314 thousand as at 1 July 2018, recognized against opening retained earnings.

The Group considered that the new classification requirements do not have a material impact on its accounting for financial assets and liabilities previously classified as receivables and loans. Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of USD 314 thousand in the allowance for impairment over these receivables was recognized in opening retained earnings at 1 July 2018 on transition to IFRS 9.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: disclosures that are applied to disclosures about 2018, but have not been generally applied to comparative information.

The Group has adopted the other standards and interpretations effective for annual periods beginning on or after 1 July 2018.

The adoption of new standards, except for IFRS 15, had no effect on earnings per share either in the current or previous periods.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

The adoption of other new or revised standards did not have any material effect on the consolidated financial position or performance of the Group and any disclosures in the Group's consolidated financial statements.

Standards and Interpretations Issued but not Effective

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment (on-balance sheet) in the financial statements of both lessees and lessors. Under the new standard, a lessee is required to recognize the present value of the unavoidable lease payments as a lease liability on the statement of financial position (including those currently classified as operating leases) with a corresponding right of use asset. The unwind of the financial charge on the lease liability and amortization of the leased asset are recognized in the statement of income based on the implied interest rate and contract term respectively. On transition, for leases previously accounted for as operating leases exist exemptions for short-term leases and leases of low-value items. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Furthermore, extensive disclosures are required by IFRS 16.

The Group will apply this standard retrospectively with the cumulative effect recognized in retained earnings at the date of initial application on 1 July 2019 as permitted under the specific transition provisions in the standard. Under this approach, the Group will not restate amounts previously reported and will apply the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 July 2019. The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting is as follows:

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis. Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of USD 591,547 thousand. A preliminary assessment indicates, and hence the Group may recognize a right-of-use asset and a corresponding lease liability in a range between USD 245,000 thousand and USD 335,000 thousand in respect of all these leases, other than short-term leases and leases of low-value assets. The impact on the consolidated statement of profit or loss and other comprehensive income, the Group will be recognizing depreciation charges on right to use-of-asset and the interest expense from unwinding the lease the discount on the lease liability instead of rental payments in cost of sales and general and administrative expenses.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities and to increase net cash used in financing activities by the same amount.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the respective note lines in property, plant and equipment, disclosing them as right-of-use assets and the lease liability, previously presented within obligations under finance lease, will be presented in a separate note line within lease liabilities.

The above assessment for IFRS 16 is preliminary because not all transition work has been finalized. The actual effect of adopting IFRS 16 may change because their adoption will require the Group to revise its accounting processes and internal controls and these changes are not yet completed. The new accounting policies, assumptions, judgements and estimation techniques are subject to changes until the Group finalizes its first consolidated financial statements that include the date of initial application.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

Standards and Interpretations Issued but not Effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations, as well as amendments to the standards had been issued but were not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance contracts	1 January 2021
Amendments to IAS19: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Annual improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 3 Definition of a Business	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020

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

Change in Accounting Policy

Starting from 1 July 2018, the Group voluntary changed its accounting policy relating to the classification of distribution expenses charged to its customers. The Group sells products to customers based on different selling terms, which include among other carriage and freight services, storage and dispatch services which are relating to costs incurred to store and to prepare goods for delivery and some other distribution services (custom, certification and sanitation services and other services). These services are relating to costs incurred to deliver goods to the customers' indicated locations and consist mostly of services provided by third parties. Carriage and freight, storage and dispatch costs and other distribution expenses have been previously presented cumulative as distribution costs.

The Group decided to change the accounting policy regarding classification of distribution costs upon analysis of its performance obligations and principal versus agent considerations according to the requirements of the new revenue standard (IFRS 15), adopted by the Group starting from 1 July 2018. More specifically, the Group has identified a separate performance obligation relating to freight and other related services. Furthermore, since the control over promised goods or services is transferred to the customers only upon their receipt of the goods or services, the Group is considered to be a principal in providing freight and other services. As such and since the proceeds from freight and other services are presented gross within Revenues, the corresponding cost of such services should be also presented gross in Cost of sales. Based on the above, the Group decided to present all cost relating to freight and other related services within Cost of sales and to apply the above mentioned change in the accounting policy retrospectively in order to eliminate inconsistency in presentation of carriage and freight and other related distribution expenses and to comply with the requirements of the new revenue standard.

This approach is most commonly used in the industry and the Group's management believes that such change in accounting policy will provide more precise, relevant and consistent approach towards gross profit result of the Group.

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

	For the year ended 30 June 2019			For the year ended 30 June 2018		
	New Policy	Old Policy	Effect of the change in accounting policy	New Policy	Old Policy	Effect of the change in accounting policy
Cost of sales	3,653,762	3,345,500	308,262	2,261,230	2,107,677	153,553
Distribution costs	—	308,262	(308,262)	—	153,553	(153,553)

The change in accounting policies had no effect on earnings per share either in the current or previous 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income accumulated in 'Translation reserve'.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

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

Currency	Closing rate as of 30 June 2019	Average rate for the year ended 30 June 2019	Closing rate as of 30 June 2018	Average rate for the year ended 30 June 2018
USD/UAH	26.1664	27.2935	26.1892	26.5878
USD/EUR	0.8781	0.8767	0.8584	0.8385
USD/PLN	3.7336	3.7681	3.7440	3.5495

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 Ukraine for USD/UAH and by the National Bank of Poland for USD/EUR and USD/PLN.

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.

Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Holding (Subsidiaries) as of 30 June 2019.

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its Subsidiaries. Control is achieved when the Company:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:
- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a Subsidiary begins when the Company obtains control over the Subsidiary and ceases when the Company loses control of the Subsidiary. Specifically, income and expenses of a Subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the over Subsidiary.

All inter-company transactions and balances between the Group's enterprises are eliminated for the consolidation purpose. Unrealized gains and losses resulting from inter-company transactions are also eliminated, except for unrealized losses that cannot be recovered.

Non-controlling interests as of the reporting date represent the non-controlling equity holders' portion of the fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date and the non-controlling equity holders' portion of movements in equity since the date of acquisition. The total comprehensive income of Subsidiaries is attributed to the equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and equity interests issued by the Group in exchange for control of the acquire. Acquisition costs are expensed when incurred and included in general and administrative expenses.

At the acquisition date, identifiable assets acquired, and liabilities assumed are recognized at their fair value, except that:
- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or those held for disposal by the Group) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

For each business combination, the Group measures the non-controlling interests in the acquire either at fair value or at a proportionate share of the acquirer's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

which the combination occurs, only provisional amounts are reported, which can be adjusted during a measurement period of 12 months after the acquisition date.

Changes in the Group's ownership interests in Subsidiaries that do not result in the Group losing control over the Subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect changes in their relative interests in Subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Holding.

Goodwill

Goodwill arising from a business combination is recognized as an asset at the date that control is acquired (acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of the acquirer's previously held equity interest (if any) in the entity net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. The cash generated units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the entity.

Investments in Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture and dividends received. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the profit or loss in the period in which the investment is acquired.

Non-current assets held for sale and Discontinued Operations

In compliance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable within one year, and the asset or disposal group is available for immediate sale in its present condition. Non-current assets are measured at the lower of the previous carrying amount or the fair value less costs to sell.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control, and there is sufficient evidence that the Group remains committed to its plan to sell the asset. In such circumstances, the asset is measured at its fair value less costs to sell at each reporting date. Any impairment loss arising subsequent to reclassification as held for sale is recognized in the Consolidated Statement of Profit or Loss. Non-current assets and liabilities of a disposal group classified as held for sale are presented separately from the other assets and liabilities in the balance sheet.

If criteria for classification of the asset as held for sale are no longer met at the reporting date, the Group ceases to classify the asset as held for sale.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a Subsidiary acquired exclusively with a view to resale.

The result from discontinued operations is presented in the Consolidated Statement of Profit or Loss as a separate item after the profit from continuing operations. If the criteria for classification of the disposal group held for sale are met after the reporting date, the disposal group is not

Notes to the Consolidated Statements continued

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presented as held for sale in those consolidated financial statements when issued. However, when those criteria are met after the reporting date but before the authorization of the consolidated financial statements for issue, the Group discloses the relevant information in the notes to the consolidated financial statements.

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. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost consists of the purchase cost and, where applicable, those expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Biological Assets and Agricultural Produce

The Group classifies crops in fields and cattle as biological assets. The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognized in the Consolidated Statement of Profit or Loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell estimated at the point of harvest. A gain or loss arising from the initial recognition of agricultural produce at fair value less costs to sell is included in the Consolidated Statement of Profit or Loss.

Biological assets for which quoted market prices are not available and for which alternative estimates of fair value are considered to be clearly unreliable are measured using the present value of expected net cash flows from the sale of an asset discounted at a current market-determined rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

Cost of agricultural preparation of fields before seeding is recorded as work-in-progress in inventories. After seeding, the cost of field preparation is recognized as biological assets held at fair value less costs to sell.

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets. All of the Group's biological assets except non-current cattle were classified as current, as their average useful life is less than one year.

Property, Plant, and Equipment

Buildings, constructions, production machinery and equipment (Oilseed Processing segment) are accounted for at revalued amounts, being the fair value, which is determined using external professional expert evaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to other comprehensive income and accumulated in revaluation reserve in equity. However, such an increase is recognized in the Consolidated Statement of Profit or Loss to the

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extent that it reverses a revaluation decrease of the same asset previously recognized in the Consolidated Statement of Profit or Loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the Consolidated Statement of Profit or Loss. However, such a decrease is debited directly to the Other Comprehensive Income or Loss to the extent of any credit balance existing in the revaluation surplus with respect to that asset.

Depreciation on revalued assets is charged to the Consolidated Statement of Profit or Loss. On the subsequent sale or retirement of revalued assets, the revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized. Property, plant and equipment are depreciated over the estimated useful economic lives of assets under the straight-line method.

Useful lives of property, plant, and equipment are as follows:	
Buildings and constructions	20 - 50 years
Production machinery and equipment	10 - 20 years
Agricultural equipment and vehicles	3 - 10 years
Other fixed assets	5 - 20 years
Construction in progress (CIP) and uninstalled equipment	not depreciated

Except for land, building and constructions and production machinery and equipment of Oilseed Processing segment, all other property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses. Land is carried at cost less accumulated impairment losses and is not depreciated.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of assets or increase their revenue-generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are presented the Consolidated Statement of Profit or Loss as incurred.

Construction in progress consists of costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overhead incurred during construction. Depreciation of these assets commences when the assets are put into operation.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Statement of Profit or Loss.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated depreciation and accumulated impairment losses. Amortization is primarily recognized within “Cost of Sales” on a straight-line basis over their estimated useful lives. The amortization method and estimated useful life are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately shall not be amortized and are carried at cost less accumulated impairment loss.

Trademarks

The ‘Schedry Dar’, ‘Stozhar’, ‘Zolota’ and ‘Domashnya’ trademarks have indefinite useful lives and are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

Land Lease Rights

Land lease rights acquired in a business combination are recognized separately from goodwill at their fair value at the acquisition date (which is subsequently regarded as their cost).

Amortization of land lease rights is calculated on a straight-line basis during the term of a lease contract. For land lease rights acquired in business combination, the amortization period varies from 1 to 22 years. The amortization period for emphyteusis contracts varies from 20 to 90 years.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the Consolidated Statement of Profit or Loss when the asset is derecognized.

Impairment of tangible and intangible assets, except Goodwill

At each reporting date, the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks

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specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial Instruments

Financial asset and financial liability are recognized in the Group's Consolidated Statement of Financial Position when, and only when, the Group entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents include cash on hand, cash with banks, and deposits with original maturities of three months or less.

Financial assets are classified as either to the following categories financial assets at amortized cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL). The classification depends on the nature and purpose of the financial assets or financial liabilities and is determined at the time of initial recognition.

The Group does not have financial instruments carried at FVTOCI. The Group measures derivative instruments and investments made in equity instruments at FVTPL, all other financial instruments are measured at amortized cost.

Financial assets and financial liabilities are initially measured at fair value. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Amortized cost and effective interest method

The Group measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The effective interest method calculates the amortized cost of a debt instrument and allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss. The effect of initial recognition of financial assets and liabilities obtained/incurred at terms below the market is recognized net of the tax effect as an income or expense, except for financial assets and liabilities with shareholders or entities under common control, whereby the effect is recognized through equity.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:
- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and all the risks and rewards to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

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and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the Consolidated Statement of Profit or Loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in the Consolidated Statement of Profit or Loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Impairment of financial assets

The Group recognizes a loss allowance for ECL (expected credit losses) on a financial asset, other than those at FVTPL, at the end of each reporting period. The amount of ECL and other current assets is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

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A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

(1) the carrying amount of the liability before the modification; and
(2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Commodity derivatives

The Group enters into variety of derivative financial instruments including futures, options and physical contracts to buy or sell commodities, which do not meet the own use exemption. These derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in the profit or loss within Other operating income, net, unless the derivative is designated and effective hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Fair values are determined using quoted market prices, broker quotations or using models and other valuation techniques.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

Other financial assets include margin accounts that are represented by variation margin and initial margin held in respect of open exchange-traded futures and forwards contracts. Margin accounts are measured at amortized cost.

Derivatives are not offset in the consolidated financial statements unless the Group has both legal right and intention to offset. As of 30 June 2019 and 2018, the impact of the Master Netting Agreements on the Group's financial position was not material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Consolidated Statement of Financial Position as an obligation under finance lease.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

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Taxes Recoverable and Prepaid

Taxes recoverable and prepaid are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

Employee Benefits

Certain entities within the Group participate in a mandatory government defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period.

The liability recognized in the Consolidated Statement of Financial Position with respect to the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date, less adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid.

Equity-settled Transactions

Equity-settled share-based payments with employees are measured by reference to the fair value at the grant date and are recognized as an expense over the vesting period, which ends on the date the relevant employees become fully entitled to the award.

Fair value is calculated using the Black-Scholes model. No expense is recognized for awards that do not ultimately vest.

At each reporting date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognized in the Consolidated Statement of Profit or Loss, with a corresponding entry in equity.

Provisions

A provision is recognized in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but is disclosed when an inflow of economic benefits is probable.

Revenue from contracts with customers

Sale of Goods and Finished Products

The Group produces and sells a range of agricultural commodities, sunflower oil and meal in the wholesale market. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. A receivable is recognized by the Group when the control over goods is transferred to the wholesaler as this represents the point of time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. Timing of billing is generally close to the timing of performance obligation satisfaction, respectively, amount of contract assets and contract liabilities is not material.

The promise to provide freight and insurance services after control is transferred is a separate performance obligation for which part of the transaction price is allocated. Revenue relating to these services is recognized over time. The transaction price allocated to these services is recognized as a contract liability at the time of the initial sales transaction and is released on a straight-line basis over the period of service. For provision of such services the Group regularly engages third-party service providers to provide freight and other services to its customers. When the Group obtains a contract from a customer, the Group enters into a contract with one of those service providers, directing the service provider to render freight and other services for the customer. The Group is obliged to pay the service provider even if the customer fails to pay. Also, the Group is responsible for inventory risk during the freight service provision

Rendering of Services

Revenue is recognized over the period of time as the service is rendered. The main type of services provided by the Group are transshipment services by terminals and crop cleaning, drying and storage services by the Group's silos. Revenue from transshipment services is recognized using input methods based on a time-and-materials basis as the services are provided. Revenue from grain cleaning, drying and storage services is recognized on an accrual basis, based on the fees for the specific service, volumes of crops under service and days of storage.

VAT benefits

Till 31 December 2016, in accordance with the Tax Code of Ukraine the Group's enterprises that qualify as agricultural producers were entitled to retain a portion of net VAT payable which were recognized as VAT benefits. Starting from 1 January 2017 the special VAT treatment regime has been abolished but VAT benefits on prepayments received up to this date are recognized upon subsequent sales.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

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Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowing spending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Consolidated Statement of Profit or Loss in the period in which they are incurred. The interest expense component of finance lease payments is recognized in the Consolidated Statement of Profit or Loss using the effective interest rate method.

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently enacted in the legal jurisdictions where the operating entities are located. Income tax expense represents the sum of the tax currently payable and deferred tax expense.

Current and deferred tax for the year

Current and deferred tax are recognized in the Consolidated Statement of Profit or Loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The current income tax charge is the amount expected to be paid to, or recovered from, taxation authorities with respect to taxable profit or losses for the current or previous periods. It is calculated using tax rates that have been enacted or substantially enacted by the reporting date in the countries where the Holding and its Subsidiaries operate and generate taxable income. Taxable profit differs from 'profit before tax' because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible taxes other than income tax are recorded within operating expenses. Some of the Group's companies that are involved in agricultural production are exempt from income taxes and pay the Unified Agricultural Tax instead.

Deferred tax

Deferred income tax is recognized on temporary differences arising between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the temporary differences will reverse, or the tax loss carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities for taxable temporary differences associated with investments in Subsidiaries and joint ventures are recognized, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 30 June 2018 and for the year then ended to conform to the current year's presentation.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The application of IFRS requires the use of reasonable judgments, assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The estimates are based on the information available as of the reporting date. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue Recognition

In the normal course of business, the Group engages in sale and purchase transactions for the purpose of exchanging grain in various locations to fulfill the Group's production and trading requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of a similar nature and value. The Group's management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying grain is of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying grain indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transactions involving goods of a similar nature amounted to USD 105,783 thousand and USD 34,305 thousand for the years ended 30 June 2019 and 2018, respectively.

Revaluation of Property, Plant and Equipment

As described in Note 3, the Group applies the revaluation model to the measurement of buildings and constructions and production machinery and equipment (bulk and bottled oil segments). At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from fair value. The Group carries out such a review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period.

Useful Lives of Property, Plant and Equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, which are based on management's business plans and operational estimates.

The factors that could affect the estimation of the life of a non-current asset and its residual value include the following:

- Changes in technology;
- Changes in maintenance technology;
- Changes in regulations and legislation; and
- Unforeseen operational issues.

Any of the above could affect the prospective depreciation of property, plant and equipment and their carrying and residual values. The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in the estimated useful life or residual value is recorded on a prospective basis from the date of the change.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimating uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revaluation of Property, Plant and Equipment

The Group appointed an independent appraiser to perform a revaluation of buildings, constructions, production machinery and equipment used in the sunflower oil segments (Oilseed Processing segment) as of 30 June 2019. The independent appraiser has performed the valuation in accordance with International Valuation Standards applying the following techniques:

- depreciated replacement cost for buildings and constructions; and
- depreciated replacement cost and market comparable approach, if applicable, for production machinery and equipment.

Depreciated replacement cost reflects the cost to a market participant to purchase or construct the comparable asset, adjusted for physical, functional or economical depreciation, and obsolescence. Depreciated replacement cost approach was based on internal sources and analysis of the Ukrainian and international markets for similar property, plant and equipment. Economical obsolescence was determined using the discounted cash flow method. Cash flows were projected based on past experience, actual operating results and analyses of market inputs. The fair value of non-specialized in nature property, plant and equipment had been determined using market approach that reflects recent transaction prices for comparable assets.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

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Key assumptions used by the independent appraiser in assessing the fair value of property, plant and equipment using the replacement cost and market comparable methods were as follows:
- present condition of particular assets based on examination of valuation experts and physical wear-and-tear;
- changes in prices of equipment, construction materials and services from the date of their acquisition/construction to the date of valuation represented by inflation rates;
- external prices for production machinery and equipment; and
- other external and internal factors that might have effect on fair value of property, plant and equipment under review.

The results of revaluation using the depreciated replacement cost and market comparable approaches were then compared with results of income approach for corresponding assets to test whether impairment indicators exist.

Description	Fair value as of 30 June 2019	Value techniques	Fair value hierarchy	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Buildings and constructions	207,882	Depreciated replacement cost	Level 3	Index of physical depreciation	0 - 80% (36%)	The higher the index of physical depreciation, the lower the fair value
Production machinery and equipment	68,314	Depreciated replacement cost	Level 3	Index of physical depreciation	0 - 82 (56%)	The higher the index of physical depreciation, the lower the fair value
Production machinery and equipment	19,123	Market comparables	Level 3	Index of physical depreciation	0 - 82 (69%)	The higher the index of physical depreciation, the lower the fair value

If the above unobservable inputs to the valuation model were 5 p. p. higher/lower while all other variables were held constant, the carrying amount of the buildings and constructions and production machinery and equipment would decrease/increase by USD 20,349 thousand and USD 22,154 thousand, respectively.

Distribution of revaluation surpluses to participants is denoted by local legislation.

Impairment Testing of Property, Plant and Equipment

Management reviews the carrying amounts of assets to determine whether there is any indication that those assets are impaired.

In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

The assessment of whether there are indicators of a potential impairment are based on various assumptions including market conditions, asset utilization and the ability to utilize the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater than the recoverable amount.

The value in use is based on estimated future cash flows that are discounted to their present value. Estimated future cash flows require management to make a number of assumptions including customer demand and industry capacity, future growth rates and the appropriate discount rate. Any change in these estimates may result in impairment in future periods.

As of 30 June 2019, no indicators of property, plant and equipment impairment have been identified except for the results of revaluation of property, plant and equipment (Note 31).

Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill is impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating units to which goodwill has been allocated. The calculation of value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate their present value.

As of 30 June 2019, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 120,836 thousand (30 June 2018: USD 116,676 thousand). As of 30 June 2019, no impairment loss for goodwill and intangible assets with indefinite useful lives was recognized (Notes 16, 17) (30 June 2018: USD 577 thousand). Details of the management assumptions used to assess the recoverable amount of cash-generating units for which goodwill and intangible assets with indefinite useful lives have been allocated to are provided in Notes 16 and Note 17.

Provision for ECL of trade and other receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating). The amount of ECL is sensitive to changes in circumstances and of forecasts economic conditions. The Group uses reasonable and supportable forward-looking information for the forecast of economic conditions when measuring ECL. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

Fair Value of Biological Assets and Agricultural Produce

Biological assets are recorded at fair value less costs to sell. The Group estimates the fair values of biological assets and agricultural produce based on the following key assumptions:

- Expected crop output (for crops in fields);
- Expected future inflows from livestock;
- Average number of heads of milk cows and its weight;
- Productive life of one milk cow;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and
- Discount rate.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results (Note 13).

Fair value measurements

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 three hierarchy levels, Level 1, 2 and 3, 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); by using models with externally verifiable inputs (Level 2); or by using alternative procedures such as comparison to comparable instruments and/or using models with unobservable market inputs requiring Group to make market-based assumptions (Level 3). Level 3 inputs therefore include the highest level of estimation uncertainty.

5. 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 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 June 2018 was restated to reflect the changes in presentation.

Starting with 1 July 2018, Kernel is presenting its segment results within three business segments: Oilseed Processing, Infrastructure and Trading, and Farming. The reason behind this aggregation is to align representation with the management decision making, as business processes within the historical six business segments are not separate and decisions are mostly made to account for the combined effect on several segments.

In Oilseed 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 devoted to bulk oil, 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, 99% of the Group's export terminals capacity and majority of grain storage capacity were used for the Group's own export volumes. The results of the Infrastructure and Trading segment incorporate savings achieved by acquiring and employing the Company's own railcar park. Also, the Infrastructure and Trading segment include the results of the Avere Commodities S.A. and its subsidiaries (hereinafter, Avere).

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 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 accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

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.

Seasonality of operations

The Oilseed Processing segment normally has seasonally lower sales in the first quarter of the financial year, which corresponds to the end of the crushing season and lower production levels. The operations of the Farming segment reflect seasonality in the context of seeding and harvesting campaigns, which are conducted mainly in November-May and June-November, respectively. The Infrastructure and Trading segment usually experiences somewhat higher volumes in the several months after the commencement of the harvesting campaign (July for early grains and September for crops harvested in autumn). In addition, the farming segment usually reflects a higher effect from the IAS 41 valuation of biological assets in the last quarter of the financial year when more acreage is revalued to fair value less costs to sell and a higher effect from the IAS 41 valuation of agricultural produce in the first half of the financial year due to the completion of the harvesting campaign.

6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2019:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	878,835	3,083,315	29,983	—	—	3,992,133
Intersegment sales	614,437	56,601	571,602	—	(1,242,640)	—
Total revenue	**1,493,272**	**3,139,916**	**601,585**	—	**(1,242,640)**	**3,992,133**
Net change in fair value of biological assets and agricultural produce	—	—	9,140	—	—	9,140
Other operating income, net	1,729	14,755	11,744	—	—	28,228
Profit/(Loss) from operating activities	**92,598**	**92,601**	**136,813**	**(52,805)**	**—**	**269,207**
Finance costs, net						(82,319)
Foreign exchange gain, net						12,860
Other expenses, net						(8,376)
Share of loss of joint ventures						(966)
Income tax expenses						(11,902)
Profit for the period from continuing operations						178,504
Total assets	**914,414**	**748,022**	**744,796**	**56,368**	**—**	**2,463,600**
Capital expenditures	53,431	115,368	91,285	3,600	—	263,684
Amortization and depreciation	16,419	13,134	45,069	1,681	—	76,303
Liabilities	74,532	150,899	69,470	822,673	—	1,117,574

Allocated revenue of promised goods and services by operating segment for the year ended 30 June 2019 under requirements IFRS 15 was as follows:

	Oilseed Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	865,222	2,946,419	29,983	3,841,624
Freight and other services	13,613	136,896	—	150,509
Total external revenue from contracts with customers	**878,835**	**3,083,315**	**29,983**	**3,992,133**

During the year ended 30 June 2019, revenues of approximately USD 314,471 thousand (2018: USD 245,201 thousand) are derived from a single external customer. These revenues are attributed to Oilseed processing and Infrastructure and Trading segments. Also, during that period, export sales amounted to 97.0% of total external sales.

For the year ended 30 June 2019, revenue from the Group's top five customers accounted for approximately 36.0% of total revenue (for the year ended 30 June 2018, revenue from the top five customers accounted for 38.6% of total revenue).

Among other, 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.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

The Group's revenue from external customers (based on the location where sale occurred) and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue from external customers Year ended 30 June 2019	Non-current assets As of 30 June 2019
Ukraine	2,083,289	1,144,221
Europe	1,102,392	2,451
North America	806,452	276
Other locations	—	51,773
Total	**3,992,133**	**1,198,721**

None of the other locations represented more than 10% of total revenue or non-current assets individually. Revenue from external customers allocated based on the location, where the sale occurred.

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

Gain/loss from Avere operations with financial derivatives are presented within Infrastructure and Trading segment.

Key data by operating segment for the year ended 30 June 2018:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	1,393,491	957,983	51,529	—	—	2,403,003
Intersegment sales	—	66,596	418,960	—	(485,556)	—
Total revenue	**1,393,491**	**1,024,579**	**470,489**	**—**	**(485,556)**	**2,403,003**
Net change in fair value of biological assets and agricultural produce	—	—	18,699	—	—	18,699
Other operating income, net	4,712	36,748	17,632	—	—	59,092
Profit/(Loss) from operating activities	**60,214**	**91,968**	**32,557**	**(45,174)**	**—**	**139,565**
Finance costs, net						(65,099)
Foreign exchange gain, net						5,375
Other expenses, net						(30,980)
Share of income of joint ventures						1,193
Income tax benefit						5,900
Profit for the period from continuing operations						55,954
Total assets	**888,310**	**540,907**	**700,052**	**81,245**	**—**	**2,210,514**
Capital expenditures	7,804	30,045	91,751	3,784	—	133,384
Amortization and depreciation	16,464	8,870	56,174	1,467	—	82,975
Liabilities	72,046	91,659	84,099	785,106	—	1,032,910

Presentation of the operating segments' activities in previous consolidated financial statements for the year ended 30 June 2018:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Reconciliation	Continuing operations
Revenue (external)	129,859	1,263,632	423	51,529	951,252	6,308	—	—	2,403,003
Intersegment sales	—	—	52,826	418,960	—	65,946	—	(537,732)	—
Total revenue	**129,859**	**1,263,632**	**53,249**	**470,489**	**951,252**	**72,254**	**—**	**(537,732)**	**2,403,003**
Net change in fair value of biological assets and agricultural produce	—	—	—	18,699	—	—	—	—	18,699
Other operating income, net	14	4,698	4	17,632	34,520	2,224	—	—	59,092
Profit/(Loss) from operating activities	**11,561**	**48,653**	**35,897**	**32,557**	**17,492**	**38,579**	**(45,174)**	**—**	**139,565**
Finance costs, net									(65,099)
Foreign exchange gain, net									5,375
Other expenses, net									(30,980)
Share of income of joint ventures									1,193
Income tax benefit									5,900
Profit for the period from continuing operations									55,954
Total assets	**60,403**	**827,907**	**119,386**	**700,052**	**330,571**	**90,950**	**81,245**	**—**	**2,210,514**
Capital expenditures	607	7,197	7,689	91,751	—	22,356	3,784	—	133,384
Amortization and depreciation	1,805	14,659	3,205	56,174	—	5,665	1,467	—	82,975
Liabilities	3,533	68,513	4,700	84,099	84,945	2,014	785,106	—	1,032,910

The accompanying notes are an integral part of these financial statements.

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for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

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

The Group's revenue from external customers (based on the location where sale occurred) and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue from external customers	Non-current assets
	Year ended 30 June 2018	As of 30 June 2018
Ukraine	1,519,128	933,149
North America	815,361	21
Europe	58,471	2,303
Other locations	10,043	52,236
Total	**2,403,003**	**987,709**

None of the other countries constituted more than 10% of total revenue or non-current assets individually. Revenue from external customers allocated based on the location, where the sale occurred.

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

Gain/loss from Avere operations with financial derivatives are presented within Infrastructure and Trading/Grain segment.

7. Acquisition and Disposal of Subsidiaries

On 14 February 2019, to protect the Company against ever rising logistic costs and to procure the smooth and efficient flow of grains from inland silos, the Group has acquired 100% effective ownership obtaining shares in Rail Transit Kargo Ukraine LLC (herein "RTK-Ukraine"): a railcar business that manages about 2,949 grain railcars.

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

	Fair value
Assets	
Current assets:	
Cash and cash equivalents	1,137
Trade accounts receivable, net	1,696
Prepayments to suppliers and other current assets, net	2,085
Taxes recoverable and prepaid, net	1,982
Inventory	11
Total current assets	**6,911**
Non-current assets:	
Property, plant and equipment, net	56,925
Total non-current assets	**56,925**
Total assets	**63,836**
Liabilities	
Current liabilities:	
Advances from customers and other current liabilities	1,096
Total current liabilities	**1,096**
Non-current liabilities:	
Deferred tax liabilities	6,328
Total non-current liabilities	**6,328**
Total liabilities	**7,424**
Fair value of net assets of acquired subsidiaries	56,412
Non-controlling interest	—
Fair value of acquired net assets	56,412
Goodwill	3,867
Fair value of purchase consideration	60,279
Less: acquired cash	(1,137)
Net cash outflow on acquisition of subsidiaries	(48,016)

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

Revenue and net profit of the acquired entity from the date of acquisition to 30 June 2019 were as follows:

	Total
Revenue	6,002
Net profit	1,832

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

Since initial accounting is incomplete as of the reporting date due to finalization of relevant calculations and market valuations, only provisional amounts were recognized to determine net assets, and result of acquisition. After finalization of relevant information retrospective adjustments to the provisional amounts will be made. The Group supposes to finalize result of acquisition and relevant amounts till the end of the period ended 31 March 2020.

At the moment of acquisition, nominal value of consideration amounted to USD 64,833 thousand and comprised of USD 49,153 thousand paid in cash and USD 15,680 thousand payable (out of which USD 15,000 thousand of deferred consideration payable over 5 years). At the moment of acquisition, fair value of consideration was USD 60,279 thousand (including USD 11,126 thousand payable) calculated as the present value of amounts payable at discount rate 7.5% (represented within the line ‘Other non-current liabilities’). As of 30 June 2019, as a result of accelerated payments of USD 7,350 thousand, made after the acquisition date, the consideration paid comprised USD 56,272 thousand and the present value of amount payable was USD 5,638 thousand.

The goodwill in the amount of USD 3,867 thousand arising from the accounting for acquisition of RTK-Ukraine as business combination is attributable to the protection the Company against the rising logistic costs and the synergies expected to be gained efficient flow of grains from inland silos to the ports. It will not be deductible for tax purposes.

During the year ended 30 June 2019, as a result of the optimization process, the Group disposed of farming entities managing about 12,350 hectares of leasehold suboptimal farmlands located in Zhytomyr, Volyn and Mykolaiv regions and grain elevators, located in Ternopil, Kyiv, Chernihiv and Kharkiv regions.

The net assets of the disposed entities as of the date of disposal were equal to USD 7,671 thousand and the cash consideration receivable was USD 11,857 thousand (out of which USD 6,300 thousand was received during this reporting period).

Fair value of cash consideration receivable which should be repaid in full in arrears up to 1 December 2020, were calculated at a discount rate 7.5% and as of the reporting date the outstanding amount comprised to USD 4,820 thousand (USD 4,722 thousand as of the date of disposal) and is presented within the lines ‘Prepayments to suppliers and other current assets, net’ and ‘Other non-current assets’.

During the year ended 30 June 2019, according to management’s plan, the Group disposed of one of its oilseed crushing plants, previously classified as assets held for sale, 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

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

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

	Fair value
Assets	
Current assets:	
Cash and cash equivalents	4
Trade accounts receivable, net	176
Prepayments to suppliers and other current assets, net	316
Corporate income tax prepaid	29
Taxes recoverable and prepaid, net	2,735
Inventory	1,574
Biological assets	12,006
Total current assets	**16,840**
Non-current assets:	
Property, plant and equipment, net	23,161
Intangible assets, net	14,385
Deferred tax assets	40
Other non-current assets	270
Total non-current assets	**37,856**
Total assets	**54,696**
Liabilities	
Current liabilities:	
Trade accounts payable	3,021
Advances from customers and other current liabilities	687
Total current liabilities	**3,708**
Non-current liabilities:	
Deferred tax liabilities	1,463
Total non-current liabilities	**1,463**
Fair value of net assets of acquired subsidiaries	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.

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 year ended 30 June 2018, 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).

During the year ended 30 June 2018, as a result of business optimization, the Group disposed of farming entities managing more than 40,000 ha of leasehold suboptimal farmlands located in Northern and Western regions of Ukraine.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

Net assets of the disposed farming entities as of the date of disposal were as follows:

	Fair value
Assets	
Current assets:	
Cash and cash equivalents	263
Trade accounts receivable, net	1,238
Prepayments to suppliers and other current assets, net	2,583
Taxes recoverable and prepaid, net	1,989
Inventory	3,449
Biological assets	3,040
Total current assets	**12,562**
Non-current assets:	
Property, plant and equipment, net	6,184
Intangible assets, net	13,295
Other non-current assets	1
Total non-current assets	**19,480**
Total assets	**32,042**
Liabilities	
Current liabilities:	
Trade accounts payable	959
Advances from customers and other current liabilities	8,378
Short-term borrowings	10
Total current liabilities	**9,347**
Non-current liabilities:	
Other non-current liabilities	52
Total liabilities	**9,399**
Net assets disposed	**22,643**
Non-controlling interest	—
Net assets of disposed companies	22,643
Total cash consideration receivable	23,739
Less: cash from assets disposed	(263)
Less: accounts receivable for subsidiaries disposed of	(174)
Net cash inflow from subsidiaries disposed of	23,302
Gain on disposal	1,096

8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2019	As of 30 June 2018
Cash in banks in USD	64,109	92,617
Cash in banks in UAH	4,448	20,407
Cash in banks in other currencies	8,237	18,989
Cash on hand	7	5
Total	**76,801**	**132,018**
Less restricted and blocked cash on security bank accounts	(138)	(676)
Less bank overdrafts (Note 20)	(246)	(41,273)
Cash for the purposes of cash flow statement	**76,417**	**90,069**

In accordance with the international rating agency of Fitch, credit ratings of the banks with which the Group had the accounts opened as of 30 June 2019 were as follows:

	As of 30 June 2019	As of 30 June 2018
Ukrainian subsidiaries of international banks without international ratings	27,504	28,371
International banks with F1 rating	24,740	46,514
International banks with F2 rating	21,122	34,496
International banks with F1+ rating	2,395	75
International banks with F3 rating	562	12,643
Foreign banks without ratings	478	9,919
Total	**76,801**	**132,018**

The reconciliation in the table below presents changes in the Group's liabilities arising from financing activities by incorporating cash flows and non-cash changes over the reporting period.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

Reconciliation of liabilities arising from financing activities:

	As of 30 June 2018	Cash flow from proceeds/ (repayments)	Non-cash movements: New finance leases	Amortization of one-off and transaction costs	Foreign exchange movements	Other changes[1]	As of 30 June 2019
Bank borrowings (Note 20, 21)	188,280	64,947	—	2,398	(4,015)	(4,537)	247,073
Finance lease obligations (Note 22)	10,946	(3,677)	—	—	3	442	7,714
Bonds issued (Note 23)	494,796	—	—	1,255	—	—	496,051
Total	**694,022**	**61,270**	**—**	**3,653**	**(4,012)**	**(4,095)**	**750,838**

	As of 30 June 2017	Cash flow from proceeds/(repayments)	Non-cash movements: New finance leases	Amortization of one-off and transaction costs	Foreign exchange movements	Other changes[1]	As of 30 June 2018
Bank borrowings (Note 20, 21)	87,210	105,173	—	1,798	(1,587)	(4,314)	188,280
Finance lease obligations (Note 22)	5,744	(7,600)	11,572	—	(35)	1,265	10,946
Bonds issued (Note 23)	493,648	—	—	1,148	—	—	494,796
Total	**586,602**	**97,573**	**11,572**	**2,946**	**(1,622)**	**(3,049)**	**694,022**

9. Trade Accounts Receivable, net

The balances of trade accounts receivable, net were as follows:

	As of 30 June 2019	**As of 30 June 2018**
Trade accounts receivable	189,669	93,471
Allowance for expected credit losses	(6,473)	(1,116)
Total	**183,196**	92,355

As of 30 June 2019, accounts receivable from one European customer accounted for approximately 14.3% (30 June 2018: for approximately 27.9% respectively).

The average credit period on sales of goods was 17 days (for the period ended 30 June 2018: 16 days). No interest is charged on the outstanding balances of trade accounts receivable.

The Group applies IFRS 9 simplified approach for measuring ECL which uses a lifetime expected loss allowance for all trade accounts receivables.

To measure ECL, trade accounts receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 24 months before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified actual losses per each group to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

As the Group's historical credit loss experience does not show significantly different loss patterns for different customer groups, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

On this basis, the loss allowance as at 30 June 2019 was determined for trade accounts receivables as follows:

	Current	**Less than 90 days past due**	**More than 90 days past due**	**Total**
Expected loss rate[2]	0.2%	27.8%	84.6%	
Gross carrying amount – trade accounts receivables	176,559	8,874	4,236	189,669
Loss allowance	**(423)**	**(2,465)**	**(3,585)**	**(6,473)**

[1] Other changes include translation difference, repayment of transactions costs and one-off borrowing commissions and other non-cash changes.

[2] Differences in expected loss rate are possible due to rounding

The accompanying notes are an integral part of these financial statements.

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for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

The loss allowances for trade accounts receivables as of 30 June reconcile to the opening loss allowances as follows:

	Trade accounts receivables		
	Collectively assessed	**Individually assessed**	**Total**
Opening loss allowance as of 1 July under IAS 39	390	726	1,116
Adjustment upon application of IFRS 9 (Note 3)	314	–	314
Opening loss allowance as of 1 July under IFRS 9	704	726	1,430
Increase in loss allowance recognized in profit or loss during the year	4,899	1,040	5,939
Trade receivables written off during the year as uncollectible	(896)	–	(896)
Unused amount reversed	–	–	–
Closing loss allowance as of 30 June	**4,707**	**1,766**	**6,473**

Trade accounts receivables are written off, where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among 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.

Impairment losses on trade accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

10. Prepayments to Suppliers and Other Current Assets, net

The balances of prepayments to suppliers and other current assets, net were as follows:

	As of 30 June 2019	**As of 30 June 2018**
Prepayments to suppliers	111,461	110,509
Other current assets	24,137	8,901
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(5,776)	(6,068)
Total	**129,822**	**113,342**

Increase of prepayments to suppliers and other current assets as of 30 June 2019 in comparison with 30 June 2018 is mostly connected with financing of suppliers for future commodities purchases.

11. Taxes Recoverable and Prepaid, net

The balances of taxes recoverable and prepaid, net were as follows:

	As of 30 June 2019	**As of 30 June 2018**
VAT ('value added tax') recoverable and prepaid	117,880	114,192
Other taxes recoverable and prepaid	695	503
Total	**118,575**	**114,695**

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances will be recovered in full within 12 months after the reporting date through cash collection or set-off with respective VAT liabilities. For the year ended 30 June 2019, the amount of VAT refunded by the government in cash was USD 331,719 thousand (30 June 2018: USD 265,048 thousand).

12. Inventory

The balances of inventories were as follows:

	As of 30 June 2019	**As of 30 June 2018**
Raw materials	148,205	81,543
Finished products	105,569	210,687
Goods for resale	47,355	37,072
Agricultural products	38,560	22,132
Fuel	7,075	4,411
Packaging materials	1,620	1,634
Work in progress	1,478	1,620
Other inventories	7,748	9,354
Total	**357,610**	**368,453**

As of 30 June 2019, raw materials mostly consisted of sunflower seed stock in the amount of USD 103,661 thousand (30 June 2018 USD 57,603 thousand).

As of 30 June 2019, finished products mostly consisted of sunflower oil in bulk in the amount of USD 75,518 thousand (30 June 2018 USD 193,460 thousand).

Write-downs of inventories to net realizable value amounted to USD 1,709 thousand (2018: USD 5,459 thousand).

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

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As of 30 June 2019 and 2018, the inventory balances in the amounts of USD 166,245 thousand and USD 200,849 thousand, respectively, were pledged as security for short-term borrowings (Note 20).

13. Biological Assets

The balances of crops in fields were as follows:

	As of 30 June 2019		As of 30 June 2018	
	Hectares	Value	Hectares	Value
Corn	231,115	130,075	225,267	123,885
Sunflower seed	136,537	87,855	134,816	80,926
Wheat	97,072	66,304	100,505	56,136
Soybean	24,283	10,031	36,485	16,419
Rapeseed	9,447	9,077	4,605	4,396
Other	5,262	3,773	19,231	5,096
Total	**503,716**	**307,115**	**520,909**	**286,858**

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2019 and 30 June 2018:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 30 June 2017	**230,672**	**23,810**	**254,482**
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2017)	114,658	—	114,658
Increase resulting from business acquisitions	11,832	—	11,832
Decrease due to harvest (harvest 2017)	(357,162)	(23,810)	(380,972)
Decrease resulting from disposal	(2,946)	(94)	(3,040)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2018)	231,304	—	231,304
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2018)	—	52,350	52,350
Exchange difference	4,919	1,325	6,244
As of 30 June 2018	**233,277**	**53,581**	**286,858**
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2018)	126,979	—	126,979
Decrease due to harvest (harvest 2018)	(360,256)	(53,581)	(413,837)
Decrease resulting from disposals	(970)	(265)	(1,235)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2019)	246,203	—	246,203
Decrease due to harvest (harvest 2019)	(333)	(71)	(404)
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2019)	—	53,385	53,385
Exchange difference	8,023	1,143	9,166
As of 30 June 2019	**252,923**	**54,192**	**307,115**

As of 30 June 2019, non-current cattle in the amount of USD 5,271 thousand (30 June 2018: USD 7,606 thousand) was represented mainly by 5,058 heads of milk cows (30 June 2018: 7,164 heads) (Note 18), and current cattle of USD 1,915 thousand (30 June 2018: USD 2,578 thousand) was represented mainly by 4,707 heads of calves (30 June 2018: 6,871 heads). The change in the balances was mainly represented by a change in the mix of cattle and variation in prices and exchange rates between reporting dates. For the year ended 30 June 2019, the net gain arising from changes in the fair value of biological assets in the amount of USD 9,140 thousand (2018: gain of USD 18,699 thousand) includes a USD 3,700 thousand loss on changes in current and non-current cattle's fair value (2018: loss of USD 3,805 thousand).

As a result of business acquisitions, the Group purchased biological assets in the amount of USD 12,006 thousand (Note 7) for the year ended 30 June 2018 (30 June 2019: nil), out of which crops in fields amounted to USD 11,832 thousand (30 June 2019: nil). The fair value of agricultural produce was estimated based on market prices as at the date of harvest and is within level 2 of fair value hierarchy. Crops in fields and non-current cattle of the Group are measured using discounted cash flow technique and are within the level 3 of the fair value hierarchy. Current cattle is measured based on market prices of livestock of similar age, breed and genetic merit, which is within level 2 of the fair value hierarchy.

Notes to the Consolidated Statements continued

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There were no changes in valuation technique since previous year. There were no transfers between any levels during the year.

Description	Fair value as of 30 June 2019	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in field	307,115	Discounted cash flows	Crops yield	2.41 - 7.20 (5.39) tons per hectare	The higher the crop yield, the higher the fair value
			Discount rate	17.88% (in UAH, short term)	The higher the discount rate, the lower the fair value
Milk cows	5,271	Discounted cash flows	Milk yield – liter per cow	17.48 – 22.03 (19.72) liters per cow per day	The higher the milk yield, the higher the fair value
			Weight of 1 calf	29 - 33 (31) kg	The higher the weight, the higher the fair value
			Average yield of calves from 100 cows per year	61 - 75 (69) calves	The higher the yield, the higher the fair value
			Discount rate, %	15.82% (in UAH, long term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5% higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 23,048 thousand and USD 23,155 thousand, respectively.

Description	Fair value as of 30 June 2018	Valuation techniques	Unobservable Inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in field	286,858	Discounted cash flows	Crops yield	1.91 - 7.2 (4.55) tons per hectare	The higher the crop yield, the higher the fair value
			Discount rate	22.90% (in UAH, short term)	The higher the discount rate, the lower the fair value
Milk cows	7,606	Discounted cash flows	Milk yield – liter per cow	16.97 – 21.93 (19.45) liters per cow per day	The higher the milk yield, the higher the fair value
			Weight of 1 calf	27 - 33 (30) kg	The higher the weight, the higher the fair value
			Average yield of calves from 100 cows per year	62 - 66 (64) calves	The higher the yield, the higher the fair value
			Discount rate, %	17.70% (in UAH, long term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5% higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 22,506 thousand and USD 22,469 thousand, respectively.

14. Assets Classified as Held for Sale and Discontinued Operations

As of 30 June 2019, according to management's plan to dispose one of export terminals and silo, their net assets, which predominantly consist of property, plant and equipment in the amount of USD 1,380 thousand were classified as assets held for sale. As of 30 June 2019, advances for sale of the subsidiaries in the amount of USD 2,290 thousand has been received and represented within the line 'Advances from Customers and Other Current Liabilities' (Note 19). The above-mentioned export terminal was disposed in August 2019. Their operations weren't presented as discontinued operations as they do not meet the criteria of recognition since the entities do not represent a separate major line of business or geographical area of operations.

During the year ended 30 June 2019, according to management's plan, the Group disposed of one of its oilseed crushing plants, previously classified as assets held for sale, 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).

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for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

15. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2019:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Total
Net Book Value as at 30 June 2018	**302,717**	**123,496**	**138,255**	**23,659**	**588,127**
Land	842	560	64	1,109	2,575
Buildings and Constructions	205,210	73,152	17,517	19,737	315,616
Production machinery and equipment	86,436	36,253	21,883	18	144,590
Agricultural equipment and vehicles	3,590	2,234	81,262	923	88,009
Other fixed assets	2,522	2,185	6,930	1,858	13,495
CIP and uninstalled equipment	4,117	9,112	10,599	14	23,842
Additions	**53,339**	**58,240**	**66,249**	**1,455**	**179,283**
CIP and uninstalled equipment	53,339	58,240	66,249	1,455	179,283
Reclassification	**(5)**	**—**	**6**	**(1)**	**—**
Land	—	—	7	—	7
Buildings and Constructions	(587)	—	—	—	(587)
Production machinery and equipment	(756)	—	(6)	—	(762)
Agricultural equipment and vehicles	35	—	(377)	—	(342)
Other fixed assets	1,303	—	382	(1)	1,684
CIP and uninstalled equipment	—	—	—	—	—
Additions from acquisition of subsidiaries	**—**	**56,925**	**—**	**—**	**56,925**
Agricultural vehicles and equipment	—	56,925	—	—	56,925
Transfers	**—**	**—**	**—**	**—**	**—**
Land	80	—	3	—	83
Buildings and Constructions	1,414	3,090	2,773	141	7,418
Production machinery and equipment	5,148	1,460	17,822	6	24,436
Agricultural equipment and vehicles	1,739	378	20,755	136	23,008
Other fixed assets	989	601	3,524	1,201	6,315
CIP and uninstalled equipment	(9,370)	(5,529)	(44,877)	(1,484)	(61,260)
Revaluation	**15,599**	**—**	**—**	**—**	**15,599**
Buildings and Constructions	10,133	—	—	—	10,133
Production machinery and equipment	5,466	—	—	—	5,466
Disposals (at NBV)	**(3,127)**	**(4,631)**	**(4,266)**	**(36)**	**(12,060)**
Land	(70)	(124)	—	—	(194)
Buildings and Constructions	(1,875)	(2,152)	(1,107)	—	(5,134)
Production machinery and equipment	(839)	(839)	(42)	(1)	(1,721)
Agricultural equipment and vehicles	(26)	(16)	(2,169)	(35)	(2,246)
Other fixed assets	(25)	(60)	(227)	—	(312)
CIP and uninstalled equipment	(292)	(1,440)	(721)	—	(2,453)
Transfers to Assets classified as held for sale	**—**	**(1,380)**	**—**	**—**	**(1,380)**
Land	—	(54)	—	—	(54)
Buildings and Constructions	—	(966)	—	—	(966)
Production machinery and equipment	—	(174)	—	—	(174)
Agricultural vehicles and equipment	—	(1)	—	—	(1)
Other fixed assets	—	(10)	—	—	(10)
CIP and uninstalled equipment	—	(175)	—	—	(175)
Depreciation expense	**(15,992)**	**(12,506)**	**(33,809)**	**(1,395)**	**(63,702)**
Buildings and constructions	(6,413)	(3,805)	(1,637)	(494)	(12,349)
Production machinery and equipment	(8,018)	(3,812)	(5,575)	(4)	(17,409)
Agricultural equipment and vehicles	(825)	(4,400)	(24,686)	(206)	(30,117)
Other fixed assets	(736)	(489)	(1,911)	(691)	(3,827)
Translation difference	**141**	**780**	**948**	**25**	**1,894**
Land	—	(5)	—	1	(4)
Buildings and Constructions	—	(24)	58	7	41
Production machinery and equipment	—	(44)	568	1	525
Agricultural equipment and vehicles	71	(3)	31	(17)	82
Other fixed assets	(4)	5	128	8	137
CIP and uninstalled equipment	74	851	163	25	1,113
Net Book Value as at 30 June 2019	**352,672**	**220,924**	**167,383**	**23,707**	**764,686**
Land	852	377	74	1,110	2,413
Buildings and Constructions	207,882	69,295	17,604	19,391	314,172
Production machinery and equipment	87,437	32,844	34,650	20	154,951
Agricultural equipment and vehicles	4,584	55,117	74,816	801	135,318
Other fixed assets	4,049	2,232	8,826	2,375	17,482
CIP and uninstalled equipment	47,868	61,059	31,413	10	140,350

The accompanying notes are an integral part of these financial statements.

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The following table represents movements in property, plant and equipment for the year ended 30 June 2018:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Total
Net Book Value as at 30 June 2017	**319,221**	**104,321**	**123,066**	**23,106**	**569,714**
Land	2,280	332	48	1,163	3,823
Buildings and Constructions	214,124	62,829	18,933	19,944	315,830
Production machinery and equipment	95,174	33,779	2,512	24	131,489
Agricultural equipment and vehicles	1,580	1,727	93,733	599	97,639
Other fixed assets	2,681	1,054	4,333	1,362	9,430
CIP and uninstalled equipment	3,382	4,600	3,507	14	11,503
Additions	**6,457**	**14,565**	**57,333**	**1,991**	**80,346**
CIP and uninstalled equipment	6,457	14,565	57,333	1,991	80,346
Reclassification	**36**	**(61)**	**(4)**	**29**	**—**
Land	—	—	—	—	—
Buildings and Constructions	—	(4)	—	162	158
Production machinery and equipment	—	2,021	—	—	2,021
Agricultural equipment and vehicles	56	(76)	(4)	14	(10)
Other fixed assets	(20)	(2,002)	—	(147)	(2,169)
CIP and uninstalled equipment	—	—	—	—	—
Additions from acquisition of subsidiaries	**—**	**15,297**	**7,584**	**280**	**23,161**
Land	—	228	10	—	238
Buildings and Constructions	—	12,275	1,487	—	13,762
Production machinery and equipment	—	2,546	57	—	2,603
Agricultural vehicles and equipment	—	172	5,832	—	6,004
Other fixed assets	—	76	191	280	547
CIP and uninstalled equipment	—	—	7	—	7
Transfers	**—**	**—**	**—**	**—**	**—**
Land	140	3	5	—	148
Buildings and Constructions	272	3,103	1,128	464	4,967
Production machinery and equipment	1,798	2,047	22,368	4	26,217
Agricultural equipment and vehicles	2,527	838	21,325	503	25,193
Other fixed assets	551	3,432	4,035	1,003	9,021
CIP and uninstalled equipment	(5,288)	(9,423)	(48,861)	(1,974)	(65,546)
Disposals (at NBV)	**(641)**	**(1,333)**	**(10,174)**	**(399)**	**(12,547)**
Land	—	—	—	(49)	(49)
Buildings and Constructions	(1)	(818)	(1,874)	(269)	(2,962)
Production machinery and equipment	(575)	(35)	(1,383)	(8)	(2,001)
Agricultural equipment and vehicles	(2)	(10)	(6,162)	—	(6,174)
Other fixed assets	(3)	(5)	(254)	(36)	(298)
CIP and uninstalled equipment	(60)	(465)	(501)	(37)	(1,063)
Transfers to Assets classified as held for sale	**(6,480)**	**—**	**—**	**—**	**(6,480)**
Land	(1,578)	—	—	—	(1,578)
Buildings and Constructions	(2,551)	—	—	—	(2,551)
Production machinery and equipment	(1,853)	—	—	—	(1,853)
Agricultural vehicles and equipment	(1)	—	—	—	(1)
Other fixed assets	(35)	—	—	—	(35)
CIP and uninstalled equipment	(462)	—	—	—	(462)
Depreciation expense	**(16,012)**	**(8,840)**	**(39,101)**	**(1,273)**	**(65,226)**
Buildings and constructions	(6,634)	(3,952)	(2,029)	(492)	(13,107)
Production machinery and equipment	(8,108)	(4,050)	(1,794)	(4)	(13,956)
Agricultural equipment and vehicles	(622)	(415)	(33,814)	(206)	(35,057)
Other fixed assets	(648)	(423)	(1,464)	(571)	(3,106)
Translation difference	**136**	**(453)**	**(449)**	**(75)**	**(841)**
Land	—	(3)	1	(5)	(7)
Buildings and Constructions	—	(281)	(128)	(72)	(481)
Production machinery and equipment	—	(55)	123	2	70
Agricultural equipment and vehicles	52	(2)	352	13	415
Other fixed assets	(4)	53	89	(33)	105
CIP and uninstalled equipment	88	(165)	(886)	20	(943)
Net Book Value as at 30 June 2018	**302,717**	**123,496**	**138,255**	**23,659**	**588,127**
Land	842	560	64	1,109	2,575
Buildings and Constructions	205,210	73,152	17,517	19,737	315,616
Production machinery and equipment	86,436	36,253	21,883	18	144,590
Agricultural equipment and vehicles	3,590	2,234	81,262	923	88,009
Other fixed assets	2,522	2,185	6,930	1,858	13,495
CIP and uninstalled equipment	4,117	9,112	10,599	14	23,842

The accompanying notes are an integral part of these financial statements.

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Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2019 and 2018 were as follows:

	Cost as of 30 June 2019	Accumulated depreciation as of 30 June 2019	Cost as of 30 June 2018	Accumulated depreciation as of 30 June 2018
Land	2,413	-	2,575	—
Buildings and constructions	364,745	(50,573)	356,489	(40,873)
Production machinery and equipment	216,807	(61,856)	189,624	(45,034)
Agricultural equipment and vehicles	292,395	(157,077)	222,320	(134,311)
Other fixed assets	33,652	(16,170)	25,272	(11,777)
CIP and uninstalled equipment	140,350	—	23,842	—
Total	**1,050,362**	**(285,676)**	**820,122**	**(231,995)**

Had the Group's buildings and constructions and production machinery and equipment (Oilseed Processing segment) been measured on a historical cost basis, their carrying amount would have been as follows:

	As of 30 June 2019	As of 30 June 2018
Buildings and constructions	185,317	193,568
Production machinery and equipment	69,195	75,352
Total	**254,512**	**268,920**

Revaluation of property, plant and equipment of oil plants is comprised of impairment loss recognized in other expenses in the amount of USD 10,234 thousand (Note 31) and revaluation surplus recognized in other comprehensive income in the amount of USD 25,833 thousand.

As of 30 June 2019, property, plant and equipment with a carrying amount of USD 104,053 thousand (30 June 2018: USD 540 thousand) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 20, 21).

As of 30 June 2019, property, plant and equipment with a carrying amount of USD 29,228 thousand (30 June 2018: USD 25,742 thousand) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016.

As of 30 June 2019 and 30 June 2018, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 9,269 thousand and USD 15,976 thousand, respectively.

16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2019:

	Trade-marks	Land lease rights	Other intangible assets	Total
Cost as of 1 July 2018	**22,036**	**149,069**	**6,200**	**177,305**
Additions	—	24,501	2,975	27,476
Disposals	—	(5,033)	(951)	(5,984)
Transfers to Assets classified as held for sale	—	—	(7)	(7)
Exchange difference	—	1,096	(60)	1,036
Cost as of 30 June 2019	**22,036**	**169,633**	**8,157**	**199,826**

	Trade-marks	Land lease rights	Other intangible assets	Total
Accumulated amortization and impairment loss as of 1 July 2018	**(9,051)**	**(60,323)**	**(3,465)**	**(72,839)**
Amortization charge	—	(11,643)	(958)	(12,601)
Disposals	—	600	376	976
Transfers to Assets classified as held for sale	—	—	5	5
Reduction of loss on impairment recognized in the Statement of Profit or Loss	116	—	—	116
Exchange difference	—	(531)	(10)	(541)
Accumulated amortization and impairment loss as of 30 June 2018	(8,935)	(71,897)	(4,052)	(84,884)
Net book value as of 30 June 2019	**13,101**	**97,736**	**4,105**	**114,942**

The following table represents movements in intangible assets for the year ended 30 June 2018:

	Trade-marks	Land lease rights	Other intangible assets	Total
Cost as of 1 July 2017	**22,036**	**136,259**	**4,589**	**162,884**
Additions from acquisition of subsidiaries (Note 7)	—	14,385	—	14,385
Additions	—	13,613	1,879	15,492
Disposals	—	(14,687)	(203)	(14,890)
Transfers to Assets classified as held for sale	—	—	(17)	(17)
Exchange difference	—	(501)	(48)	(549)
Cost as of 30 June 2018	**22,036**	**149,069**	**6,200**	**177,305**

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	Trade-marks	Land lease rights	Other intangible assets	Total
Accumulated amortization and impairment loss as of 1 July 2017	**(10,729)**	**(44,606)**	**(2,688)**	**(58,023)**
Amortization charge	—	(16,981)	(768)	(17,749)
Disposals	—	1,392	79	1,471
Reduction of loss on impairment recognized in the Statement of Profit or Loss	1,678	—	—	1,678
Exchange difference	—	(128)	(88)	(216)
Accumulated amortization and impairment loss as of 30 June 2018	(9,051)	(60,323)	(3,465)	(72,839)
Net book value as of 30 June 2018	**12,985**	**88,746**	**2,735**	**104,466**

Included in the intangible assets of Subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with net book values of USD 4,567 thousand, USD 5,122 thousand, USD 3,233 thousand and USD 179 thousand, respectively, in 2019 (USD 4,967 thousand, USD 4,298 thousand, USD 3,541 thousand and USD 179 thousand, respectively, in 2018). These trademarks are used by the Group for the sale of bottled sunflower oil mostly in the Ukrainian market.

In management's view, there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group.

The Group believes that, as a result of further promotion of the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks, the market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them for an indefinite period of time.

Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

The impairment testing of the value of trademarks as of 30 June 2019 was performed by an independent appraiser. The recoverable amount of trademarks was based on the fair value less costs to sell method using the royalty approach of valuation and is classified within level 3 of the fair value hierarchy. This calculation uses cash flow projections based on financial budgets approved by management and covering a five-year period. The total amount of the trademarks was allocated to the Oilseed Processing segment (as one cash-generating unit).

Key assumptions used for the calculation were as follows:
- The royalty rate used was determined at the weighted average market level of 5.00%;
- Growth rates are based on the expected market growth rate for sunflower oil consumption. As of 30 June 2019, management believed that the market for bottled oil was saturated and for a period of five years no growth is expected; and
- As bottled oil is predominantly sold within Ukraine, the discount rate used was based on the weighted average cost of capital rate of 19.24% for UAH denominated cash flow projections.

As a result of testing performed as of 30 June 2019, recoverable amounts of the trademarks 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' were USD 4,567 thousand, USD 5,122 thousand, USD 3,233 thousand and USD 320 thousand, respectively (30 June 2018: USD 4,967 thousand, USD 4,298 thousand, USD 3,541 thousand and USD 301 thousand, respectively).

As a result of testing performed, impairment of the trademarks 'Zolota' and 'Schedry Dar' in the amount of USD 308 thousand and USD 400 thousand, respectively, was recognized as of 30 June 2019 (30 June 2018: 'Zolota' in the amount of USD 368 thousand) as a loss on impairment of intangible assets within 'Other expenses, net' (Note 31). This impairment loss was attributable to the Oilseed Processing segment. Impairment was caused primarily by shrinkage of consumer demand for premium segment bottled sunflower oil.

As a result of testing performed, impairment loss for the trademarks 'Stozhar' recognized in prior periods was partly reversed in the amount of USD 824 thousand as of 30 June 2019 (30 June 2018: ''Stozhar' and 'Schedry Dar' in the amount of USD 1,054 thousand and USD 992 thousand, respectively). Reversal was recognized as a reduction of loss on impairment of intangible assets within 'Other expenses, net' (Note 31). Value recovery was caused primarily by increase of export sales.

For the year ended 30 June 2019, additions included USD 24,501 thousand of amounts paid per land lease agreements, where USD 15,305 thousand of this amount related to agreements with an average lease term of 77 years (for the year ended 30 June 2018: USD 11,608 thousand and 87 years accordingly), amortized using straight-line method. The amount of amortization of the above-mentioned rights for the year ended 30 June 2019 amounted to USD 107 thousand (for the year ended 30 June 2018: USD 127 thousand).

17. Goodwill

The following table represents movements in goodwill for the year:

	As of 30 June 2019	As of 30 June 2018
Cost	114,705	122,624
Accumulated impairment losses	(10,837)	(10,837)
Other movements	3,867	(8,096)
Total	**107,735**	**103,691**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

	As of 30 June 2019	As of 30 June 2018
Cost at beginning of the year	114,528	122,692
Acquisitions of Subsidiaries (Note 7)	3,867	—
Transfer to Assets classified as held for sale (Note 14)	—	(8,096)
Exchange differences	177	(68)
Balance at the end of the year	**118,572**	**114,528**

Accumulated impairment losses

	As of 30 June 2019	As of 30 June 2018
Balance at the beginning of the year	(10,837)	(8,582)
Impairment losses recognized in the year	—	(2,255)
Balance at the end of the year	**(10,837)**	**(10,837)**

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

		Goodwill carrying value	
Segment	**Cash-generating unit**	**As of 30 June 2019**	**As of 30 June 2018**
Oilseed Processing	BSI LLC	35,331	35,331
	Kropyvnytskyi OEP PJSC (former Kirovogradoliya PJSC)	31,334	31,334
	Prydniprovskyi OEP LLC	13,225	13,225
	Prykolotnoe OEP LLC	2,147	2,147
	Other	1,906	1,906
Infrastructure and Trading	Transbulkterminal LLC	10,727	10,755
	RTK-Ukraine	4,027	—
Farming	Druzhba-Nova Group and other agricultural farms	9,038	8,993
Total		**107,735**	**103,691**

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amounts of Oilseed Processing and Infra-structure and Trading CGUs were determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering a five-year period and a discount rate of 8.6% per annum (2018: 10.2%). The value in use estimates developed by the Group to estimate the recoverable amount of cash-generating units represent the best available estimate based on the analysis of the Group's past perfor-mance, market knowledge and internal assumptions as to future trends on the market.

The discount rate reflects the current market assessment of the risks specific to the cash-generating units. The discount rate was determined by the weighted average cost of capital based on observable inputs from external sources of information. The discount rate used as of 30 June 2019 was 8.6% (30 June 2018: 10.2%). Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. As of 30 June 2019, the assumptions for expected sunflower oil prices were USD 688 to 769 per one metric ton in 2020-2024 with a corresponding cost of USD 340 to 349 per one metric ton of sunflower seeds, which corresponds to a margins of USD from 67 to 100 for one metric ton of oil. As of 30 June 2018, the assumptions for expected sunflower oil prices were USD 750 to 811 per one metric ton in 2019-2023 with a corresponding cost of USD 368 to 381 per one metric ton of sunflower seeds, which corresponds to a margins of USD from 52 to 100 for one metric ton of oil. Management believes that the margin per one metric ton of sunflower oil depends on the supply-de-mand balance for raw material in Ukraine rather than on the level of prices.

Excess of recoverable amount over carrying amount of individual CGUs summarized below:

		As of 30 June 2019
Oilseed Processing	BSI LLC	159,465
	Prydniprovskyi OEP LLC	144,963
	Kropyvnytskyi OEP PJSC (former Kirovogradoliya PJSC)	100,453
	Volchansk	50,465
	Prykolotnoe OEP LLC	8,477

The recoverable amount of Druzhba-Nova Group and other agricultural farms have been determined based on fair value less cost to sell estimates. The valuation method is based on the market approach and observable market prices, adjusted for the age and liquidity of the assets, which is within level 2 of the fair value hierarchy.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of Transbulkterminal LLC and Oilseed Processing CGUs to exceed its recoverable amount. Management believes that no reasonably possible change in the key assump-tions on which the recoverable amount of Druzhba-Nova Group and other agricultural farms is based will cause the carrying amount to exceed their recoverable amount.

The recoverable amount of RTK CGU was determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering railcars useful life period and a discount rate of 14.3% per annum and is classified within Level 3 of fair value hierarchy.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

As of 30 June 2019 and 2018, no impairment of goodwill was identified except for the impairment of goodwill allocated to BSI LLC oilseed crushing plant relating to the Oilseed Processing segment was recognized in the amount of USD 2,255 thousand for the year ended 30 June 2018 within 'Other expenses, net'.

18. Other Non-current Assets

The balances of other non-current assets were as follows:

	As of 30 June 2019	As of 30 June 2018
Prepayments for property, plant and equipment	87,849	94,047
Loans provided to related parties (Note 33)	19,769	10,124
Loans to farmers	11,083	—
Investments in financial asset	7,341	—
Non-current biological assets (Note 13)	5,271	7,606
Prepayments for business acquisitions	4,500	4,500
Other non-current assets	19,919	18,285
Total	**155,732**	**134,562**

19. Advances from Customers and Other Current Liabilities

The balances of advances from customers and other current liabilities were as follows:

	As of 30 June 2019	As of 30 June 2018
Provision for legal claims (Note 35)	31,872	28,971
Accrued payroll, payroll related taxes and bonuses	16,929	8,160
Taxes payable and provision for tax liabilities	9,748	13,296
Accounts payable for property, plant and equipment	9,230	2,434
Advances from customers	7,277	13,309
Provision for unused vacations and other provisions	6,334	5,911
Settlements for acquired Subsidiaries	5,537	12,364
Settlements with land lessors	2,754	2,048
Obligation under finance lease payable within one year (Note 22)	2,484	3,236
Other current liabilities	12,811	15,169
Total	**104,976**	**104,898**

20. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2019	As of 30 June 2018
Bank credit lines	182,160	182,657
Interest accrued on short-term borrowings	759	718
Interest accrued on long-term borrowings	527	125
Bank overdrafts (Note 8)	246	41,273
Total	**183,692**	**224,773**

The balances of short-term borrowings as of 30 June 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
Ukrainian subsidiary of European bank	4.00%	USD	July 2019	48,700
European bank	Libor + 2.25%	USD	July 2019	43,447
European bank	Libor + 3.95%	USD	July 2019	32,860
European bank	Libor + 4.00%	USD	July 2019	15,032
Ukrainian subsidiary of European bank	18.00%	UAH	July 2019	10,261
Ukrainian subsidiary of European bank	18.50%	UAH	July 2019	8,102
Ukrainian subsidiary of European bank	4.30%	USD	July 2019	7,300
European bank	Libor + 1.50%	USD	July 2019	6,992
Ukrainian subsidiary of European bank	19.00%	UAH	July 2019	3,803
European bank	Libor + 1.65%	USD	March 2020	2,903
Ukrainian subsidiary of European bank	18.25%	UAH	July 2019	2,484
European bank	Libor + 2.45%	USD	July 2019	522
Total bank credit lines				**182,406**
Interest accrued on short-term loans				759
Interest accrued on long-term loans				527
Total				**183,692**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

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
Total bank credit lines				**223,930**
Interest accrued on short-term loans				718
Interest accrued on long-term loans				125
Total				**224,773**

As of 30 June 2019, undrawn short-term bank credit lines amounted to USD 708,866 thousand (as of 30 June 2018: USD 121,908 thousand).

Short-term borrowings from banks were secured as follows:

Assets pledged	**As of 30 June 2019**	**As of 30 June 2018**
Inventory (Note 12)	166,245	200,849
Future sales receipts	85,365	41,273
Property, plant and equipment (Note 15)	626	540
Total	**252,236**	**242,662**

21. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2019	**As of 30 June 2018**
Long-term bank borrowings	64,913	5,623
Current portion of long-term borrowings	(1,233)	(2,811)
Total	**63,680**	**2,812**

The balances of long-term borrowings as of 30 June 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 2.78%	USD	February 2029	50,000
European bank	Libor + 2.77%	USD	April 2029	12,140
Ukrainian subsidiary of European bank	Libor + 4.50%	USD	August 2021	2,773
Total				**64,913**

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

As of 30 June 2019, undrawn long-term borrowings amounted to USD 243,860 thousand (as of 30 June 2018: nil).

Long-term bank borrowings from banks were secured as follows:

Assets pledged	**As of 30 June 2019**	**As of 30 June 2018**
Property, plant and equipment (Note 15)	103,427	—
Total	**103,427**	**—**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

22. Obligations under Finance Leases

The Group entered into finance lease arrangements for part of its agricultural equipment, vehicles and production machinery. Leases are denominated in USD and UAH. The average term of finance leases is 5 years.

The major components of finance lease liabilities were as follows:

	As of 30 June 2019		As of 30 June 2018	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable due to the finance lease:				
Within one year (Note 19)	3,113	2,484	3,979	3,236
Later than one year and not later than five years	5,983	5,230	9,096	7,710
Total	**9,096**	**7,714**	**13,075**	**10,946**
Less future finance charges	(1,382)	—	(2,129)	—
Present value of lease obligations	**7,714**	**7,714**	**10,946**	**10,946**

The average effective interest rate contracted for the year ended 30 June 2019 was at the level of 9.74% (30 June 2018: 9.44%).

23. Bonds issued

	As of 30 June 2019	As of 30 June 2018
Unsecured senior notes	500,000	500,000
Less: Unamortized debt issue costs	(3,949)	(5,204)
Total	**(496,051)**	**494,796**

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 June 2019 and 2018, accrued interest on bonds issued was 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 at the issue date, respectively.

24. Income Tax

The Company is subject to corporate income tax in Luxembourg. The tax rate in Luxembourg was 27.08% as of 30 June 2019 and 2018. The effective income tax rate in Switzerland as of 30 June 2019 was in range 9.92% - 11.64%. Income tax rate in the US as of 30 June 2019 was 23.60%. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2019 and 2018. The majority of the Group's operating entities are located in Ukraine, therefore effective tax rate reconciliations is completed based on Ukrainian statutory tax rates.

The majority of the Group's companies that are involved in agricultural production pay the Unified Agricultural Tax (UAT) in accordance with the Tax Code of Ukraine. The UAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The UAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The UAT does not constitute an income tax and, as such, is recognized in the Consolidated Statement of Profit or Loss in other operating income.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

The components of income tax expense were as follows:

	For the year ended 30 June 2019	For the year ended 30 June 2018
Current income tax charge	(3,359)	(7,391)
Deferred tax (expenses)/benefit relating to origination and reversal of temporary differences	(8,543)	13,291
Total income tax (expenses)/ benefit recognized in the reporting period	**(11,902)**	**5,900**

The income tax expense is reconciled to the profit before income tax per Consolidated Statement of Profit or Loss as follows:

	As of 30 June 2019	As of 30 June 2018
Profit before income tax	190,406	50,054
Tax expense at Ukrainian statutory tax rate of 18%	(34,273)	(9,010)
Effect of income that is exempt from taxation (farming)	34,984	15,996
Effect of different tax rates of Subsidiaries operating in other jurisdictions	1,527	(3,402)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	764	(510)
Other expenditures not allowable for income tax purposes and non-taxable income, net	(14,904)	2,826
Income tax (expenses)/ benefit	(11,902)	**5,900**

For the year ended 30 June 2019, USD 4,650 thousand income tax expenses were recognized in other comprehensive income (2018: nil).

The primary components of the deferred tax assets and deferred tax liabilities were as follows:

	As of 30 June 2019	As of 30 June 2018
Tax losses carried forward	4,821	16,611
Valuation of property, plant and equipment	9,417	11,620
Valuation of inventory	307	334
Valuation of advances and other temporary differences	367	494
Deferred tax assets	14,912	29,059
Valuation of property, plant and equipment	(32,438)	(27,781)
Valuation of intangible assets	(1,952)	(2,026)
Valuation of prepayments to suppliers and other temporary differences	(1,085)	(286)
Deferred tax liabilities	(35,475)	(30,093)
Income tax liability, net	(20,563)	**(1,034)**

As of 30 June 2019, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of USD 4,821 thousand (2018: USD 16,611 thousand) recognized with respect to tax losses carried forward by the subsidiaries. The amount of future taxable income required to be generated by the Subsidiaries to utilize the tax benefits associated with the tax loss carried forward is approximately USD 26,783 thousand (2018: USD 92,283 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

Tax losses incurred by subsidiaries registered in Ukraine can be brought forward for a reasonable period of time.

There were no unrecognized deferred tax assets arising from tax losses carried forward by the Group's subsidiaries as of 30 June 2019 (as of 30 June 2018: USD 764 thousand).

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries as it is able to control the timing of the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is an analysis of the deferred tax balances (after offset) as they are presented in the Consolidated Statement of Financial Position:

	As of 30 June 2019	As of 30 June 2018
Deferred tax assets	8,447	18,536
Deferred tax liabilities	(29,010)	(19,570)
Net deferred tax liabilities	(20,563)	**(1,034)**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

25. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2019	For the year ended 30 June 2018
Revenue from agriculture commodities merchandizing	2,093,333	951,252
Revenue from edible oils sold in bulk, meal and cake	1,744,287	1,286,645
Revenue from bottled sunflower oil	114,526	106,846
Revenue from farming	29,983	51,529
Revenue from grain silo services	5,919	6,308
Revenue from transshipment services	4,085	423
Total	**3,992,133**	**2,403,003**

Revenue for the period is comprised of the following:

	For the year ended 30 June 2019
Sale of commodities	3,841,624
Freight, storage and other services	150,509
Total	**3,992,133**

Revenue is obtained principally from the sale of commodities, recognized once the control of the goods has transferred from the Company to the customer. Revenue derived from freight, storage and other services is recognized over time as the service is rendered. Disaggregated revenue for each reportable segment is presented in the Note 6.

The transaction price allocated to unsatisfied performance obligations as of 30 June 2019 is of USD 1,952 thousand. This amount represents revenue from carriage, freight and insurance services under CIF/CFR (INCOTERMS) contracts which are to be executed in July 2019 when the goods are delivered to the point of destination and under which the Group has already recognized revenue from sale of goods at a point in time as of 30 June 2019

26. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2019[1]	For the year ended 30 June 2018
Cost of goods for resale and raw materials used	3,117,528	1,876,392
Shipping and handling costs (Note 3)	307,525	153,553
Amortization and depreciation	71,947	79,789
Rental payments	71,765	72,694
Payroll and payroll related costs	65,666	55,792
Other operating costs	19,331	23,010
Total	**3,653,762**	**2,261,230**

27. Other Operating Income, net

For the year ended 30 June 2019, other operating income, net amounted to USD 28,228 thousand (2018: USD 59,092 thousand). Decrease was mainly caused by loss on operations with commodity futures in the amount of USD 13,650 thousand, basically driven by result of Avere operations with derivative instruments, including its revaluation as of year-end (2018: gain in the amount of USD 32,317 thousand).

For the year ended 30 June 2019, together with income from assigning transshipment quota entitlement in Zernovoy Terminalny Complex Taman LLC for the amount of USD 8,000 thousand (2018: USD 7,800 thousand) (Note 32), other operating income included result from price difference settlements namely contracts wash-out and circles, fines and penalties, VAT benefits and other state dotations and other income from operating activities.

[1] During the year ended 30 June 2019, the Group has changed its accounting policy due to IFRS 15 adoption and changed presentation of Distributions costs and included them in Cost of sales. Comparative information was reclassified respectively. Please see Note 3 for more details and description of changes in accounting policy and reclassifications made.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

28. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2019	For the year ended 30 June 2018
Payroll and payroll related costs	60,381	46,887
Audit, legal and other professional fees	11,052	6,841
Bad debts expenses	7,905	997
Repairs and material costs	7,454	6,858
Business trip expenses	4,955	5,073
Amortization and depreciation	3,805	2,870
Taxes other than income tax	2,287	2,478
Rental payments	2,158	1,815
Insurance	1,918	2,554
Communication expenses	1,522	878
Bank services	1,444	1,658
Other expenses	1,651	1,090
Total	**106,532**	**79,999**

Audit, legal and other professional fees for the year ended 30 June 2019 include the auditor's remuneration in the amount of USD 659 thousand and no consultancy fees for the respective period (for the year ended 30 June 2018: USD 495 thousand and nil, respectively).

29. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2019	For the year ended 30 June 2018
Interest on corporate bonds (Note 23)	44,886	44,619
Interest expense on bank loans	26,520	15,336
Other finance costs, net	10,913	5,144
Total	**82,319**	**65,099**

30. Foreign Exchange Gain/(Loss), net

For the year ended 30 June 2019, foreign exchange gain, net amounted to USD 12,860 thousand (30 June 2018: USD 5,375 thousand). The result is mostly connected with 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) (Note 35).

31. Other Expenses, net

Other expenses, net were as follows:

	For the year ended 30 June 2019	For the year ended 30 June 2018
Revaluation losses of property, plant and equipment (Note 15)	10,234	—
Charity	2,303	2,440
Fines and penalties (Note 34)	1,610	28,923
Other material expenses	1,341	2,084
Gain on bargain purchase (Note 7)	—	(2,309)
(Reduction of impairment)/Impairment of intangible assets and goodwill, net (Note 16, 17)	(116)	577
Gain on disposal of property, plant and equipment	(605)	(791)
Gain on disposal of Subsidiaries (Note 7)	(4,833)	(2,972)
Other (gain)/expenses, net	(1,558)	3,028
Total	**8,376**	**30,980**

32. Investments in Joint Ventures

On 27 September 2012, a 50/50 joint venture was formed with Renaisco BV, a Subsidiary of Glencore International PLC. The joint venture acquired a 100% interest in a deep-water grain export terminal in Taman port (the Russian Federation). Taman port provides storage and transshipment services as well as an efficient freight forwarding process.

As of 30 June 2019, the Group assigned its transshipment quota entitlement for the year ended 30 June 2020 (2,000,000 tons) in Zernovoy Terminalny Complex Taman LLC to a third party (year ended 30 June 2019: 2,000,000 tons). For the year ended 30 June 2019, income received for the quota entitlement amounted to USD 8,000 thousand (2018: USD 7,800 thousand) and was included in Other operating income, net (Note 27).

The accompanying notes are an integral part of these financial statements.

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The investment in the joint venture is accounted for using the equity method from the date of acquisition. The Group has the following significant interests in joint ventures (all related to the export terminal in Taman port):

Name of joint venture	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by the Group	
			As of 30 June 2019	As of 30 June 2018
Taman Grain Terminal Holdings Limited	Holding Company	Cyprus	50.0%	50.0%
Taman Invest Limited CJSC	Holding Company	Russian Federation	50.0%	50.0%
Zernovoy Terminalny Complex Taman LLC	Grain export terminal	Russian Federation	50.0%	50.0%

Financial data in regard to joint ventures, reflecting 100% interest in the underlying joint venture, was as follows:

	As of 30 June 2019	As of 30 June 2018
Current assets	3,331	5,621
Non-current assets	64,735	66,260
Current liabilities	(20,911)	(17,914)
Non-current liabilities	(9,274)	(14,154)
Net assets of joint ventures	**37,881**	**39,813**

The above amount of assets and liabilities include the following:

	As of 30 June 2019	As of 30 June 2018
Cash and cash equivalents	20	1,055
Property, plant and equipment, net	63,586	65,633
Current financial liabilities (excluding trade and other payables and provisions)	(4,618)	(5,050)
Non-current financial liabilities (excluding trade and other payables and provisions)	(5,877)	(10,532)

Summarized statement of profit or loss and other comprehensive income of joint ventures was as follows:

	For the year ended 30 June 2019	For the year ended 30 June 2018
Revenue	23,217	35,572
Cost of sales	(23,849)	(29,104)
Other operating income	1,244	—
General and administrative expenses	(3,304)	(3,566)
(Loss)/Profit from operating activities	**(2,692)**	**2,902**
Other income, net	70	542
(Loss)/Profit before income tax	**(2,622)**	**3,444**
Income tax benefit/(expenses)	690	(1,058)
(Loss)/Profit for the period and total comprehensive (loss)/income	**(1,932)**	**2,386**

The above information for the period includes the following:

	Year ended 30 June 2019	Year ended 30 June 2018
Depreciation and amortization	4,086	4,217
Interest expenses	1,344	2,271

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	Year ended 30 June 2019	Year ended 30 June 2018
Net assets of the joint venture	37,881	39,813
Proportion of the Group's ownership interest in the joint venture	50.0%	50.0%
Goodwill	32,311	32,311
Carrying amount of the Group's interest in the joint venture	51,252	52,218

The accompanying notes are an integral part of these financial statements.

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33. 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 as of 30 June 2019	Total category as per consolidated statement of financial position as of 30 June 2019	Related party balances as of 30 June 2018	Total category as per consolidated statement of financial position as of 30 June 2018
Trade accounts receivable, net (Note 9)	785	183,196	106	92,355
Prepayments to suppliers and other current assets, net (Note 10)	9,675	129,822	9,714	113,342
Other non-current assets (Note 18)	19,769	155,732	13,366	134,562
Advances from customers and other current liabilities (Note 19)	4,462	104,976	8,204	104,898
Other non-current liabilities	—	43,843	1,058	32,506

As of 30 June 2019, and 30 June 2018, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 3,574 thousand and USD 4,358 thousand, respectively.

As of 30 June 2019, 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 2,575 thousand provided to Taman Grain Terminal Holding (30 June 2018: USD 2,484 thousand).

As of 30 June 2019, other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 10,459 thousand provided to the company under control of the Beneficial Owner (30 June 2018: nil).

As of 30 June 2019, other non-current assets included an interest-free financing in the amount of USD 5,493 thousand and loan at a rate comparable to the market rate in the amount of USD 1,000 thousand provided to key management personnel (30 June 2018: USD 6,076 thousand and USD 1,000 thousand, respectively).

As of 30 June 2019, advances from customers and other current liabilities included USD 3,099 thousand in bonuses payable to the management (30 June 2018: USD 1,413 thousand).

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, for the year ended 30 June 2019	Total category as per consolidated statement of financial position as of 30 June 2019	Amount of operations with related parties, for the year ended 30 June 2018	Total category per consolidated statement of profit or loss for the year ended 30 June 2018
Revenue (Note 25)	1,165	3,992,133	—	2,403,003
Cost of sales (Note 26)	(4,192)	(3,653,762)	—	(2,261,230)
General and administrative expenses (Notes 28)	(8,377)	(106,532)	(7,944)	(79,999)
Finance costs, net (Note 29)	(611)	(82,319)	94	(65,099)
Other expenses, net (Note 31)	3,178	(8,376)	(2)	(30,980)

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

As of 30 June 2019, 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 year ended 30 June 2019 amounted to USD 500 thousand (30 June 2018: 8 directors, USD 568 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 5,518 thousand for the year ended 30 June 2019 (30 June 2018: 12 people, USD 3,294 thousand), including USD 3,099 thousand of variable bonus as per approved remuneration scheme (30 June 2018: USD 827 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).

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34. 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 2018-2019, 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 2019, annual inflation rate amounted to 9% (2018: 10%). 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 2019 for 3% (2018: 3%) and stabilization of national currency. From trading perspective, the economy continued to demonstrate refocusing on the European Union (“EU”) market, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (NBU) lifts the surrender requirement of a share of foreign currency proceeds. The requirement that obliged entrepreneurs to sell certain share of their foreign currency proceeds was abolished starting from 20 June 2019.

In line with the currency liberalization the National Bank of Ukraine (“NBU”) streamlined currency supervision of compliance with settlement deadlines for export and import transactions in foreign currency from 120 to 365 days and cancelled all limits on repatriation of dividends since July 2019 (from March 2018, companies were allowed to pay dividends to foreign investors in foreign currency at the amount under USD 7 million per month regardless of the period, when such dividends were accrued).

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government’s efforts and cooperation with the International Monetary Fund (“IMF”), yet further economic and political developments are currently difficult to predict.

Retirement and Other Benefit Obligations

Employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group’s contributions to the State Pension Fund for the year ended 30 June 2019 were USD 18,619 thousand (2018: USD 15,594 thousand).

The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance some post-retirement benefits of its former employees. The only obligation of the Group with respect to this pension plan is to make the specified contributions. For the year ended 30 June 2019, there were USD 222 thousand retirement and other pension obligation expenses of the Group recognized (2018: nil). As of 30 June 2019, and 30 June 2018, the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Capital Commitments

As of 30 June 2019, the Group had commitments under contracts with a group of suppliers for a total amount of USD 152,851 thousand, mostly for the construction of an oil-crushing plant and port terminal (30 June 2018: USD 109,681 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal).

Contractual Commitments on Sales

As of 30 June 2019, the Group had entered into commercial contracts for the export of 802,375 tons of grain and 546,117 tons of sunflower oil and meal, corresponding to an amount of USD 156,194 thousand and USD 227,450 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2018, the Group had entered into commercial contracts for the export of 1,631,918 tons of grain and 503,369 tons of sunflower oil and meal, corresponding to an amount of USD 314,269 thousand and USD 248,196 thousand, respectively, in contract prices as of the reporting date.

Commitments on leases of property plant and equipment

As of 30 June 2019, following the strategy to increase port capacity, the Group entered into a 49-year lease contract of property plant and equipment with a renewal option according to the market rent. The Group is obliged to perform fixed monthly payments adjusted on the rate of inflation. The Group will not obtain the right to acquire property plant and equipment after expiration of the lease contract.
The future minimum lease payments:

Lease term	Future minimum lease payment as of 30 June 2019	Future minimum lease payment as of 30 June 2018
Less than 1 year	548	550
From 1 to 5 years	2,193	2,198
More than 5 years	21,683	22,289
Total	**24,424**	**25,037**

The accompanying notes are an integral part of these financial statements.

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Commitments on land operating leases

As of 30 June 2019 and 2018, the Group had outstanding commitments under non-cancellable operating lease agreements with the following maturities:

Lease term	Future minimum lease payment as of 30 June 2019	Future minimum lease payment as of 30 June 2018
Less than 1 year	50,718	77,582
From 1 to 5 years	228,739	270,884
More than 5 years	312,090	287,127
Total	**591,547**	**635,593**

Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire Stiomi 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 June 2019, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfilment 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. That award was in part subject to challenge by the Group in the High Court in London. In March 2019 the High Court remitted the award to the tribunal for reconsideration in certain respects and a further hearing took place before the tribunal at the end of September 2019. The tribunal's revised award is awaited and is due by no later than 21 December 2019.

As of 30 June 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 prospects of success on the remitted issues but the amount of the provision 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.

The carrying amount of the provision for legal claims is USD 31,872 thousand as of 30 June 2019 (2018: USD 28,971 thousand), and related expenses in the amount of USD 2,901 thousand were recognized within the year ended 30 June 2019 (2018: USD 28,971 thousand) and included within the line "Other expenses, net" (Note 31). No payment has been made to the claimant pending the outcome of the award on the remitted issues.

The Group performed certain sale and acquisition transactions and other concentrations which could have required the obtaining of the prior approval of the Antimonopoly Committee of Ukraine ("AMC"). In February 2019, the Group acquired RTK-Ukraine LLC (the "Acquisition"). In July 2019, the AMC initiated investigation in respect of the Acquisition claiming that the Group had to obtain the AMC approval for the concentration prior to acquisition of RTK Ukraine. The Group believes that the AMC approval for the concentration was not required as the Acquisition falls under the exemption allowing not to obtain the AMC approval for the concentration. The investigation is currently pending. Exact amount of potential fines and penalties could be defined after investigation finalized. Management believes that based on the past history, it is unlikely that any material settlement will arise and no respective provision is required in the Group's financial statements as of the reporting date.

As of 30 June 2019, 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 21,493 thousand (30 June 2018: USD 60,604 thousand), from which USD 7,797 related to VAT recoverability (30 June 2018: USD 42,882 thousand), USD 10,592 thousand related to corporate income tax (30 June 2018: 17,382 thousand) and USD 3,104 thousand related to other tax issues (30 June 2018: 340 thousand).

As of 30 June 2019, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 20,471 thousand (30 June 2018: USD 31,480 thousand), included in the abovementioned amount. Out of this amount, USD 7,613 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 taxpayers. 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.

Key characteristics of Ukrainian tax system:

- Ukraine currently operates a classic corporate income tax system under which companies are taxed at a rate of 18%.
- Value-added tax at the standard rate of 20% is levied on the supply of domestic goods and on the import of goods and auxiliary services. VAT at 7% rate is applied to pharmaceuticals and healthcare products. Exported goods and auxiliary services are zero-rated.
- Transfer pricing rules are also effective in Ukraine and apply to taxpayers with annual revenue exceeding UAH 150 million that engage in controlled transactions exceeding UAH 10 million with one counterparty. Controlled transactions include, inter alia, transactions with non-resident related parties, non-residents from low-tax jurisdiction, non-residents with specific legal forms, etc.
- In Ukraine thin capitalization rules apply to all loans received by resident companies from nonresident related parties where the debt is greater than 3.5 times the company's equity. Deduction for interest paid on such loans is limited to 50% of profits before tax plus the amount of financing expenses and depreciation for the relevant tax period.

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- 15% withholding tax is levied on dividends, royalties and interest and other passive income paid to the nonresident unless the rate is reduced under the tax treaty in force.

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. The Draft Law on new amendments to the Tax Code of Ukraine was registered with the Parliament on 30 August 2019. The major changes proposed by the Draft Law are as follows:
- The rules of thin capitalization may be changed, notably the deduction for interest paid on both controlled and uncontrolled loans is to be limited by a more fiscal approach.
- Foreign exchange gains/losses are to be excluded from taxable income calculation.
- Additional VAT accrual on the supply below “normal price” (in case of self-produced goods) or purchase price is to be applicable for export operations (previously – only for domestic sales).
- Insignificant changes in the administration of withholding tax, the transfer pricing principles, the definition of the controlling person and beneficiary owner, expansion of the definition of dividends (this issue led to a lot of disputes), etc.

Since the Ukrainian tax environment changes dynamically, we are not able to access the probability of the Draft Law adoption and/or modification.

Possible changes in Ukrainian land legislation

According the Land Code of Ukraine, there exists a prohibition on the sale of agricultural land plots (hereinafter – “the Moratorium”). The Moratorium is in force until 1 January 2020, unless the Parliament decides to prolong its validity. As of September 2019, the President Administration together with the Government plans to draft and adopt the Law on the market of agricultural land and cancel the Moratorium. The Parliament is expected to adopt the law by 1 December 2019.

On 19 September 2019, the Government announced the plan to launch the market of land starting from 1 October 2020. Only Ukrainian nationals and legal entities will be entitled to buying or selling the land. If the changes are adopted, Ukrainian entities of Kernel Group will be entitled not only to renting agricultural land plots, but also to buying them.

Since respective legislation acts have not been adopted yet, we are not able to comment on their impact on Ukrainian tax and legal environment.

35. Financial risk management

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing return to shareholders through a combination of debt and equity capital. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and risks associated with each class of capital. Based on recommendations from management, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital based on the carrying amount of borrowings less cash and cash equivalents as presented in the statement of financial position. The Group is not subject to any externally imposed capital requirements.

Gearing Ratio

Management reviews the capital structure of the Group, taking into consideration the seasonality of the activity of the Group. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Following its listing on the WSE, the Group’s management considers that the gearing ratio should not exceed 150%.

	As of 30 June 2019	As of 30 June 2018
Equity [1]	1,350,946	1,170,733
Debt liabilities [2] (Notes 20, 21, 22, 23)	770,319	754,087
Net debt	693,518	622,069
Less cash and cash equivalents (Note 8)	(76,801)	(132,018)
Net debt liabilities to capital	**51%**	**53%**

Financial instruments risk

Due to its activity, the Group is exposed to the following risks from its use of financial instruments:
- Credit risk.
- Liquidity risk.
- Market risk.

This note provides information on the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing such risks, and the Group’s management of capital.

Risk management policies have been established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions

[1] Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings and translation reserve.
[2] Debt includes short-term and long-term borrowings, obligations under finance leases, bonds issued and accrued interest.

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and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The carrying amount of trade receivables and other current assets, cash and cash equivalents and other financial assets represent the maximum credit exposure.

The Group's most significant customer is an international customer, which accounted for USD 26,198 thousand out of total trade accounts receivable as of 30 June 2019 (30 June 2018: one international customer accounted for USD 25,785 thousand).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which the major customers operate, has less of an influence on credit risk.

The management of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references, and also counterparty recommendations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the management of the Group. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk in international markets, the Group presents title documents via banking channels and uses payment instruments such as letters of credit and bank guarantees. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

Guarantees

As of 30 June 2019, the Company has guaranteed to unrelated party that certain subsidiaries of the group will release the assets pledged under the 3-year loan provided by the Company to unrelated party. In case subsidiaries do not release those after the loan repayment, then the Company has to pay the amount that is equal to the market price of the assets or USD 29,900. The guarantee is valid for the term of the loan agreement.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

As of 30 June 2019, the carrying amount of the Group's maximum exposure to financial obligations was USD 1,041,369 thousand (30 June 2018: USD 960,300 thousand).

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The average credit period on purchases of goods is 12 days.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2019 and 2018. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
Trade accounts payable	136,043	(136,043)	(136,043)	—	—	—
Short-term borrowings (Note 20)	183,692	(184,754)	(184,754)	—	—	—
Long-term borrowings (Note 21)	64,913	(82,988)	(4,510)	(7,802)	(30,141)	(40,535)
Obligations under finance leases (Note 22)	7,714	(9,095)	(3,113)	(2,924)	(3,058)	—
Bonds issued (Note 23)	514,000	(631,250)	(43,750)	(43,750)	(543,750)	—
Other current liabilities	55,297	(55,297)	(55,297)	—	—	—
Other non-current liabilities	43,843	(60,236)	(1,868)	(52,651)	(5,717)	—
Total	**1,005,502**	**(1,159,663)**	**(429,335)**	**(107,127)**	**(582,666)**	**(40,535)**

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
Trade accounts payable	73,629	(73,629)	(73,629)	—	—	—
Short-term borrowings (Note 20)	224,773	(225,824)	(225,824)	—	—	—
Long-term borrowings (Note 21)	5,623	(5,995)	(3,124)	(2,871)	—	—
Obligations under finance leases (Note 22)	10,946	(13,075)	(3,979)	(3,113)	(5,983)	—
Bonds issued (Note 23)	512,745	(675,000)	(43,750)	(43,750)	(587,500)	—
Other current liabilities	47,779	(47,779)	(47,779)	—	—	—
Other non-current liabilities	32,506	(56,064)	(1,867)	(3,007)	(51,190)	—
Total	**908,001**	**(1,097,366)**	**(399,952)**	**(52,741)**	**(644,673)**	**—**

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Financial liabilities, which were not included above, are repayable within one year.

The concentration of liquidity risk is limited due to different repayment terms of financial liabilities and sources of borrowing facilities.

Market Risk

The Group's activities expose it primarily to the market risks of changes in foreign currency exchange rates, interest rates and commodity risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group measures and manages market risk using a variety of tools and metrics such as Drawdown or Value at Risk.

Value at Risk (VaR) is a statistical estimate of the potential loss in value of our positions due to adverse market movements. The Avere companies calculate VaR over a one-day time horizon with a 95 percent confidence level based on a Log-Normal assumption of Returns. Parameters are estimated using and Exponentially Weighted Moving Average over a 75 days period with a weight of 0.94. Market risk VaR was USD 3,451 thousand as of 30 June 2019.
The Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include the following:

- VaR model does not capture the liquidity of different risk positions and therefore does not estimate potential losses if the company liquidates large positions over a short period of time.
- VaR is based on historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.

The Group does not disclose sensitivity analysis based on VaR as of year end since such analysis is unrepresentative of a risk inherent in financial instruments during the year.

Currency Risk

The major sources of financing of the Group, prices of sales contracts with customers, and prices of significant contracts for the purchase of goods and services from suppliers are denominated in USD.

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in USD. This provides the Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The table below covers UAH and USD denominated assets and liabilities carried by Subsidiaries having distinct functional currencies.

The Group's exposure to foreign currency risk as of 30 June 2019 and 2018 was as follows:

	30 June 2019		30 June 2018	
	UAH	**USD**	**UAH**	**USD**
Cash and cash equivalents	1,242	146	2,215	4,622
Trade accounts receivable, net	11,069	—	10,354	—
Other current assets	4,798	—	—	—
Other non-current assets	5,373	4,500	14,887	—
Trade accounts payable	(30,442)	—	(15,702)	(137)
Other current liabilities	(1,323)	(1,479)	—	—
Other non-current liabilities	(35,936)	—	(31,208)	—
Short-term borrowings from Ukrainian subsidiary of European bank (Note 20)	(24,650)	—	(9,328)	—
Long-term borrowings European Bank (Note 21)	—	(62,140)	—	—
Obligations under finance leases	—	(4,015)	—	(5,087)
Net exposure	**(69,869)**	**(62,988)**	**(28,782)**	**(602)**

10% change of the UAH against the USD would prompt a fluctuation in the equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Sensitivity of changes in the exchange rate of Ukrainian hryvnia (UAH) against US dollar (USD) is as follows:
Profit or loss (before income tax) effect for the year ended 30 June 2019:
10% strengthening of UAH.......................................(1,261)
10% depreciation of UAH.. (12)

Profit or loss effect for the year ended 30 June 2018:
10% strengthening of UAH.. (2,823)
10% depreciation of UAH...2,811

As of 30 June 2019, the Ukrainian hryvnia stabilized against major foreign currencies. Foreign exchange gains and losses reflected the Ukrainian hryvnia fluctuation against the US dollar for the years ended 30 June 2019 and 2018. The Group recognized a net foreign exchange gain in the amount of USD 12,860 thousand for the year ended 30 June 2019 and USD 5,375 thousand for the year ended 30 June 2018 (Note 31). In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year. Foreign exchange gain mostly consisted of gain incurred from operations resulted from normal operating activity during the year ended 30 June 2019.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

The concentration of currency risk is limited due to not significant net open position of balances in foreign currencies.

Management of the Group optimizes the influence of currency risk in Ukrainian hryvnia through export sales expressed in USD and EUR: out of total sales amounting to USD 3,992,133 thousand, sales in USD comprised USD 3,799,394 thousand and in EUR comprised USD 52,589 thousand for the year ended 30 June 2019. Export sales represented 97% of the total sales volume.

Interest Rate Risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates.

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2019	Carrying amount as of 30 June 2018
Fixed rate instruments	595,226	583,911
Variable rate instruments	210,960	225,267
Total	**806,186**	**809,178**

The Group does not use any derivatives to manage interest rate risk exposure.

The sensitivity analysis below has been determined based on exposure to interest rates for financial liabilities at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100-basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's profit for the year (before income tax) ended 30 June 2019 would decrease/increase by USD 2,101 thousand (2018: decrease/increase by USD 2,253 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Commodity price risk

The Group enters into derivative financial instruments to manage its exposure using commodity options, futures contracts for managing the exposures associated with agricultural commodity prices. Fair value of future contracts is evaluated based on quoted prices on international markets. Changes in the fair value of these contracts are recognized in the Consolidated Statement of Profit and Loss (Note 27).

36. 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.

As at 30 June 2019, the financial assets and liabilities are presented by class in the tables below at their carrying values:

Assets	**Amortized cost**	**FVTPL [1]**	**Total**
Cash and cash equivalents (Note 8)	76,801	—	76,801
Trade accounts receivable, net (Note 9)	183,196	—	183,196
Other current assets (Note 10)	20,221	—	20,221
Other financial assets	48,533	22,302	70,835
Other non-current assets	33,833	7,341	41,174
Liabilities			
Trade accounts payable	136,043	—	136,043
Borrowings (Note 20, 21)	248,605	—	248,605
Obligations under finance lease (Note 22)	7,714	—	7,714
Bonds issued and interest accrued (Note 23)	514,000	—	514,000
Other financial liabilities	—	35,867	35,867
Other current liabilities	55,297	—	55,297
Other non-current liabilities	43,843	—	43,843

[1] FVTPL – Fair value through profit and loss.

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

As at 30 June 2018 the financial assets and liabilities are presented by class in the tables below at their carrying values:

Assets	Amortized cost	FVTPL [1]	Total
Cash and cash equivalents (Note 8)	132,018	—	132,018
Trade accounts receivable, net (Note 9)	92,355	—	92,355
Other financial assets	—	72,344	72,344
Other non-current assets	10,123	—	10,123
Liabilities			
Trade accounts payable	73,629	—	73,629
Borrowings	230,396	—	230,396
Obligations under finance lease (Note 22)	10,946	—	10,946
Bonds issued (Note 23)	512,745	—	512,745
Other financial liabilities	—	51,456	51,456
Other current liabilities	48,622	—	48,622
Other non-current liabilities	32,506	—	32,506

As of 30 June 2019, other financial assets include Initial margin used as collateral for derivatives in the amount of USD 22,147 thousand. The cash collateral does not meet the offsetting criteria in IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and in accordance with associated collateral arrangements.

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:

	30 June 2019		30 June 2018	
Financial liabilities [2]	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term borrowings (Note 21)	64,913	65,066	5,623	5,623
Obligations under finance lease (Note 22)	7,714	7,709	10,946	10,873
Bonds issued (Note 23)	514,000	527,330	512,745	499,205

For the year ended 30 June 2019, 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 5.12% (2018: 4.42%) 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 June 2019 and 2018.

As at 30 June 2019

Other financial assets	Level 1	Level 2	Total
Physical forwards	—	21,591	21,591
Futures	318	—	318
Options	393	—	393
Total	**711**	**21,591**	**22,302**

Other financial liabilities			
Physical forwards	—	26,397	26,397
Futures	9,470	—	9,470
Total	**9,470**	**26,397**	**35,867**

[1] FVTPL – Fair value through profit and loss.
[2] Including accrued interests

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

As at 30 June 2018

Other financial assets	**Level 1**	**Level 2**	**Total**
Physical forwards	—	67,303	67,303
Futures	4,856	—	4,856
Options	185	—	185
Total	**5,041**	**67,303**	**72,344**

Other financial liabilities			
Physical forwards	—	49,023	49,023
Futures	1,003	—	1,003
Options	1,430	—	1,430
Total	**2,433**	**49,023**	**51,456**

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).

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.

Major part of other financial liabilities has contractual maturity due within 6 months.

The fair value is estimated to be the same as the carrying value of cash and cash equivalents, trade accounts receivable, other current assets, trade accounts payable, other current liabilities 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 receivables, other current assets and trade accounts payable, other current liabilities 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 year ended 30 June 2019, the fair value of obligations under finance lease was estimated by discounting the expected future cash outflows by a market rate of finance lease of 12.10% (2018: 11.08%) that is within level 2 of the fair value hierarchy.

For the year ended 30 June 2019, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

For the year ended 30 June 2019, the fair value of other non-current assets recognized at FVTPL was estimated by market comparable approach that is within level 2 in the fair value hierarchy.

As of 30 June 2019, fair value of other non-current assets and liabilities does not differ materially from it 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 year ended 30 June 2019, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

For the years ended 30 June 2019 and 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 24.88% and 22.93%, respectively.

There were no transfers between levels of fair value hierarchy.

There were no changes in the valuation technique since the previous year.

37. Earnings per Share

Basic earnings per share from continuing and discontinued operations are computed by dividing net income from continuing and discontinued operations available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (as of 30 June 2019 and 2018, 81,941,230 weighted average number of ordinary shares for the periods ended then), excluding any dilutive effects of stock options. Diluted earnings per share are computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such an exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share, an average number of 82,820,378 ordinary shares is taken into account (30 June 2018: 82,887,231).

As of 30 June 2019 and 2018, total of 3,000,000 options granted under the management incentive scheme were excluded from the weighted-average number of ordinary shares calculation for the purpose of diluted earnings per share as antidilutive.

Notes to the Consolidated Statements continued

for the year ended 30 June 2019 (in thousands of US dollars, unless otherwise stated)

Impact from adoption of new standards on both basic and diluted earnings per share was not material.

38. Subsequent Events

On 13 August 2019, according to management's plan, the Company disposed one of export terminals, assets of which as of 30 June 2019 were classified as assets held for sale.

As of 3 September 2019, the Company entered pre-export credit facility with a syndicate of European banks. Total available limit under amended facility was increased up to USD 390 million by adding additional tranche of USD 100 million maturing 31 August 2021 Moreover, the tenors of existing tranches were extended for one year: USD 200 million till 31 August 2022 and USD 90 million till 31 August 2020, respectively. Financing will be used by the Company to fund the working capital needs of its sunflower oil production business in Ukraine.

As of 6 September 2019, Fitch Ratings has upgraded Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) to 'B' from 'B-', the outlooks are positive, according to a report on the rating agency's website.

As of 23 September 2019, the Company entered pre-export credit facility with a syndicate of European banks. Total available limit under amended facility was increased up to USD 300 million by adding additional tranche of USD 200 million maturing 30 June 2021. Moreover, the tenor of existing USD 100 million tranche was extended for one year till 30 June 2022.

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Investor calendar

Q1 FY2020 Operations Update……………………………………………...…...22 October 2019
Q1 FY2020 Financial Report…………………………………………………..…27 November 2019
Annual general shareholders' meeting…………..……………………………...10 December 2019
Q2 FY2020 Operations Update…………………..………………………………21 January 2020
H1 FY2020 Financial Report………………………….…………………….….…..28 February 2020
Q3 FY2020 Operations Update……………………………………….……….……23 April 2020
Q3 FY2020 Financial Report……………………………..……………………………29 May 2020
Q4 FY2020 Operations Update…………………………………….………………20 July 2020
FY2020 Financial Report……………………………………………………………....30 October 2020

Stock information

Exchange……….…………………………………………………………...Warsaw Stock Exchange
Stock quote currency……………………………………….…………………...………………..PLN
Shares issued as of 30 June 2019………………………………….………………..……..81,941,230
Bloomberg…………………………………………………………….……….………..…………KER PW
Reuters ticker……………………………………………………………….…...…...………...….KERN.WA
ISIN code…………………………………………………………….……………......………LU0327357389

Cautionary statement

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