

An aerial photograph of a large red oil tanker ship docked at a pier. The ship's deck is visible, showing various structures and equipment. The text "DIAMANT SHIPPING INC." is partially visible on the side of the ship. In the foreground, there are large white storage tanks and industrial structures. The background is a dark blue sea.

KERNEL

Kernel Holding S.A.

# ANNUAL REPORT 2018

## 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, a leading exporter of grains and oilseeds from the Black Sea region, operator of an extensive agricultural logistics network and the largest producer of grain and oilseeds in Ukraine. In FY2018, we supplied over 6.5 million tons of agricultural products across the world.

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# Key Highlights

US\$ million except ratios and EPS

	FY2017	FY2018	y-o-y
<b>Income statement highlights</b>			
Revenue	2,168.9	2,403.0	10.8%
EBITDA <sup>1</sup>	319.2	222.5	(30.3%)
Net profit attributable to equity holders of Kernel Holding S.A.	176.2	52.1	(70.4%)
EBITDA margin	14.7%	9.3%	(5.5pp)
Net margin	8.1%	2.2%	(6.0pp)
EPS, US\$	2.19	0.64	(71.0%)
<b>Cash flow highlights</b>			
Operating profit before working capital changes	324.8	183.3	(43.6%)
Changes in working capital	(206.2)	(31.2)	(84.9%)
Cash generated from operations	118.5	152.1	28.3%
Net cash generated by operating activities	77.4	82.5	6.6%
Net cash used in investing activities	(223.5)	(155.7)	(30.3%)
<b>Liquidity and credit metrics</b>			
Net interest-bearing debt	514.0	622.1	21.0%
Readily marketable inventories <sup>2</sup>	353.9	325.2	(8.1%)
Adjusted net debt <sup>3</sup>	160.0	296.9	85.5%
Shareholders' equity	1,153.0	1,170.7	1.5%
Net debt / EBITDA	1.6x	2.8x	1.2x
Adjusted net debt / EBITDA	0.5x	1.3x	0.8x
EBITDA / Interest	5.1x	3.4x	(1.7x)
<b>Non-financial highlights</b>			
Full-time employees at 30 June	16,103	15,116	(6.1%)
Injury frequency rate, accidents per million worked hours	0.45	0.55	23.3%
Social spendings, US\$ million	2.6	2.4	(6.7%)
Direct greenhouse gas emissions, thousand tons of CO <sub>2</sub> equivalent	245	280	14.2%
Total energy consumption, terajoules	6,571	7,139	8.6%

Financial year ends 30 June.

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

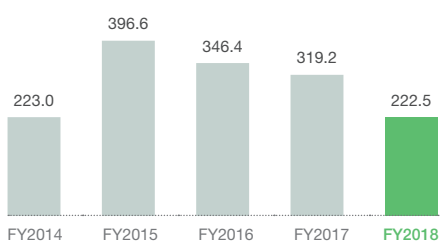
Note 2: Readily marketable inventories are inventories such as corn, wheat, sunflower oil and other products that could easily be converted into cash due to their commodity characteristics, widely available markets and the international pricing mechanism.

Note 3: Adjusted net financial debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt and long-term interest-bearing debt, less cash and cash equivalents, marketable securities and readily marketable inventories at cost.

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

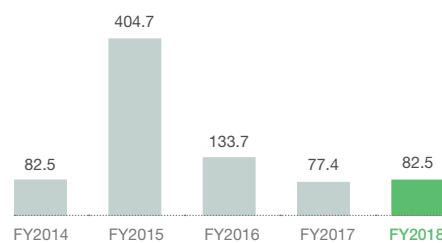
## EBITDA

US\$ million

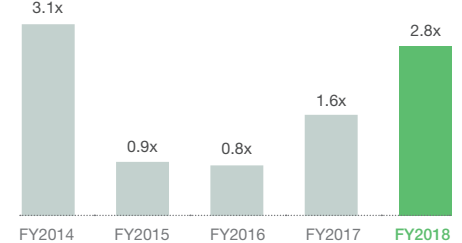


## Net cash from operations

US\$ million



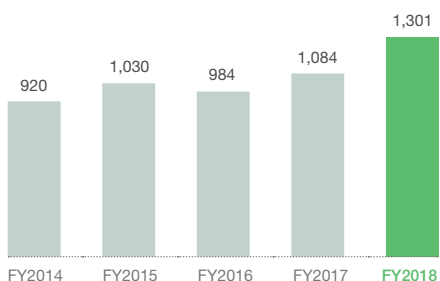
## Net debt / EBITDA



# Operating Highlights

## Sunflower oil sold in bulk

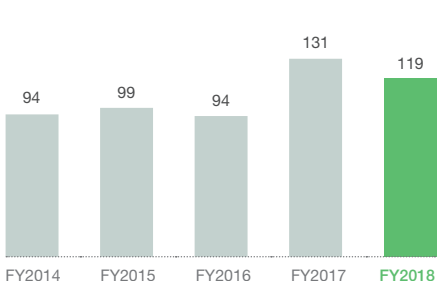
thousand tons



Despite escalated deficit of sunflower seeds in FY2018 season, we managed to crush record 3.1 million tons of oilseeds, 6% up y-o-y, translated into the highest ever sunflower oil in bulk sales of 1.3 million tons. Our plants were running at over 90% capacity utilization rate, and procurement team demonstrated its ability to secure supply even during the most challenging times.

## Bottled sunflower oil

million liters



Notwithstanding the expiration of a large one-year contract with one of our international customers, which strongly contributed to our sales in FY2017, our team made excellent efforts in increasing our local market share, entering new geographies and launching new brands and products, thus keeping our bottled sunflower oil sales at healthy 119 million liters in FY2018.

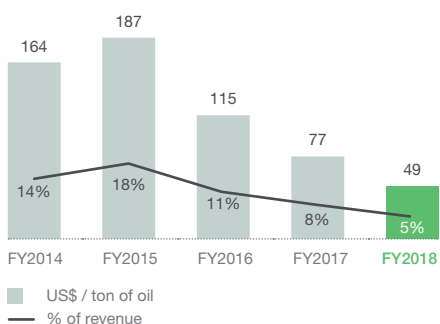
## Grain sales

thousand tons



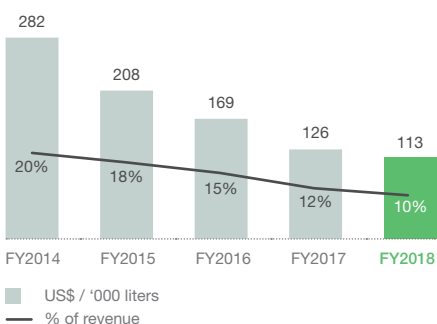
While grain export sales from Ukraine were relatively unchanged in FY2018, volumes exported from Russia declined 10 times y-o-y, as we assigned our transshipment quota in the Taman facility to the 3<sup>rd</sup> party. Together with the Avere physical grain trading contribution, total grain sales amounted to 4.6 million tons, down 8% y-o-y.

## Sunflower oil sold in bulk EBITDA margin



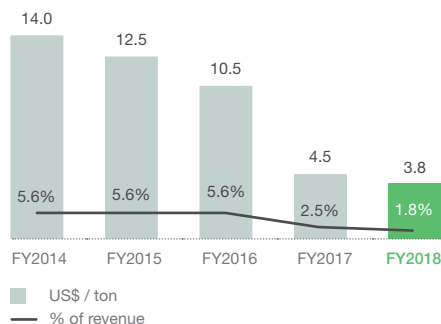
Weak harvest of sunflower seeds combined with strong demand from domestic processors expectedly depleted the crushing margin to 49 US\$ per ton of sunflower oil in FY2018.

## Bottled sunflower oil EBITDA margin



Stemming from the weakness of the bulk sunflower oil margin, profitability in our bottled sunflower oil segment also reduced, standing at US\$ 113 per thousand of liters, down 10% y-o-y.

## Grain segment EBITDA margin

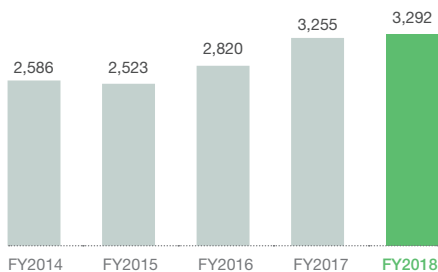


Grain trading margin in Ukraine further reduced in FY2018, as weak harvest of grains in Ukraine enhanced competition among traders. But lump-sum consideration received for assignment of our Taman transshipment quota to a third party and a strong Avere contribution supported the total segment's EBITDA at US\$ 17 million, resulting in 3.8 US\$ per ton of physical grain sales EBITDA margin.

# Operating Highlights

## Grain in-take in inland silos

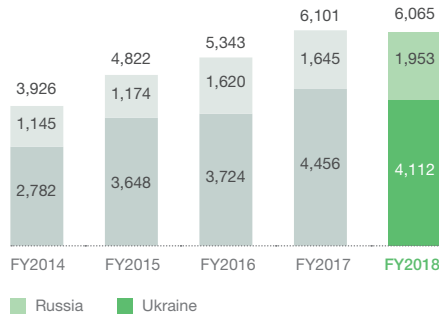
thousand tons



Our silo segment throughput volumes stood relatively unchanged in FY2018, at 3.3 million tons of grain and oilseeds.

## Export terminal throughput

thousand tons

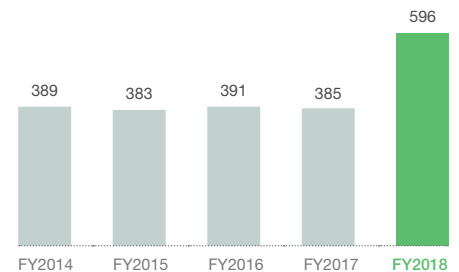


Throughput volumes of export terminals located in Ukraine reduced by 8% y-o-y, partially due to the execution of an investment project in our TransBulkTerminal. Taman terminal increased its export volumes, following the strong supply of grain in the region.

**Note:** Russia export terminals volumes reflect 50% of Taman terminal throughput volumes arising from our 50% stake in the asset.

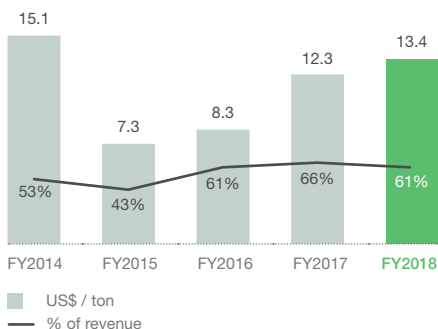
## Acreage harvested

thousand hectares



Harvested area increased more than 50%, as at the beginning of FY2018 we acquired two companies with leasehold farmland bank of more than 200 thousand hectares. Following the streamlining of farmland conducted over the course of FY2018, the total acreage for FY2019 reduced to 550 thousand hectares.

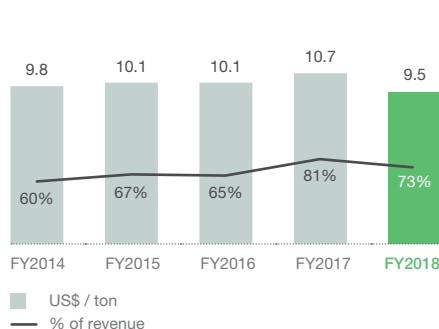
## Silo services EBITDA margin



Silo business margin improvement was driven by strong demand for grain drying services following the high level of precipitations during the harvesting campaign, while labor cost inflation accelerated.

**Note:** services provided intra-group were accounted for at an arm's-length basis.

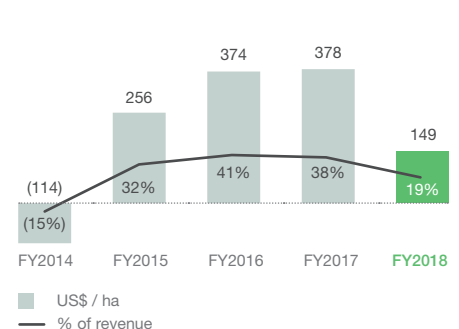
## Export terminal EBITDA margin



Margin in our export terminals weakened to 9.5 US\$ per ton of throughput, driven by elevating direct costs together with growing overheads per ton of throughput stemming from lower export volumes.

**Note:** services provided intra-group were accounted for at an arm's-length basis. Margin excludes Taman earnings, which are reported under the equity method of accounting.

## Farming division EBITDA margin



Segment's EBITDA reduced to 149 US\$ per ha due to lower yields, as unfavorable dry weather prevailed in summer 2017. Moreover, recently acquired underperforming farms further diluted division results.

**Note:** EBITDA margin in US\$ per hectare is calculated as division's EBITDA divided by the total land bank harvested in corresponding year.

# Chairman's Statement



**Andriy Verevskyy**

Chairman of the Board of Directors,  
Founder

## Dear Shareholder,

Today we report the annual results for the year ended 30 June 2018. We earned US\$ 223 million of EBITDA and net profit of US\$ 52 million attributable to shareholders of Kernel Holding S.A. While our bottom line suffered from a US\$ 42 million blow related to a number of one-off events including the legal reserve associated with an arbitration case, our financial position remains robust with a net debt to EBITDA ratio staying at a 2.8x level.

In line with our initial guidance made a year ago, FY2018 was a tough year for us.

Crushing business profitability bottomed on a deteriorating sunflower seed supply gap as 17.7 million tons of installed crushing capacity in Ukraine chased slightly above 13 million tons of harvested crop. Despite weak fundamentals, we managed to process a record 3.1 million tons of sunflower seeds – for the first time ever crossing a three-million-ton milestone – yielding a crushing margin of US\$ 49 per ton of bulk oil. Overall, edible oil business EBITDA stood at US\$ 77 million in FY2018, a 23% decline year-on-year.

Grain and infrastructure division delivered mixed results. Solid margins and volumes of silo services segment were undermined by average performance of export terminals and grain segments owing to intensified domestic competition, as country-wide crop size declined following last year drought. Overall, grain and infrastructure business earned US\$ 101 million of EBITDA in FY2018, a 9% decline year-on-year.

Unfavorable weather conditions, a prolonged weakness of global soft commodity prices, an inflating local currency cost base as well as recent acquisitions of underperforming rivals prohibited our farming division from performing at its best. Thus, the division EBITDA declined by 39%, totaling US\$ 89 million in FY2018.

Accordingly, Board intends to recommend the shareholders to approve the dividend of US\$ 0.25 per share for the FY2018.

## FY2019 Outlook

The disappointment of FY2018 turns into optimism for FY2019, as we expect to deliver stronger financial results in each of our divisions.

Crushing business shall enjoy a record supply of sunflower seeds estimated at around 15.5-16.0 million tons owing to historical high acreage of sunflower seed plantings and rebounded crop yields on improved weather conditions in the current season. This shall narrow the supply gap, building upside momentum for local crushers. With our scale, cost leadership and

efficiency of our procurement network, Kernel is definitely best positioned to benefit in the current environment, aiming to crush 3.1 million tons of sunflower seeds in FY2019.

We also plan to export a record 5.4 million tons of grains from Ukraine in FY2019 supported with the commissioning of the first stage of the deep-water TransGrain Terminal facility in the port of Chornomorsk along with the recovered crop size in the country. The harvest of corn, being the major export grain for Ukraine, is estimated at 31 million tons this autumn, up 28% compared to the last season. Each block of the value chain shall benefit from higher volumes. In terms of profitability, we anticipate a moderate recovery of grain export margins, a slight reduction in export terminals margins once new capacity is brought into operation, and normalization of silo services profitability following last year's abnormally high base.

The farming division shall benefit from improved weather conditions, supportive for the broad spectrum of spring crops, to deliver strong operating results in FY2019. As we promised to our shareholders last year, the smooth and prompt integration of acquired farming assets has already enabled us to achieve close to the full potential to contribute nearly on par with the farm land operated by Kernel for a while. Notwithstanding general weakness in global grain prices, Avere was instrumental to effectively hedge our planned in-house output turning the short-lived market volatility to the benefit for Kernel. This is exactly what we were thinking of some time ago when a decision to launch Avere was made. With a good visibility for crop yields and considering that significant majority of the crop production is pre-sold, we expect farming business to earn around US\$ 160 million of EBITDA in FY2019.

## Our Strategy 2021

In our last year report, we set out a four-year strategy. FY2019 shall be very important for Kernel as we start to deliver on our ambitious plan – Strategy 2021.

A multi-seed oil extraction plant is under construction in the middle of Western Ukraine, in the emerging high-yield and high-oil content sunflower seed belt. The current logistic cost to transport sunflower seeds from western Ukraine to central and south-eastern Ukraine, where nearly 90% of all crushing plants are located, shall transform into premium profitability once the plant is commissioned. We estimate that western Ukraine shall incrementally produce 1.0-1.5 million tons a year of sunflower seeds by 2021 and our new plant shall do an outstanding job in servicing farmers' needs in the region.

We recognize it is not only a race to win a new growth market, this is a race to win the loyalty of farmers, our suppliers, by providing unparalleled level of service and support. We specifically designed our plant with 100,000 tons of on-site oilseed storage and powerful daily in-take capacity to enable farmers to discharge their sunflower seed crop in fast and cost-efficient manner, saving their money for their own on-farm storage development. This one-million-ton-a-year oilseed crushing plant shall be boosted with integrated 22MW combined heat and power plant, which shall burn sunflower husk to materially reduce the crushing cost. The commissioning of the facility is estimated in early 2021.

Similar combined heat and power plants shall be installed nearly at all our crushing plants by the end of 2020 with aggregate capacity of 72MW. We aim to use the first-mover advantage in the adoption of new technology to reduce crushing cost across our exiting asset portfolio reinforcing our competitive edge. Besides, 100% on-plant utilization of husk shall eliminate logistic costs associated with transportation of palletized hull to the EU consumers and accelerate the turn-over of our railway wagons previously used for it.

The construction of TransGrainTerminal in the port of Chornomorsk is in line with our initial budget and the time frame. The first stage of the facility shall be commissioned in January 2019, adding nearly 100,000 tons of storage capacity and 100 railway wagons of daily in-take translating into additional annual throughput capacity of up to 1 million tons of grain. Once fully completed by the end of 2019, TransGrainTerminal shall have a total storage capacity of 300,000 tons with daily in-take of 200 railway wagons and 400 trucks transforming into 4 million tons of annual throughput capacity.

With the view to support our enlarged farming operations following the recent acquisitions and to facilitate grain export flows after the commissioning of TransGrainTerminal, we also invest in the expansion of our in-land silos and railway wagons. We will increase storage capacity by 245,000 tons, and de-bottleneck in-take, drying and off-take thresholds in five different locations across Kernel's farming production belt to add over 750 thousand tons of annual in-land silo throughput by autumn 2019, boosted with 500 recently purchased brand-new railway wagons.

The #DigitalAgriBusiness project kicked off in 2016 is due to be launched in November 2018. 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 will

convert data into a single system assisting us in making smarter decisions. This unique planning tool shall be used for the 2019 crop sowing campaign, enabling us to more precisely model profitability scenarios, optimize resources and predict expenses. Using pre-agreed algorithms, the system computes the amounts of seeds, fertilizers, crop protection agents and other needed resources, efficiently assigning available human and machinery resources for spring and autumn fieldworks. With #DigitalAgriBusiness, we bring significant automation of procedures to the traditionally highly intense machinery and human capital business.

The business environment is fast-changing with much uncertainty. To stay competitive, we shall remain adoptive to keep in tune with our stakeholders and society. While we work to improve the efficiency and maintain the cost leadership, we continue to pay attention to our relationships with our suppliers, customers and local communities. In summer 2018, we launched Open Agribusiness - a program for strategic partnership with Ukrainian farmers. With Open Agribusiness, we strive to unlock Ukrainian potential to produce over 100 million tons of grain and oilseeds, making the country a key supplier of agricultural goods to global market. As a part of this initiative, Kernel shares technological data with local farmers through the Cropio satellite monitoring system to benchmark performance. We aim to be fully transparent and responsible, building up strong credentials for long-term cooperation with our suppliers and giving them access to our best practices. Open Agribusiness is enhanced with a multifunctional website furnishing farmers with access to crop growing technologies and innovative services to reduce costs and improve productivity. We believe it is a vital soft solution to support the execution of Strategy 2021.

### Turning point for Kernel

Today, we are the #1 scalable and innovative low-cost value chain manager in Ukraine with a portfolio of modern assets spanning across the agricultural belt. Over the past decade, we led industry-wide innovation, radically reducing operating costs by upgrading our production, storage, crushing and infrastructure assets to serve local farmers and our global customers in the most efficient way.

We were very disappointed with our performance over the past two years as crushing and grain origination margins substantially compressed owing to a widened supply gap for sunflower seeds and unfavorable weather conditions last season. Even our infrastructure business experienced downward pressure on profits. Still, in this harsh environment we managed to run our business at nearly full capacity.

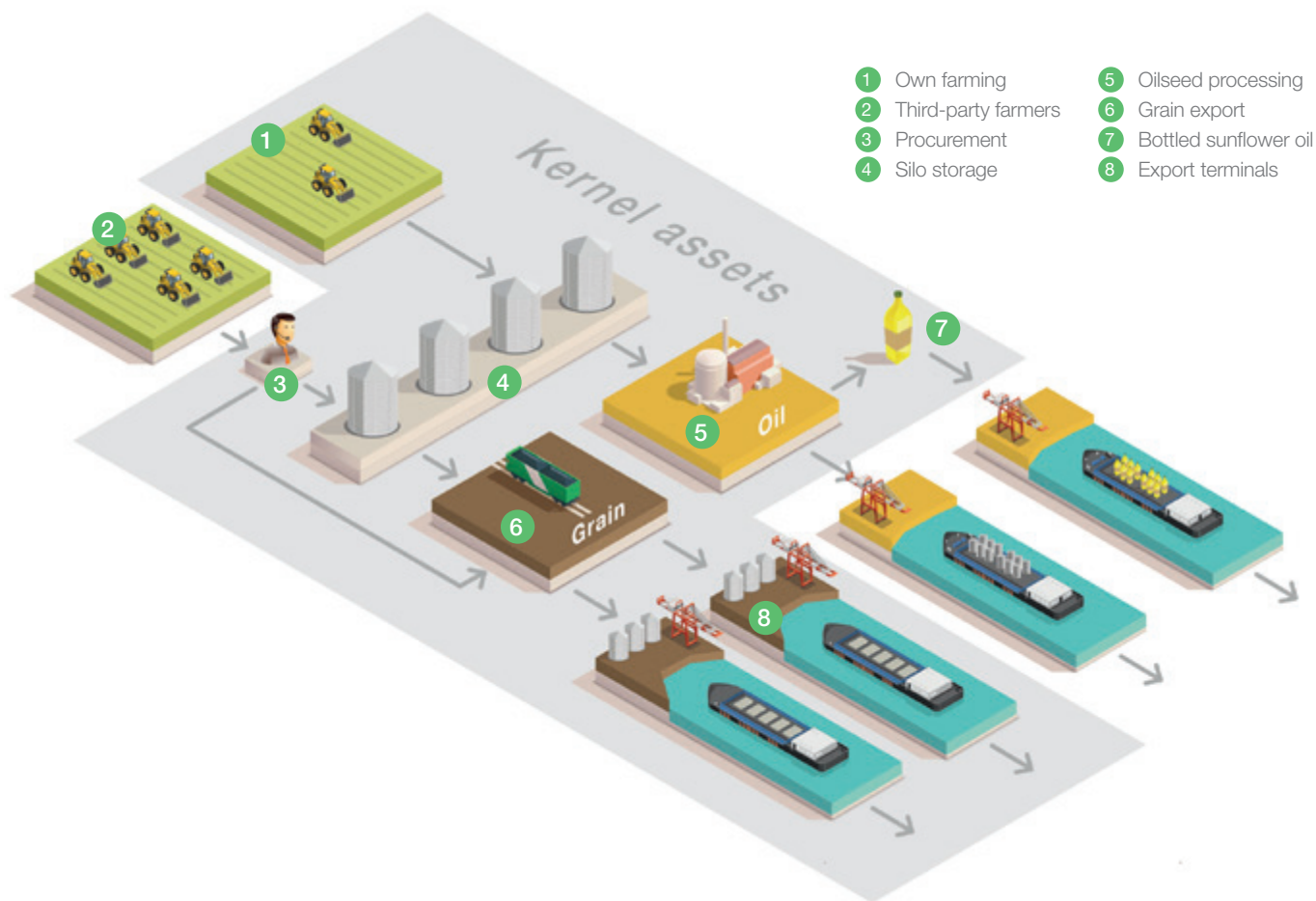
No doubt, this is a turning point for Kernel, as we see a limited downside risk in the current low cycle, while ongoing strategic investments underpin our unique capabilities to gain the most from an expected future rebound in a structurally new marketplace. We move forward into a stronger FY2019, building solid momentum to gradually lift the company to a completely new level over the next few years.



**Andriy Verevskyy**

Chairman of the Board of Directors,  
Founder

# Our Business Model



## Sunflower oil division

- #1 sunflower oil producer and exporter in the world
- #1 bottled sunflower oil producer and marketer in Ukraine
- 3.5 million tons annual sunflower seed processing capacity



## Grain and infrastructure division

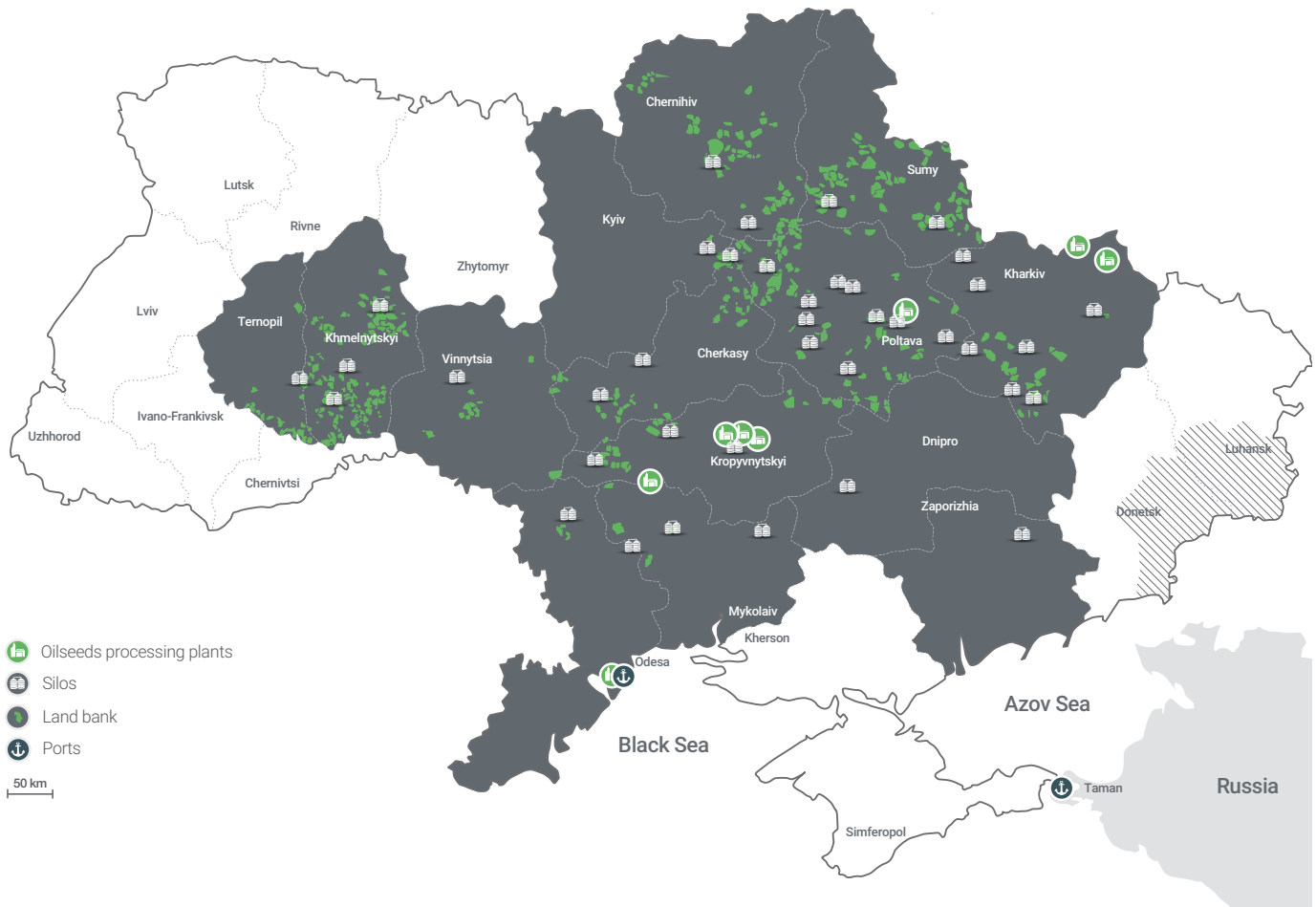
- #1 grains & oilseed originator and marketer in Ukraine with 9% of country's total grain export
- One export terminal in Ukraine and one in Russia (50/50 JV with Glencore) with total annual capacity to transship 6.2 million tons of soft commodities
- #1 private inland grain silo network in Ukraine with 2.8 million tons of storage capacity



## Farming division

- #1 crop producer in Ukraine controlling over 550,000 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



## Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volumes, thousand tons <sup>1</sup>			EBITDA margin, US\$ / t <sup>2</sup>		
	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y	FY2017	FY2018	y-o-y
<b>Sunflower oil</b>												
Sunflower oil sold in bulk	1,068	1,264	18%	83.2	63.3	(24%)	1,084	1,301	20%	76.8	48.7	(37%)
Bottled sunflower oil	141	130	(8%)	16.6	13.4	(19%)	131	119	(10%)	126.0	112.6	(11%)
	<b>1,208</b>	<b>1,393</b>	<b>15%</b>	<b>99.8</b>	<b>76.7</b>	<b>(23%)</b>						
<b>Grain and infrastructure</b>												
Grain trading	923	951	3%	22.7	17.5	(23%)	5,060	4,646	(8%)	4.5	3.8	(16%)
Export terminals <sup>3</sup>	59	53	(9%)	47.6	39.1	(18%)	4,456	4,112	(8%)	10.7	9.5	(11%)
Silo services	61	72	19%	40.0	44.2	11%	3,255	3,292	1%	12.3	13.4	9%
	<b>1,043</b>	<b>1,077</b>	<b>3%</b>	<b>110.2</b>	<b>100.8</b>	<b>(9%)</b>						
<b>Farming</b>	<b>381</b>	<b>470</b>	<b>23%</b>	<b>145.5</b>	<b>88.7</b>	<b>(39%)</b>	<b>2,074</b>	<b>2,594</b>	<b>25%</b>	<b>377.7</b>	<b>148.9</b>	<b>(61%)</b>
Unallocated corporate expenses				(36.4)	(43.7)	20%						
Reconciliation	(463)	(538)	16%	—	—							
<b>Total</b>	<b>2,169</b>	<b>2,403</b>	<b>11%</b>	<b>319.2</b>	<b>222.5</b>	<b>(30%)</b>						

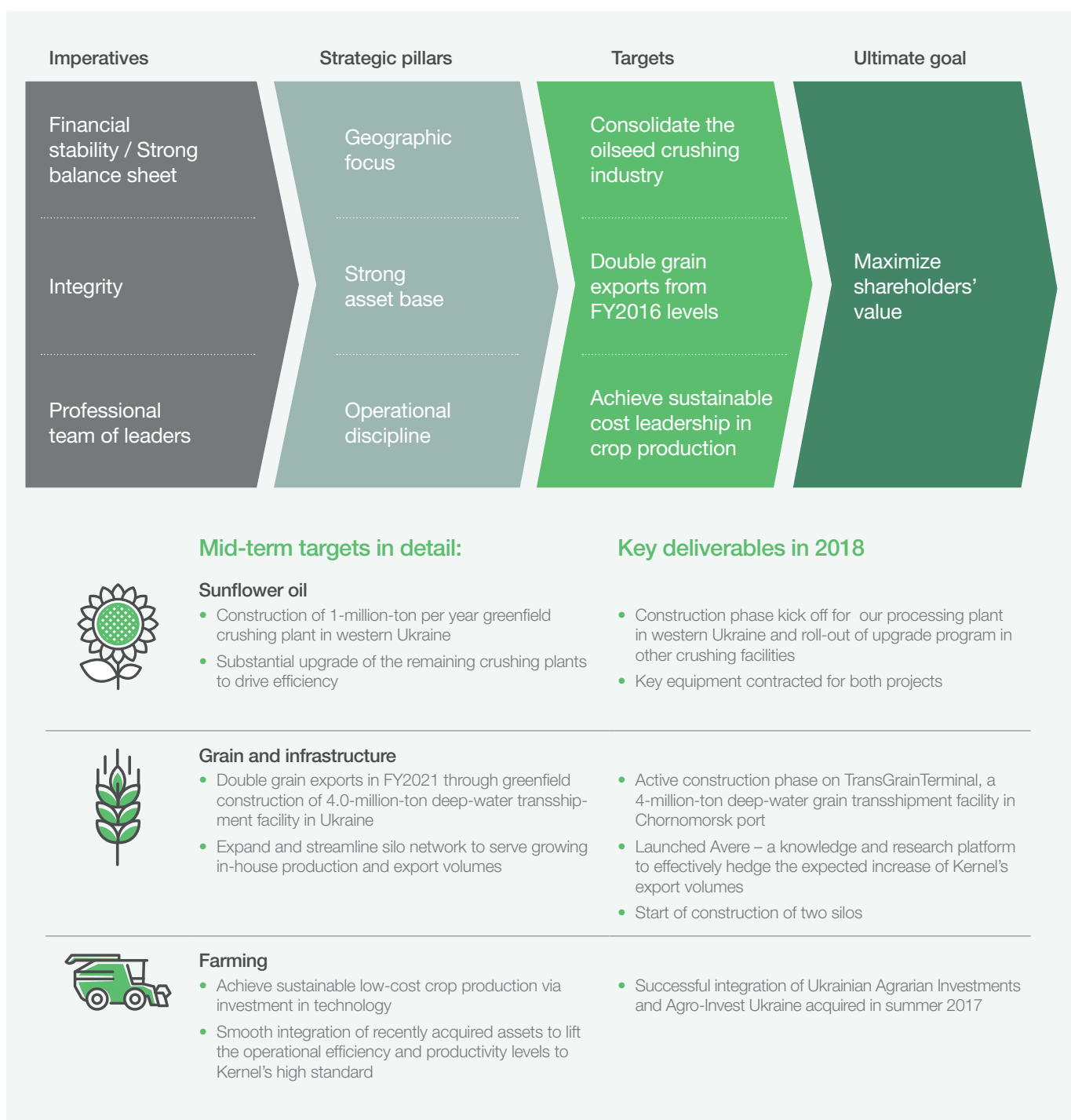
Note 1: Million liters for bottled sunflower oil

Note 2: US\$ per thousand of liters for bottled sunflower oil; US\$ per hectare for farming

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

# Our Strategy

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 strengthening of our operations.



## Financial Performance in FY2018



### A challenging year undermined the performance of our farming and oilseed processing divisions, in line with our guidance

In the year ended 30 June 2018, Kernel earned US\$ 223 million dollars of EBITDA, down 30% y-o-y, primarily driven by weaker performance of our farming and oilseed processing businesses.

Unfavorable weather conditions, prolonged weakness of global soft commodity prices, inflating local currency cost base along with recent acquisitions of underperforming rivals prohibited our farming division from achieving strong results. Thus, the EBITDA contribution declined by 39% y-o-y, totaling US\$ 89 million in FY2018.

Sunflower oil business profitability bottomed on deteriorating sunflower seed supply gap as 17.7 million tons of installed crushing capacity in Ukraine chased slightly above 13 million tons of harvested crop. Despite weak fundamentals, we managed to process a record 3.1 million tons of sunflower seeds, for the first time ever crossing a three-million-ton milestone, yielding a crushing margin of US\$ 49 per ton of bulk oil. Overall, the edible oil business contributed US\$ 77 million of EBITDA in FY2018, a 23% decline y-o-y.

Grain and infrastructure division delivered mixed results. Solid margins and volumes of silo services segment were undermined by average performance of export terminals and grain segments owing to intensified domestic competition, as general crop size declined following last year drought in the country.

#### Revenue

**US\$ 2,403 million**  
+11% y-o-y

#### EBITDA

**US\$ 223 million**  
-30% y-o-y

Overall, grain and infrastructure business contributed US\$ 101 million of EBITDA in FY2018, a 9% decline year-on-year.

Our leverage reached 2.8x net-debt/EBITDA, and EBITDA / interest coverage ratio reduced to 3.4x.

Company's bottom line stood at US\$ 56 million, driven by the decline in operating profitability and affected by several one-off factors including the legal reserve associated with an arbitration case.

# Financial Performance in FY2018 continued

## Income statement highlights

Group's consolidated revenues reached US\$ 2.4 billion in FY2018, up 11% y-o-y, driven mainly by higher sunflower oil sales volumes, as sunflower oil prices remained weak. We also booked a US\$ 19 million gain from a net change in fair value of biological assets and agricultural produce in FY2018, as compared to a US\$ 3 million loss a year ago. This component included a gain from revaluing crops in fields to fair value less costs to sell as of 30 June 2018 and expensing of the respective gain booked a year earlier, as well as a gain from change in the fair value of livestock. Change in value for FY2018 reflects anticipation of a better y-o-y harvest.

Our cost of sales increased by US\$ 385 million, to US\$ 2.1 billion or 22% y-o-y, owing to higher volumes of sunflower seeds processed and higher cost of grain produced by our farming business arising from lower crop yields. As a result, gross profit in the reporting period reduced 29% y-o-y, to US\$ 314 million.

Other operating income increased by 45% y-o-y in FY2018, to US\$ 59 million, driven by the gain on operations with commodity futures and other operating income, while undermined by lower y-o-y VAT subsidy recognized. For a detailed breakdown of other operating income, please, refer to Note 27 of the financial statements on page 111.

Despite increased scale of the business, distribution costs in FY2018 reduced both in absolute and relative (as a percentage of revenue) terms, standing at US\$ 154 million, down 3% y-o-y.

Driven by the country-wide labor cost inflation, increased scale of our business and launch of Avere operations, the general and administrative expenses increased by US\$ 20 million, or 34% y-o-y, to US\$ 80 million in FY2018.

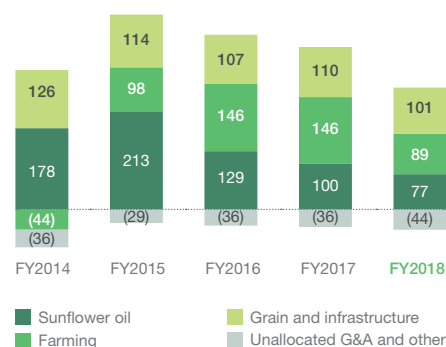
Consequently, operating profit halved y-o-y, totaling US\$ 140 million.

Finance costs marginally increased by 5%, amounting to US\$ 65 million, comprising the interest on our Eurobond and pre-export finance facilities syndicated by the banks.

In FY2018, we recognized US\$ 5.4 million of net foreign exchange gain, as compared to a loss of US\$ 2.7 million booked for the previous period. This gain reflects 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.

Other expenses surged to US\$ 31 million, primarily driven by a recognition of provision for settling the possible obligation arising from acquisition of Stiom Holding in 2012 (please see page 117 for details).

**Kernel's EBITDA split**  
US\$ million



We recognized US\$ 6 million of corporate income tax gain in FY2018, as compared to a US\$ 19 million loss a year ago, driven by deferred tax benefit related to origination and reversal of temporary differences.

As a result, net profit for the period declined to US\$ 56 million, down 69% y-o-y, and net profit attributable to shareholders of the Company plummeted by 70% y-o-y, to US\$ 52 million.

In line with the adopted dividend policy, the Company paid on 26 April 2018 the dividend of US\$ 0.25 per share totaling at US\$ 20.5 million for FY2017. Considering the results of FY2018, 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 2019.

## Cash flow highlights

Mirroring the dynamics in Company's EBITDA, operating profit before working capital changes reduced to US\$ 183 million, a 44% decline y-o-y.

Working capital increased by US\$ 31 million. On the one hand, the like-for-like level of the working capital reduced, but on the other hand the recently expanded farming operations caused the overall rise in its level y-o-y as we invested to uplift the productivity of the newly acquired land.

After subtracting the finance costs paid (US\$ 64 million) and income tax paid (US\$ 5 million), the company recorded US\$ 82 million of net cash generated by operating activities.

## Income statement highlights

US\$ million

	FY2017	FY2018	y-o-y
<b>Revenue</b>	<b>2,168.9</b>	<b>2,403.0</b>	<b>10.8%</b>
Net IAS 41 gain / (loss)	(2.9)	18.7	n/m
Cost of sales	(1,722.8)	(2,107.7)	22.3%
<b>Gross profit</b>	<b>443.3</b>	<b>314.0</b>	<b>(29.2%)</b>
Other operating income	40.7	59.1	45.2%
Distribution costs	(159.0)	(153.6)	(3.4%)
General and administrative expenses	(59.9)	(80.0)	33.5%
<b>Operating profit</b>	<b>265.0</b>	<b>139.6</b>	<b>(47.3%)</b>
Finance costs, net	(62.3)	(65.1)	4.5%
Foreign exchange gain / (loss), net	(2.7)	5.4	n/m
Other income / (expenses), net	(1.5)	(31.0)	21.3x
Share of profit / (losses) in joint venture	(1.1)	1.2	n/m
<b>Profit / (loss) before income tax</b>	<b>197.4</b>	<b>50.1</b>	<b>(74.6%)</b>
Income tax expenses	(18.8)	5.9	n/m
<b>Profit for the period</b>	<b>178.6</b>	<b>56.0</b>	<b>(68.7%)</b>
Attributable to equity holders of Kernel Holding S.A.	176.2	52.1	(70.4%)
Non-controlling interest	2.4	3.8	61.5%
<b>EBITDA</b>	<b>319.2</b>	<b>222.5</b>	<b>(30.3%)</b>

## Financial Performance in FY2018 *continued*

Executing our investment program under Strategy 2021, we spent US\$ 147 million for purchases of property, plant and equipment, and US\$ 46.5 million to acquire Agro-Invest Ukraine Group: a farming business with about 27 thousand hectares of leasehold farmland and over 170 thousand tons silo storage capacity under management. Over the course of FY2018, we sold several of our farming subsidiaries, which managed land bank suboptimal for our operations, thus securing cash proceed of US\$ 25 million in FY2018. With US\$ 23 million proceeds from sale of financial assets and some other minor items, this resulted in US\$ 156 million of net cash outflow in investing activities.

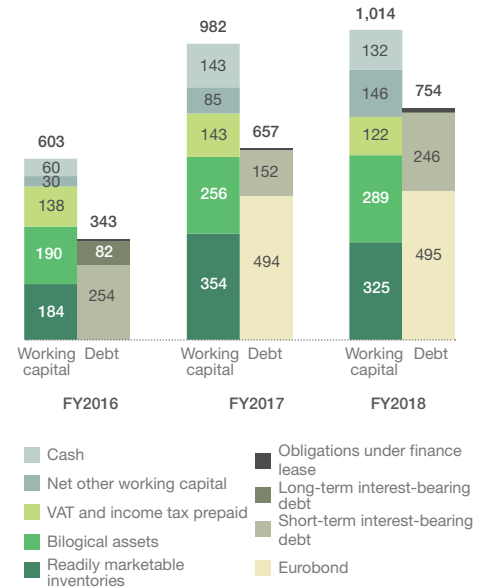
The resulting US\$ 73 million cash outflow from operating and investment activities was covered by US\$ 98 million proceeds from debt financing. Additionally, the Company paid US\$ 20 million of dividends in FY2018, adhering to its US\$ 0.25 per share dividend payment policy for the fourth year in a row.

Gross and net interest-bearing debt of the company, measured as of 30 June 2018, increased 15% and 21% y-o-y accordingly. But given the material decline in our EBITDA, the leverage measured as net-debt-to-EBITDA

surged to 2.8x, as compared to 1.6x a year ago. Considering our extensive investment program for the next several years within the Strategy 2021, we expect the leverage of the Company to increase further in FY2019, reaching its peak in June 2019. The planned debt increase is anticipated to be balanced by EBITDA recovery, thus keeping the leverage at manageable levels.

About half of the net debt in the end of FY2018 was covered by readily-marketable inventories (RMI), which were either presold or could be easily converted into cash being a commodity by nature. RMI comprised 88% of all inventories as of 30 June 2018.

### Working capital and debt position US\$ million



### Liquidity positions and credit metrics

US\$ million, except ratios

	30 June 2017	30 June 2018	y-o-y
Short-term interest-bearing debt	152.4	245.5	61.1%
Long-term interest-bearing debt	5.6	2.8	(49.4%)
Obligations under finance lease	5.7	10.9	90.6%
Eurobond	493.6	494.8	0.2%
<b>Gross interest-bearing debt</b>	<b>657.4</b>	<b>754.1</b>	<b>14.7%</b>
Cash	143.4	132.0	(7.9%)
<b>Net interest-bearing debt</b>	<b>514.0</b>	<b>622.1</b>	<b>21.0%</b>
Readily marketable inventories	353.9	325.2	(8.1%)
<b>Adjusted net debt</b>	<b>160.0</b>	<b>296.9</b>	<b>85.5%</b>
Shareholders' equity	1,153.0	1,170.7	1.5%
Net debt / EBITDA	1.6x	2.8x	1.2x
Adjusted net debt / EBITDA	0.5x	1.3x	0.8x
EBITDA / Interest	5.1x	3.4x	(1.7x)

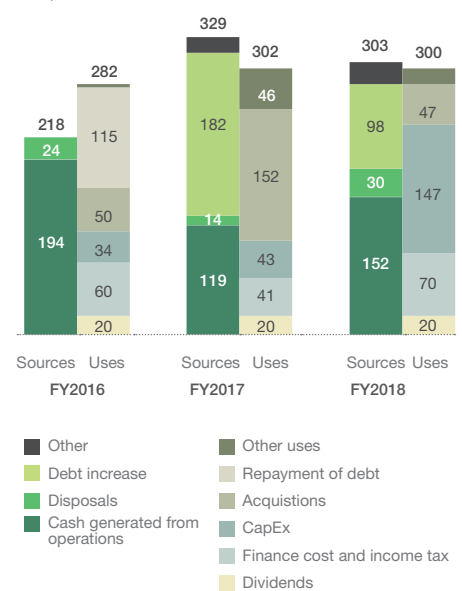
#### Notes:

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.

Net other working capital is the sum of trade accounts receivable, prepayments to suppliers and other current assets, other inventories minus trade accounts payable minus advances from customers and other current liabilities.

### Sources and uses of cash

US\$ million



# Sunflower Oil



**Record 3.1 million tons  
of sunflower seeds  
processed in FY2018**

## We aim to crystallize our leadership in the oilseed processing business in coming years

Over the past 15 years we transformed from a small regional sunflower seed crusher into a largest global producer of sunflower oil. We built a sizable footprint, allowing us to successfully navigate in the most turbulent times, increase our scale and enter the adjacent synergetic businesses making us even stronger and more competitive.

In FY2018, crushing margins in Ukraine touched a historical minimum. Weak harvest of sunflower seeds and strong demand from the crushers resulted in the lowest ever profitability. Our bulk oil EBITDA margin squeezed 37% y-o-y to 49 US\$ per ton of oil, and total division's EBITDA reduced to US\$ 77 million, despite highest ever crushed volumes of 3.1 million tons of oilseeds with record exports of sunflower oil sold in bulk.

At the same time, we look positively into the future. Ukraine has not yet achieved its full potential in sunflower seed production, and we plan to accelerate this process by sharing our sunflower production technology and knowledge with other farmers incentivizing them to produce more. We already envisage market recovery in FY2019, when Ukraine is expected to deliver a record 15.5-16.0 million tons harvest of sunflower seeds. In the face of this upward trend, we believe we have made a very strong move by launching a project to build the largest and most efficient oilseed processing plant in Ukraine, located in the western region of the country – a new emerging geography for sunflower seeds production.

### Revenue

**US\$ 1,393 million**  
+15% y-o-y

### EBITDA

(before unallocated head office expenses)

**US\$ 77 million**  
-23% y-o-y

Additionally, we aim to complete a sizable upgrade of our plants over 2019-2021, allowing us to significantly improve the performance of our oilseed processing business.

We are fully committed to delivering on the above-mentioned elements of our Strategy 2021, making our sunflower oil arm stronger than it has ever been.

# Sunflower Oil *continued*

## Our Markets

### Global markets

Consumption of edible oils increased by 4.0% y-o-y in marketing year 2017/18, versus 3.3% growth a year ago, reaching 191 million tons. It is spurred by strong demand coming from Asia, driven by income and population growth and rapidly expanding food processing industries. Production of vegetable oils exceeded 197 million tons, resulting in a downward pressure on vegetable oil prices.

The sunflower oil category remained one of the fastest growing segments of the international vegetable oil market, adding 5.0% y-o-y in global consumption, driven by strong demand from India and China. The share of sunflower oil in total vegetable oil global consumption stood at 9.1%, slightly more than a year ago. Production of sunflower oil increased by 1.1% y-o-y, to 18.4 million tons, exceeding consumption by 1 million tons. As a result, markets observed a downward pressure on sunflower oil prices. Over FY2018, sunflower oil Black Sea FOB price fluctuated between 730-780 US\$ per ton of oil, reaching its 10-year minimum in September 2018.

Ukraine remained the largest producer and exporter of sunflower oil in the world, delivering to export markets 5.4 million tons in 2017/18 season.

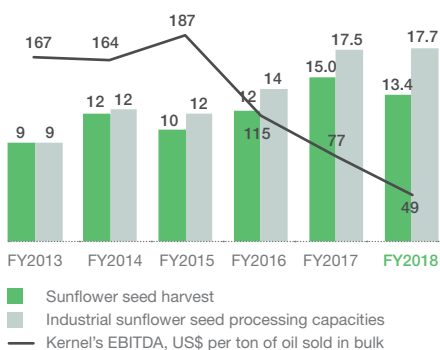
A USA-China trade war created opportunities for other countries in supplies of soybean meal and its substitutes (including sunflower meal) to China. We consider Ukraine is well-placed to benefit from current re-routing of trade flows.

### Local market

Sunflower seed processing in Ukraine is heavily localized: nearly all sunflower seeds harvested

### Mismatch between supply and demand for sunflower seeds in Ukraine

million tons



Source: National Academy of Agricultural Sciences of Ukraine, Kernel's estimates

by local farmers are processed domestically, allowing Ukraine to produce over 30% of globally consumed sunflower oil. Processing margin is determined by demand for sunflower seeds (installed processing capacities) and supply of seeds (harvested volumes) in domestic marketplace. Any global sunflower oil price movements are translated by processors to local farmers.

While sunflower seed processing capacity remained almost unchanged at around 17.7 million tons in FY2018, dry weather conditions reduced sunflower crop yields and resulted in 13.4 million tons harvest of sunflower seeds, as compared to 15 million tons a year ago.

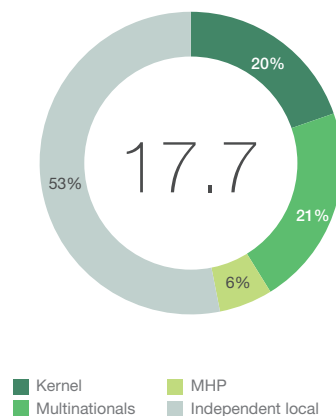
As a result, Ukraine produced 5.9 million tons of sunflower oil in 2017/18, out of which 5.4 million tons were exported.

### Outlook for FY2019

The most recent field data make us expect a record sunflower seed harvest in Ukraine, reaching 15.5-16.0 million tons in FY2019. On the demand side, we do not envisage any new projects entering the market, so the oilseed processing capacities are expected to remain unchanged at 17.7 million tons.

### Crushing capacities as at MY 2017/18

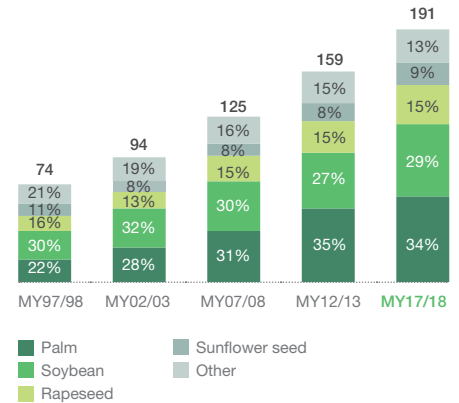
million tons



Source: National Academy of Agricultural Sciences of Ukraine, Kernel's estimates

### Global consumption of vegetable oils

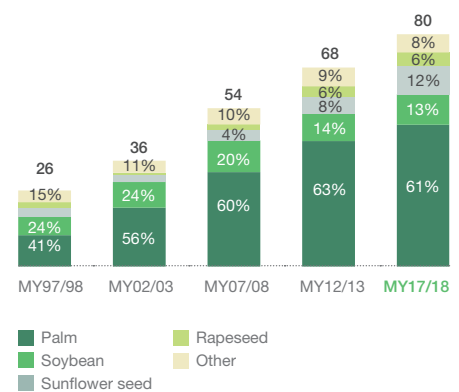
million tons



Source: USDA, October 2018.

### Global vegetable oil export

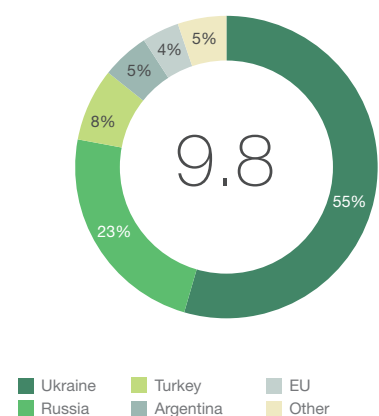
million tons



Source: USDA, October 2018.

### Global sunflower oil export in MY 2017/18

million tons



Source: USDA, October 2018.

# Sunflower Oil continued

## Our business model

### Market leader in oilseed processing

Kernel is the largest sunflower oil producer in the world, with annual capacity to process 3.5 million tons of sunflower seeds. We operate seven own oilseed processing plants in Ukraine and also process seeds under the tolling agreement on the third-party-owned Ellada crushing plant in Kropyvnytskyi city. Our facilities compose 20% of country industrial sunflower crushing capacity, 2.4 times exceeding the second-largest player.

Two of our plants (Poltava and Prykolotne) have refining and bottling equipment, allowing us to produce bottled sunflower oil. On the Ellada plant we process also high-oleic sunflower seeds. Most of our crushing plants are multi-seed, able to switch to soybean or rapeseed processing. Also, since 2009 our KirovogradOliya oilseed processing facility operates a combined heat and power plant with 1.6 MW installed turbine capacity, supplying the electricity generated to national grid.

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.

90% of sunflower seeds we process are purchased from third-party farmers, and only 10% are produced in-house. A sizable portion of our procured seed is stored in our own 2.8-million-ton silo network (the largest private silo network in Ukraine), albeit we similarly use 3<sup>rd</sup>-party storage facilities as well.

Sunflower seed processing yields two major products: sunflower oil and meal, which we export globally mostly through 3<sup>rd</sup>-party terminals, with only a minor portion transshipped through our own TransBulkTerminal.

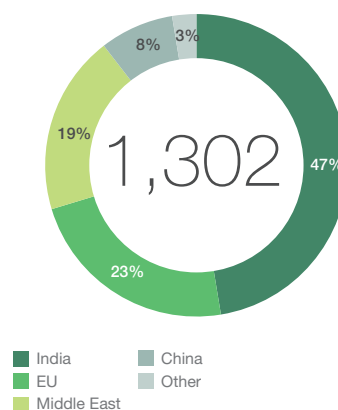
### Prudent risk management

Profitability in our oilseed processing business is margin-driven, because sunflower oil and meal sales are contracted in a similar timeframe as we buy sunflower seed from farmers, thus locking the margin just after the procurement.

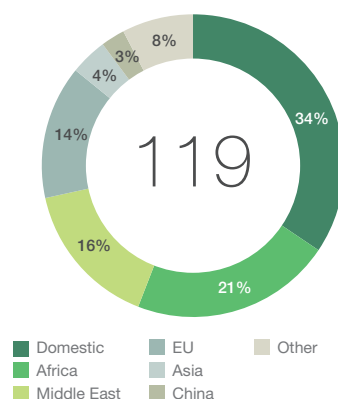
Our origination team purchases sunflower seed from farmers in close proximity to plants, either at the farm gate or at the wide network of our silos and on third-party silos. At the same time, our international sales team enters into forward contracts to sell sunflower oil, thus fixing volumes and prices. Although sunflower seed prices in Ukraine closely correlate with the international price of sunflower oil, as nearly 90% of the country's sunflower oil production is exported, our 'balanced book' policy is essential to minimizing the impact of unexpected movements in global commodity prices.

We mitigate counterparty risk selling only either against credit letters from international banks or to top recognized global traders within strictly monitored limits.

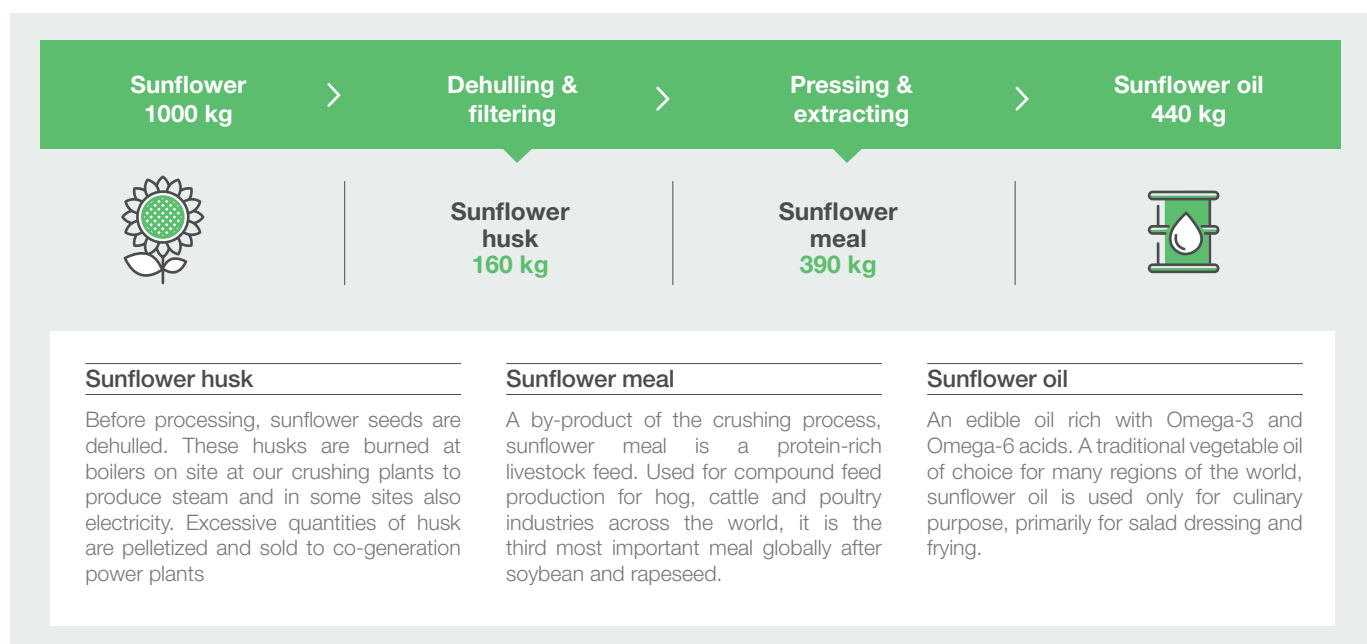
**Sunflower oil sold in bulk destinations FY2018**  
thousand tons



**Bottled sunflower oil destinations FY2018**  
million liters



## Sunflower oil production process



# Sunflower Oil continued

## Case study: entering new emerging geography

Over the past decade sunflower has been the most attractive crop for farmers, granting the highest profitability and the lowest exposure to weather shocks among other crops, with relatively low level of required working capital. It is no wonder that production of sunflower seeds in Ukraine increased 6 times over the last 20 years, and the acreage under the crop is now estimated to be the largest in Ukraine compared to other crops.

South-eastern Ukraine has been a historical region of sunflower cultivation, and about 90% of market oilseed processing capacities are located there. We see a potential for the expansion of sunflower production in the western and northern regions of Ukraine, which enjoy ideal weather conditions for sunflower cultivation, as proved by above-average yields and high oil content in the seeds. The long transportation leg to the area of installed crushing capacity historically prohibited mass production of sunflower seeds in western Ukraine, but recent trends demonstrate the increase of acreage

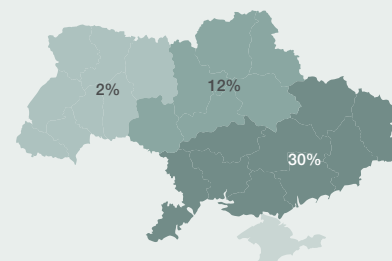
under sunflower in that regions, which is still below the levels observed on south-east. A lack of established players in western Ukraine translates into lower competition for sunflower seeds and higher margins for processors there. The estimated incremental potential of western Ukraine is 1.0-1.5 million tons of sunflower seeds per year in mid-term, making this region attractive for new investments in oilseed processing.

In FY2018, we decided to launch in western Ukraine the construction of the largest and most efficient oilseed processing plant in the country, which perfectly aligns with the regional fundamentals. The annual processing capacity will be one million tons of sunflower seeds per year, and the plant will be able to process also soybeans and rapeseeds. The plant will be located in the Starokostiantyniv, Khmelnytskyi region, in the middle of Kernel's farming cluster in western Ukraine. The launch of operations is scheduled for the first half of 2021.

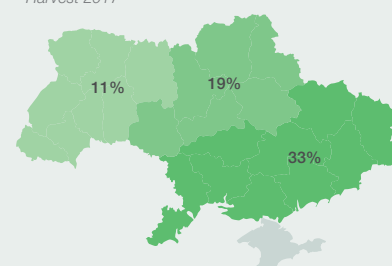
This new facility shall crystalize our leadership in oilseed processing industry in Ukraine and is an essential component of our Strategy 2021.

## Percentage of farmland bank under sunflower in Ukraine

Harvest 2010



Harvest 2017



## Export-oriented business

Over 90% of sunflower oil produced is sold in bulk to export markets, with India, EU, Middle East and China being our key markets of destinations. The other 10% is refined and bottled. 66% of the bottled oil is then exported abroad under our brands or private labels, and 34% is sold domestically under well-recognized brands "Chumak", "Schedryi Dar", "Stozhar" and others. Key export markets are Africa, Middle East, EU and China. We have about 55% share in total refined bottled sunflower oil export from Ukraine.

## Key achievements

FY2018 was a record year for us in terms of processing volumes. Despite an overall country decline in sunflower seed production due to unfavorable weather conditions, we managed to crush record 3.1 million tons, running our facilities at over 90% capacity utilization rate.

In 2018, we launched a project to build a green-field oilseed processing plant in western Ukraine, where we see strong fundamentals for the crushing business. In the first half of 2021, we aim to commission the largest facility in Ukraine with annual capacity to process one million tons of sunflower seeds. As of the date of this report, we have contracted key equipment and are finalizing design and internal preparatory works.

In July 2018, we completed the divestment of our small crushing plant in Mykolaiv. This outdated, inefficient simple press facility is unfit for the future of Kernel. We had not been operating there since August 2016, renting it to a third party.

Over the course of FY2018, we fundamentally optimized the production processes on our recently acquired Prydniprovskyi oil-extraction plant, expanding the processing capacity by 10%, to 617 thousand tons of sunflower seeds per year. Therefore, despite the disposal of the Mykolaiv oilseed processing plant, we maintain the company's total crushing capacity at 3.5 million tons of sunflower seeds per year.

In FY2018, we installed hydration equipment on our KirovogradOliya plant, allowing us to produce there a new product, phosphatide concentrate, along with our five other oilseed processing plants. In addition, we invested in the improvement of in-take and off-loading logistics of our crushing plants to remove existing bottlenecks.

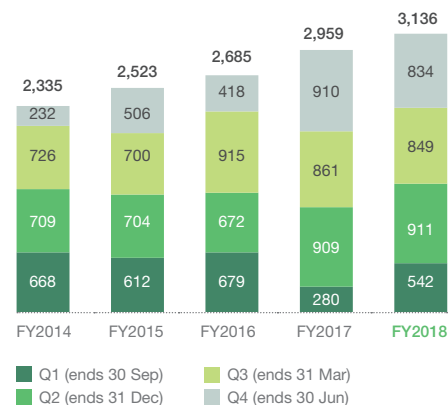
In our bottled sunflower oil segment, we entered 10 new markets in FY2018 and expanded our sales team to improve the coverage of Asia and Africa regions. We also developed a new product in our bottled oil segment - vitaminized (fortified) sunflower oil, which we successfully launched to the market in September 2018, being the first company in Ukraine to offer it. In FY2019, we shall focus on the popularization and expansion of the product in our markets.

## Performance overview

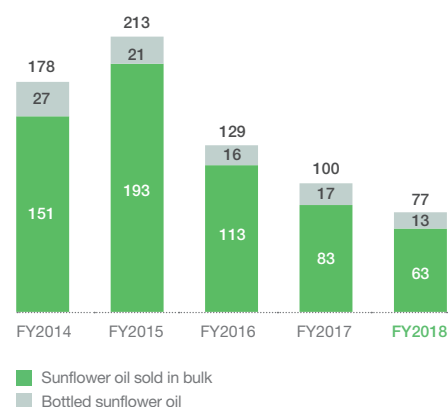
We report our sunflower oil division under two segments: sunflower oil sold in bulk and bottled sunflower oil.

Combined EBITDA of the sunflower oil division reduced 23% y-o-y, to US\$ 77 million, with comparable decline both in bulk and bottled oil segments.

## Oilseed processing volumes thousand tons



## Sunflower oil division EBITDA US\$ million



# Sunflower Oil continued

## Sunflower oil division performance

Sunflower oil sold in bulk		FY2017	FY2018	y-o-y
Revenue	US\$ million	1,067.5	1,263.6	18.4%
EBITDA	US\$ million	83.2	63.3	(23.9%)
Volumes sold	thousand tons	1,083.7	1,301.3	20.1%
EBITDA per ton	US\$ / ton	76.8	48.7	(36.6%)
EBITDA margin	% of revenue	7.8%	5.0%	(2.8pp)

Bottled sunflower oil		FY2017	FY2018	y-o-y
Revenue	US\$ million	140.7	129.9	(7.7%)
EBITDA	US\$ million	16.6	13.4	(19.3%)
Volumes sold	million liters	131.4	118.7	(9.7%)
EBITDA per thousand liters	US\$ / '000 liters	126.0	112.6	(10.6%)
EBITDA margin	% of revenue	11.8%	10.3%	(1.5pp)
<b>Sunflower oil total EBITDA</b>	<b>US\$ million</b>	<b>99.8</b>	<b>76.7</b>	<b>(23.2%)</b>

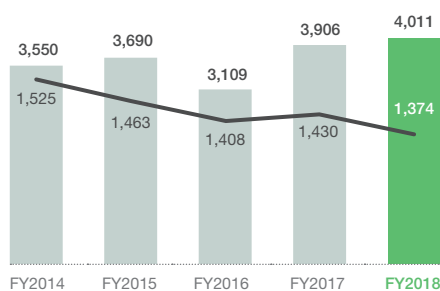
## Sunflower oil sold in bulk

While we have, to a large extent, control over the volumes we crush, we cannot impact margin, which is a function of sunflower seed supply and installed crushing capacity in Ukraine. While sunflower seed crop declined by 11% y-o-y in FY2018, the processing capacities remained flat, widening supply imbalance. This pushed down the crude oil EBITDA margin in the reported period to 49 US\$ per ton of oil, a 37% decline y-o-y. Being slightly supported by higher crushed volumes, the total segment's EBITDA stood at US\$ 63 million, down 24% y-o-y.

## Bottled sunflower oil

In FY2018, we increased our domestic sales of bottled sunflower oil by 18% y-o-y, following the rebranding campaign and launch of new formats. Our key brands increased their market share over the reported period. While our export sales of bottled sunflower oil reduced y-o-y in FY2018 due to the expiration of a large one-year contract with one of our international customers (and we do not expect to enter a similar contract in the foreseeable future), sales to other destinations increased by almost 50% y-o-y, reflecting our efforts to enter new markets (10 new destinations added over FY2018) and promote our products in existing markets.

## Sunflower oil business energy consumption and intensity ratio



■ Sunflower oil business energy consumption, '000 GJ  
— Energy spent, MJ / ton of sunflower seeds processed

As a result, sales volumes of bottled sunflower oil reduced 10% y-o-y in FY2018. EBITDA margin in bottling business mirrored the performance of bulk oil segment, squeezing to 113 US\$ per thousand liters, an 11% decline y-o-y. Given both volume and margin tightening, total segment EBITDA in FY2018 declined by 19% y-o-y, to US\$ 13 million.

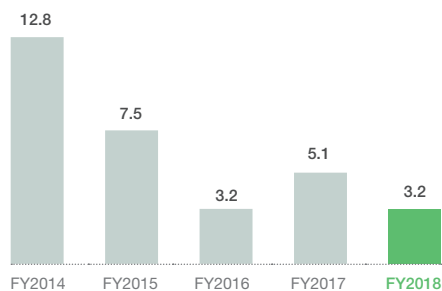
## FY2019 outlook

We envisage recovery of the sunflower oil division's performance in FY2019. Ukraine is expected to deliver a record harvest of sunflower seeds estimated at 15.5-16.0 million tons (up 17-20% y-o-y), while crushing capacities remain stable. As a result, the gap between demand for sunflower seeds (crushing capacities) and supply (harvested volumes) shall narrow, supporting the case for margin improvement. However, Q1 FY2019 segment performance shall be mediocre, as the crushers will be processing the leftover stock from the weak 2017 harvest.

In January 2019, we plan to commission a co-generation unit in our KirovogradOliya crushing plant to expand 5x the existing green energy generation capacity.

## GHG emissions intensity ratio (Scope 1)

tons of CO<sub>2</sub> equivalent per thousand tons of sunflower seed processed



In order to expand the production of sunflower in western and northern regions of Ukraine, we plan to launch a promotional campaign providing local farmers with real-life cases of how to streamline their crop mix to produce more sunflower seeds, the most profitable crop of all for farmers in Ukraine.

## Non-financial performance

### Health and safety

Unfortunately, there was one fatal accident in our sunflower oil business at the beginning of FY2018, which occurred in the recently acquired crushing plant, where the labor safety culture is still below the level we maintain on our initial assets. It was the first such case since FY2014. There were no work-related injuries over the reporting period in sunflower oil division.

To prevent health and safety accidents, each processing site has a dedicated health and safety specialist who ensures that workplaces comply with safety requirements. Moreover, all of 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 35 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 FY2018, 2.3 thousand employees of our crushing business spent 29 thousand training hours, developing their hard and soft skills. People were involved in all six of the 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 oil production division.

### Energy consumption and emissions intensity

In FY2018, we continued the trend of energy intensity improvement, consuming the lowest ever 1,374 MJ per ton of sunflower seed crushed. The record was achieved as a result of lower y-o-y consumption of natural gas, which we ceased using this season on our Vovchansk plant for sunflower seed drying, switching to steam produced by husk-burning boilers. In FY2018, we also replaced the industrial lighting on our crushing plants with LED, which is less energy consuming.

Driven by the renovation of the Vovchansk plant and by lower diesel consumption for oilseed drying purposes, we also reduced our greenhouse gas emissions intensity ratio (Scope 1) in the year reported, repeating the lowest ever record of 3.2 CO<sub>2</sub> equivalent tons per thousand tons of oilseeds crushed.

## Sunflower Oil continued

### Product quality and safety

As the largest global producer of sunflower oil, we strive to be an industry benchmark-setter 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, and our crushing plant in Poltava is certified under IFS. Please see “Product responsibility” within the “Sustainability” section of this report for more details.

While our products adhere to all the basic quality and safety standards, we continue to expand our quality certification base.

In FY2018, we obtained 10 new certificates in total for our sunflower oil division: Kosher (5 plants) and Kosher Passover (1 plant), Badatz (one plant), Halal (3 plants), and 3 of our plants were certified to sell sunflower meal to Belarus. We also extended the coverage of 11 existing certificates, adding more products under the certificates' umbrella. On top of that, one of our plants obtained the registration to sell sunflower oil to South Korea, and all our crushing facilities obtained the registration to export sunflower meal to China. This is especially important considering the re-routing of protein feed-stock flows given the trade wars between China and US that limits the soybean meal flow from US and pushes China to seek protein from other origins. Three of our plants were FDA-registered, opening us to the USA market, with first shipments completed in FY2018. Finally, this year our oil-

extraction plant in Poltava successfully passed a BSCI audit (grade 'A'), which confirmed the corporate social responsibility of our business and simplified our access to the EU bottled oil market. Being rewarded for our efforts, we are now allowed to tender and start cooperation with large EU retailers METRO and Kaufland, and have passed all requirements needed to enter Auchan and several retail networks in Baltics and Scandinavia.

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 FY2018 we passed 96 independent audits, +50% y-o-y.

# Grain and Infrastructure



Traded 4.6 million  
tons of grains and  
oilseeds in FY2018

## Leveraging Ukraine's natural advantage in agriculture

As the largest exporter of soft commodities from Ukraine, we connect more than 5,000 crop producers in Ukraine with global markets, delivering 3.8 million tons of grain from the country to the export marketplace. We operate a best-in-class integrated value chain in Ukraine, which includes the largest private silo network, one of the largest grain export sea terminals, and an extensive procurement network. The total EBITDA contribution of these businesses in FY2018 amounted to US\$ 101 million, down 9% y-o-y.

Despite some short-term market weakness, we have a clear long-term view on Ukrainian agricultural sector. We believe that the country has a potential to produce over 100 million tons of grains and oilseeds from current 81 million tons, and we strive to unlock this potential. As a part of our strategy, we are gradually increasing our footprint in grain infrastructure constructing greenfield grain transshipment terminal with annual transshipment capacity of 4 million tons, expanding our silo network and investing in logistics.

In addition, we recently launched an "Open Agrobusiness" program of sharing our farming experience and crop production techniques with other farmers in order to help them to improve productivity. We consider it a "win-win" approach, whereby farmers increase their output and we provide them with access to our grain infrastructure value chain.

### Revenue

US\$ 1,077 million  
+3% y-o-y

### EBITDA

(before unallocated head office expenses)

US\$ 101 million  
-9% y-o-y

# Grain and Infrastructure continued

## Our Markets

2017/18 grain production in Ukraine declined to 61 million tons from 66 million tons a year ago, stemming from unfavorable weather conditions negatively affecting corn yields. Having domestic consumption of grain stable, the decline in production was directly translated in the lower export volumes, which totaled 41 million tons, making Ukraine the third largest exporter of grain in the world, keeping 10% of global grain trade in 2017/18.

We remain positive about the production potential of Ukraine. Local farmers are moving to more intensive farming techniques, which is stimulated by improved access to financing. Consumption of fertilizers in Ukraine increased from 79-82 kg of primary nutrient per hectare of sowing area in 2013-2015 to 110 kg in 2017. Average country yields are far below the ones

reached by established domestic producers and by international peers. Farming remains profitable in Ukraine regardless of weather conditions and cancellation of state subsidies.

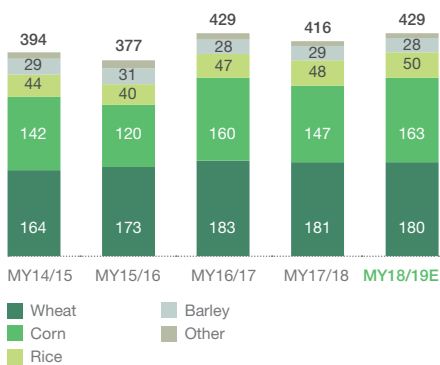
During the last several years, inefficient railway logistics became a barrier for effective export of grain from Ukraine. The market faced the shortage of freight railcars and railway traction, which endangers the execution of export contracts and increases the costs for market operators. While the rolling 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.

Total grain storage capacities in Ukraine are estimated to exceed 100 million tons, but the vast majority are inefficient flat storages.

Industrial capacities able to provide a full set of silo services account for 38-40 million tons in term of storage capacity, but only 40% of that are relatively modern vertical metal silos. Aiming to improve the turnover of rolling stock, Ukrainian railway monopoly adopted new rules for freight railcars assignment. Consequently, the silos with high loading speed are primarily allocated with railway wagons during the high season. Kernel is one of the largest operators of modern high loading speed silos in Ukraine with the intention to add more in FY2019.

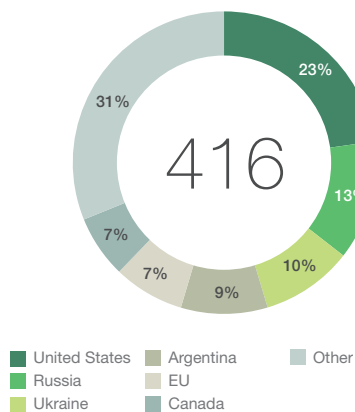
We expect slightly increased competition in grain transshipment services in FY2019 and onwards, as we envisage new capacity entering the market in the ports of Yuzhnyi and Chornomorsk (including our TransGrainTerminal), along with the debottlenecking of existing players.

**Global grain exports**  
million tons



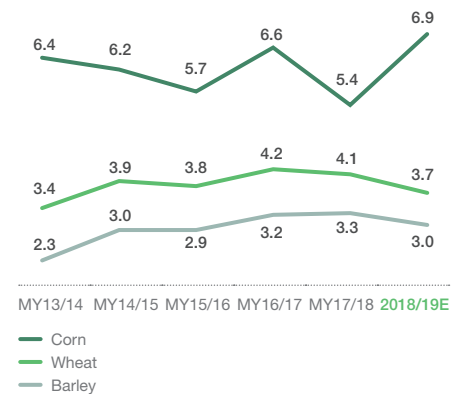
Source: USDA, October 2018

**Top grain exporting countries in MY 2017/18**  
million tons



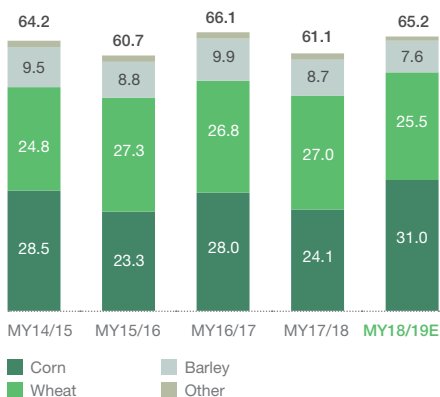
Source: USDA, October 2018

**Average grain yields in Ukraine**  
tons per hectare



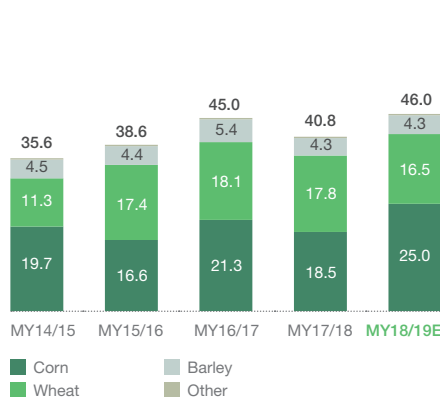
Source: USDA, October 2018

**Ukraine's grain production**  
million tons



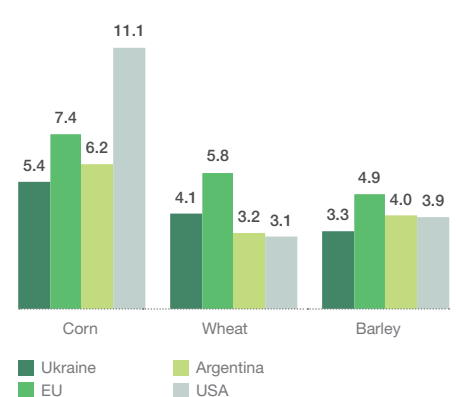
Source: USDA, October 2018

**Ukraine's grain export**  
million tons



Source: USDA, October 2018

**Grain yields benchmarking in MY 2017/18**  
tons per hectare



Source: USDA, October 2018

# Grain and Infrastructure *continued*

## Our business model

Our grain and infrastructure division comprises three segments: grain marketing, silo services, and export terminals. All are interdependent and serve a supply chain connecting Ukrainian farmers with international markets.

### Grain marketing

Kernel accounts for around 9% of total grain export from Ukraine, being one of the largest grain exporters from the Black Sea region. We are involved in buying grain from local farmers and exporting it to other countries, delivering 4 million tons of grain<sup>1</sup> to export markets in FY2018. Success in this low-margin high-volume business is supported by several factors:

- Professional procurement team with country-wide presence and deep understanding of local trends and regional peculiarities;
- First-hand access to our own infrastructure – the largest private silo network in Ukraine 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;
- Farmers' loyalty supported with a number of value-added initiatives.

### Silo services

We operate the largest private inland silo network in Ukraine with total grain storage capacity of 2.8 million tons. The silos are located across the key grain producing regions in Ukraine and provide grain in-take, drying, cleaning, storage, and off-loading services to our farming division and to third-party farmers countrywide. Grain drying service has the highest added value, and therefore profitability of the whole segment materially depends on the weather during the harvesting campaign: more rains means better margins for silo business. 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 a crucial 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 buyer to consider. On top of earnings generated, our silo network provides us with two strategic advantages:

- Our inland silo footprint enables us to maintain close contacts with farmers and have a better visibility of Ukrainian grain supply;
- We are usually considered as the first-choice buyer of grains and sunflower seeds stored in our silos by third parties;
- Being an infrastructure type of business, the silo services segment boasts a consistently high EBITDA margin and enjoys significant barrier to entry due to high CapEx requirements.

### Case study: Open Agribusiness

In June 2018, Kernel launched Open Agribusiness – a program for strategic partnership with crop producers in Ukraine, who sell grains and oilseeds to Kernel. The key target of the program is to unlock Ukraine's potential to produce over 100 million tons of grains and oilseeds, making the country a key supplier of agricultural goods to the global market.



The program is based on three complementary pillars, altogether creating a win-win strategy for us and our partners:

I	II	III
<b>Increase crop yields and profitability for our partners</b> by sharing 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.	<b>Provide our partners with high-quality services:</b> <ul style="list-style-type: none"> <li>• solutions through Kernel's #DigitalAgriBusiness platform</li> <li>• working capital financing</li> <li>• high-quality infrastructure services</li> <li>• training and communications</li> </ul>	<b>Serve as a platform for partners' crop sales</b> by entering with them into forward-selling contracts, providing partial prepayments for grain and oilseeds.

During the summer of 2018, we presented the program in all regions of Ukraine, organizing meetings with farmers and site visits to our assets.

As a first step, we started to share our data with our partners through Cropio – a system of online monitoring and benchmarking of fields. The data include the description of production technology, yields, vegetation indexes, field inspection reports, and photos of the fields. We previously shared the data about 75 thousand ha of our own fields, and also have data about over 200 thousand ha of our partners' fields. Possible benchmarks cover technological maps, yields, vegetation indexes, field inspection reports and pictures of the fields. We want to be fully transparent and trustworthy, building up strong credentials for long-term cooperation with our partners.

Secondly, we launched an Open Agribusiness Portal [www.openagribusiness.kernel.ua](http://www.openagribusiness.kernel.ua) – a multifunctional website providing our partners access to crop growing technologies, innovative services, cost reduction and efficiency improvement services, sector news and key agri events in Ukraine and globally. Partners may also look at the most actual procurement prices and learn about our forward procurement program.

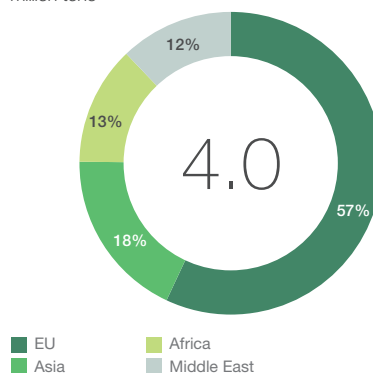
We consider Open Agribusiness a vital key to the execution of Kernel Strategy 2021: doubling our grain export volumes from Ukraine.

### Export terminals

In Ukraine, we own TransBulkTerminal – one of the largest grain terminals in the country with 4 million tons annual transshipment capacity, located on the Black Sea coast in Chornomorsk, Odesa region. The port facility is essential for our large-scale grain export operations, currently being a bottleneck for us. Therefore, in 2017 we launched construction of TransGrainTerminal – another 4-million-ton export terminal, located next door to the existing one.

In Russian Federation, we own a 50% stake in Taman grain export terminal, granting us a right to transship 2.2 million tons of grain annually. In FY2018, we assigned a significant portion of our

Kernel's top grain export<sup>1</sup> destinations  
million tons



Note 1: excluding Avere physical trading volumes

## Grain and Infrastructure continued

Taman terminal grain transshipment quota to a third party, securing in such a way a budgeted level of earnings from Russian operations.

Both terminals are deep-water facilities able to load Panamax vessels, providing materially cheaper logistics advantages. The business enjoys high natural barriers to entry due to the combination of high capital expenditures and limited availability of land plots for any new similar projects.

### Key achievements

Over FY2018, we streamlined our silo network. We disposed of several flat storages, which were inefficient and labor-intensive. In order to support the growing grain export volumes, we launched the construction of two silos and the expansion and modernization of two other silos in northern Ukraine, and acquired operational control over a modern silo in western Ukraine with storage capacity of 55 thousand tons. We also focused on the de-bottlenecking of our silo network: while keeping total storage capacity flat at 2.8 million tons for several years in a row, we constantly focus on increasing the efficiency and turnover of our assets.

After deregulation of the railcar market in Ukraine, we decided to invest in own railcar fleet in order to secure our operations and better control the entire logistics chain: field-silo-railcar-export terminal. We invested US\$ 25 million to purchase 500 railcars, increasing the stability of our logistics.

FY2018 was a year of productivity achievements for our export terminal in Chornomorsk, Ukraine. In December 2017, TransBulkTerminal set a new daily productivity record, loading 44.2 thousand tons of grain to a vessel in a single day. In February 2018, we loaded a 36.8-meter-width over-Panamax vessel, putting aboard 68.7 thousand tons of grain, setting a new record for the facility.

In FY2018, we launched Avere – a trading company primarily engaged in the merchandising and trading of grains, oilseeds and related products in key world markets. Avere is headquartered in Switzerland, with representative offices in the

### Grain and infrastructure segments' performance

Grain marketing		FY2017	FY2018	y-o-y
Revenue	US\$ million	923.3	951.3	3.0%
EBITDA	US\$ million	22.7	17.5	(22.8%)
Volumes sold	thousand tons	5,060.5	4,646.4	(8.2%)
EBITDA margin	US\$ / ton	4.5	3.8	(16.0%)
EBITDA margin	% of revenue	2%	2%	(0.6pp)
<b>Silo services</b>				
Revenue	US\$ million	60.7	72.3	19.1%
EBITDA	US\$ million	40.0	44.2	10.7%
In-take volumes	thousand tons	3,254.9	3,291.6	1.1%
EBITDA margin	US\$ / ton	12.3	13.4	9.5%
EBITDA margin	% of revenue	66%	61%	(4.6pp)
<b>Export terminals<sup>1</sup></b>				
Revenue	US\$ million	58.8	53.2	(9.5%)
EBITDA	US\$ million	47.6	39.1	(17.9%)
Throughput volumes	thousand tons	4,456.1	4,112.1	(7.7%)
EBITDA margin	US\$ / ton	10.7	9.5	(11.0%)
EBITDA margin	% of revenue	81%	73%	(7.5pp)
<b>Grain and infrastructure total EBITDA</b>	<b>US\$ million</b>	<b>110.2</b>	<b>100.8</b>	<b>(8.5%)</b>

Note 1: excluding results from Taman operations, which is owned via joint venture and accounted for under equity method of accounting.

United States and Singapore. It is a knowledge platform, which helps us in hedging our growing export volumes, and contributes to our earnings being involved in proprietary trading operations.

FY2018 was also a first year of our full-scale crop pre-financing program. We provided third-party farmers with around US\$ 55.7 million funding for their working capital needs, securing procurement of grain and oilseeds for our Sunflower Oil and Grain & Infrastructure divisions. We finance farmers who are our long-term clients with a perfect credit history. Being the largest crop pre-financing program in the market, we believe it contributes to the execution of our Strategy 2021.

### Performance overview

Our grain and infrastructure division reports under three segments: grain marketing, silo services and export terminals. While these segments are closely interconnected, internal transactions are reported at an arm's-length basis.

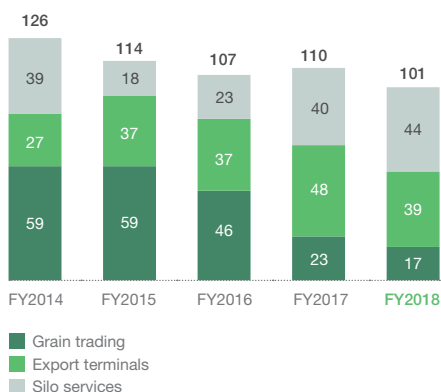
### Grain marketing

During FY2018, we exported 3.8 million tons of grain from Ukraine, down 3% y-o-y. Russia export volumes were 0.1 million tons, as we assigned a sizable portion of our Taman terminal grain transshipment quota to a third party, securing a budgeted level of proceeds from Russian operations. Finally, 0.7 million tons of grain sales were reported by our recently established subsidiary Avere. All in all, it resulted in 4.6 million tons of grain volumes traded in FY2018.

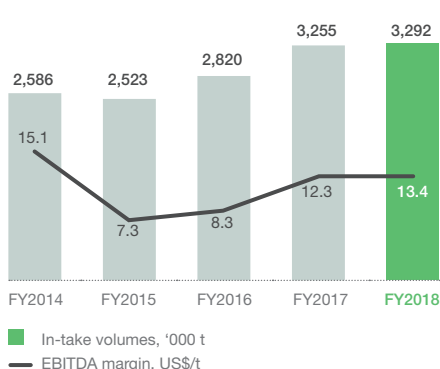
Profitability of grain marketing activities in Ukraine was weak this year: lower y-o-y harvested volumes increased competition among exporters, and turbulence on domestic railway carriage market resulted in extra costs for grain export operations. On top of that, we recognized a loss of US\$ 13 million from grain trading activities in Russia, as we wrote off a VAT receivable due to the local court award. This weakness was partially offset by a sizable contribution from Avere operations, bringing total segment's EBITDA at US\$ 17.5 million, down 23% y-o-y.

### Grain and infrastructure business EBITDA

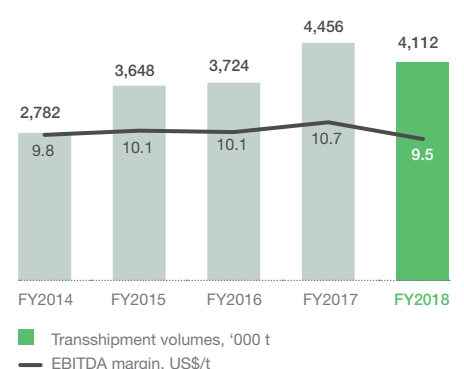
US\$ million



### Silo segment performance



### Export terminals' segment performance



# Grain and Infrastructure continued

## Silo services

While in-take volumes in silo segment were almost flat at 3.3 million tons, a rainy harvesting campaign and the ensuing strong demand for grain drying services resulted in 18% y-o-y revenue per ton growth in FY2018. At the same time EBITDA per ton increased only 9.5% y-o-y, to 13 US\$/t, as wage inflation in our second largest labor-intensive segment pushed up fixed costs. As a result, we generated US\$ 44 million EBITDA, 11% up y-o-y.

## Export terminals

Export terminals throughput volumes (excluding Taman in Russia) reduced 8% y-o-y, to 4.1 million tons, partially driven by the execution of investment project in our TransBulkTerminal in Chornomorsk. EBITDA margin remained robust at 9.5 US\$ per ton of throughput, slightly pressured with growing overheads and direct costs inflation. The total segment's EBITDA in FY2018 amounted to US\$ 39 million, 18% decline y-o-y.

## FY2019 outlook

We expect to export around 5.4 million tons of grain and oilseeds from Ukraine with some recovery of margins in FY2019. The recently purchased railcars shall save US\$ 5-6 million in logistics costs annually. Proceeds from assignment of Taman transshipment quota will remain on a level comparable to FY2018.

Silo business margin is expected to normalize compared to high base last year, owing to dryer weather conditions and salary-driven growth of overheads.

In our export terminal business, we expect to commission the first stage of our new transshipment terminal in Chornomorsk in January 2019, adding up to 1.0 million tons of incremental annual throughput capacity. The final commissioning of the terminal is scheduled for autumn 2019. We observe downward profitability pressure on transshipment fees due to capacity increase in the market translating into gradual decrease of transshipment margins.

## Non-financial performance

### Health and safety performance

At the beginning of FY2018, we had one fatal accident on the silo we had acquired three months before, and where the labor safety culture had been far below the level we maintain on all our other assets. Similar to a year ago, we had two non-fatal injuries over the reporting period.

We are working on preventing such accidents in the future, organizing health and safety trainings, workshops, and regularly inspecting our assets for compliance with health and safety requirements. The ultimate goal is to have health and safety systems at all of our infrastructure units fully compliant with OHSAS 18001.

### Employee training and development

We remain committed to professional development of our employees. Over 1.5 thousand professionals from Grain & Infrastructure division were involved in our training and development activities in FY2018, spending more than 20 thousand 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

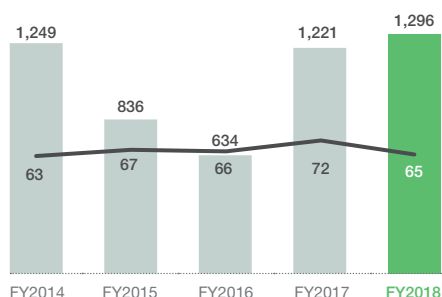
In FY2018, we replaced the industrial lighting on most of our silos and terminals with LED, which is less energy consuming. On most of our silos, we upgraded the heating system of administrative buildings, replacing gas-fired boilers with solid fuel boilers targeting cost reduction. Finally, on one of our silos we launched a test project, where we replaced the drying equipment consuming diesel with one consuming waste by-products, including sunflower husk. In the event we are satisfied with the results of this project, we will perform similar replacements on other our silos, changing natural gas-based drying equipment with ones burning silo waste.

Our energy consumption within the grain and infrastructure division increased by 6% y-o-y to 1,296 thousand gigajoules in FY2018, mainly due to drying services provided by our silos during a wet harvesting campaign in autumn 2017. At the same time, energy efficiency increased by 13% in comparison to previous year, with 68 megajoules spent for each percentage of moisture removed from one ton of grain dried, compared to 77 megajoules a year ago.

The factors driving energy consumption also impacted emissions of the division, which increased to 73 thousand tons of CO<sub>2</sub> equivalent in FY2018.

For full group disclosure of energy consumption, emissions and intensity ratios, see page 39 of this report.

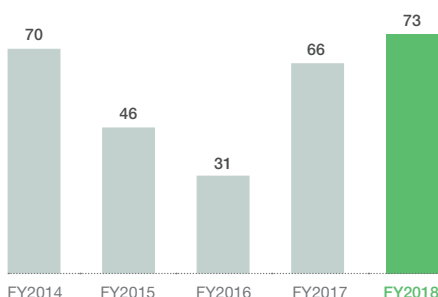
### Grain and infrastructure division energy consumption



■ Energy consumption, '000 GJ  
— Energy spent per ton-% of grain dried, MJ

### Grain and infrastructure division GHG emissions (Scope 1)

thousand tons of CO<sub>2</sub> equivalent



# Farming



Produced about 2.7 million grains and oilseeds in FY 2018

## Kernel is the largest crop producer in Ukraine, operating 550 thousand hectares of prime farmland

Farming business in Ukraine remains globally competitive, enjoying strong fundamentals: proximity to key markets, fertile soils and cost advantages. Over the past 10 years we increased the scale of our operations 7 times, making Kernel the largest crop producer in Ukraine. We learned how to manage a large farmland bank, apply world-class technologies and wisely incentivize our people.

The FY2018 season was challenging for our farming division. Extreme drought in summer 2017 substantially undermined the financial contribution of the business. Labor and land lease cost inflation started to accelerate, eliminating the advantages we had in 2015-2016. The weather globally was favorable, keeping the world's production above trendline, which translated into continuing low soft commodity prices. As a result, EBITDA of the division reduced 39% y-o-y in FY2018, to US\$ 89 million.

Our response in that situation was simple: produce more at lower cost. Our target at this stage is not a size, but the efficiency of each separate field. We focus on the application of technology and efficient utilization of available resources to assure adaptability to fluctuating weather conditions.

Kernel is already one of the most technologically advanced crop producers in Ukraine, adopting or testing most of the new technologies available for large-scale crop production, applying modern IT solutions to support our growth.

### Revenue

**US\$ 470 million**  
+23% y-o-y

### EBITDA

(before unallocated head office expenses)

**US\$ 89 million**  
-39% y-o-y

Cost efficiency has always been and shall remain our prime focus in farming. In FY2018, we dedicated significant effort and resources to the integration of the newly acquired farmland bank – a task unprecedented in scale for Kernel.

While global grain prices are beyond our control, the recently launched subsidiary Avere does a great job in providing valuable insights on global soft commodity market, which helps us with hedging our production volumes.

# Farming continued

## Our business model

### Large-scale farming

Kernel completed the 2017/18 marketing season as one of the largest crop producers in Ukraine, controlling close to 550 thousand hectares of leasehold farmland including 529 thousand hectares under 2018 harvest. 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.

In FY2018, we produced over 2.7 million tons of crops. We retain a simple crop mix, with 42% of acreage attributable to corn, 25% - to sunflower, 19% for wheat, 7% to soybean, and remaining standing for other minor crops (as of 30 June 2018).

### Leasehold land operations

All farmland in Ukraine has been under sale moratorium for the past 17 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.

Close to 25% of agricultural land is owned by 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.

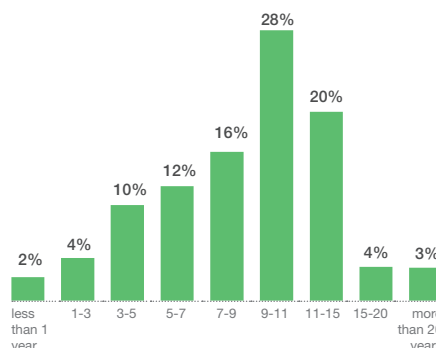
Over the last several years, we have observed an intensifying public interest and discussion with respect to land market reform, but no actions have been taken so far.

Kernel leases land through contracts with an average maturity of 10 years. All lease contracts provide for the right of first refusal to prolong leases or buy the land in case of the moratorium lifting in the future.

### Efficient and sustainable production technology

Our approach in crop production is designed to ensure long-term productivity of soil by applying sustainable agronomy practices.

**Kernel's farmland lease rights maturity**  
as % of total landbank



We do the significant portion of tillage and soil leveling in autumn, thus completing our spring planting campaign within a shorter time frame. We operate modern high-productive machinery and equipment with relatively low consumption of fuel and low level of emissions.

Safe 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.

## FY2018 crop production cycle



# Farming continued

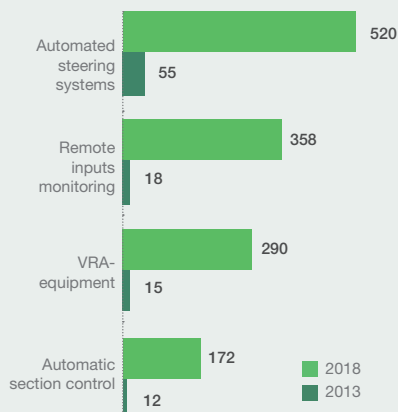
## Case study: application of innovative technologies in farming business

During the last 5 years we completely reshaped our approach to crop production by applying innovative solutions to almost all the processes.

We are moving from the uniform application of seeds, fertilizers and other inputs (including numerous overlaps because of the low accuracy of field works) to **precision farming**, achieving a huge progress on that over the last 5 years:

- 520 units of our machinery is equipped with automated steering systems, which use GPS and our own network of real-time kinematic (RTK) stations to navigate and course-correct throughout crops with up to two-centimeter accuracy;
- We remotely monitor the placement of seeds and application of fertilizers and chemicals on 360 units of machinery;
- Wide usage of variable rate fertilizer application (VRA) on up to 200 thousand hectares of our lands annually helps us distribute the nutrients in the field with the most efficient way following the agrochemical analysis and careful mapping of the fields using machinery with the appropriate soil sensors;

Number of our machinery units equipped with precision farming systems



- Over 170 sowing machines apply automatic section control to reduce inputs by ensuring that no piece of land is getting fertilizer or seed put on it twice

With numerous other projects implemented and over 20 new projects in the pipeline of our R&D department, we are a leading adopter of precision farming techniques in Ukraine.

We also launched a system of extensive **field monitoring** in order to identify problems and immediately react, forecast yields, and do a post-factum analysis of field operations. We take satellite photos of each of our fields every 3-5 days to make the spectrum analysis and measure vegetation progress. All our fields are examined by drones 1-2 times per year, identifying problem zones and the spread of plant pests and diseases with the help of hyperspectral sensors. We also test the technology to identify deficits of macro- and micronutrients using photos made by drones. Our agronomists document field inspections with smartphone applications. We capture **weather data** using 49 real-time stationary weather stations, which have been installed since 2012 and fundamentally reorganized in FY2018. Our best-in-class laboratory conduct soil analysis of 150-180 thousand hectares annually to cover each of our fields once per three years. All that data is stored in Cropio software – a monitoring and benchmarking system we started to use in 2015.

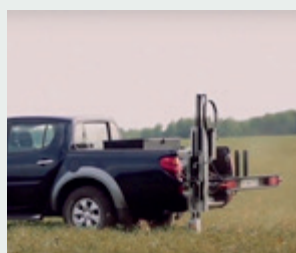
Our production experience allowed us to accumulate huge data, with the help of which we plan to increase our business effectiveness (down to each separate field) by automating various processes. Within our **#DigitalAgriBusiness** project, we are combining field history over the past 5 years, climate and soil conditions, market and agronomic inputs and agrometeorology, biochemistry and biophysics rules with artificial intelligence solutions, machine learning and advanced analytics to analyze data for trends and create a single system helping us to make smarter decisions. It will be the first complex intellectual large-scale farming management

system in the world. The system will be used for 2019 crop sowing campaign, allowing us more precisely plan and utilize available resources. Pre-agreed algorithms compute the amounts of seeds, fertilizers, crop protection agents, and other needed resources for spring and autumn fieldworks.

We are also progressing on **digitalizing our supportive systems**. Using GPS and numerous other sensors, we monitor and remotely control over 7 thousand units of equipment during field works and transportation, controlling the routes, fuel, fertilizers and chemicals consumption, as well as other indicators. Since FY2015, hundreds of online webcams allow us to control all our warehouses, fuel stations, weighing equipment and other key infrastructure objects, preventing theft and fraud. We monitor all the logistics processes 'warehouse-field' and 'field-silo' through a specialized software, allowing us to optimize logistics. A large majority of our procurements are done through centralized e-tenders, enhancing competition among suppliers translated into savings for us.

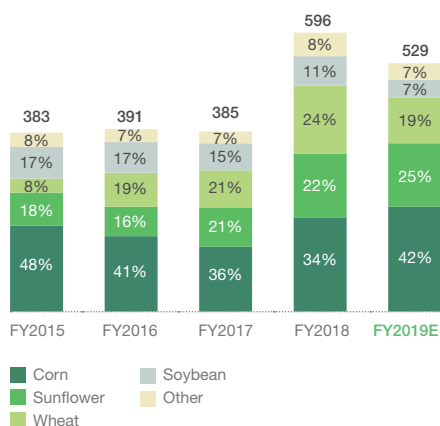
Most of the above could not have been achieved without changing the managerial approaches within our team. We are strongly progressing on digitalizing our document flows, which significantly speed up the decision making. Since 2017, to improve the effectiveness of our work, we use a specialized task and project management system which covers all employees involved in our change management process in our headquarter and regional branches.

Kernel is several steps ahead other crop producers in Ukraine in applying innovations, and we aim to become the most efficient large-scale agriproducer in the world. We believe our **#DigitalAgriBusiness** project is a key to that.

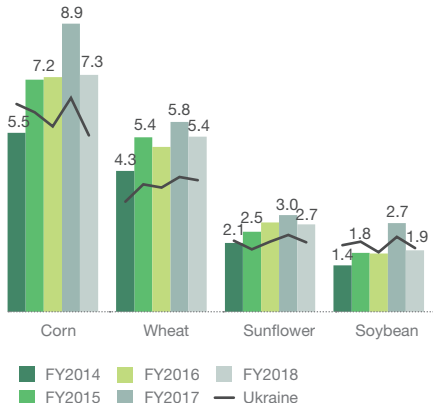


# Farming continued

**Kernel's acreage harvested by crops**  
thousand ha

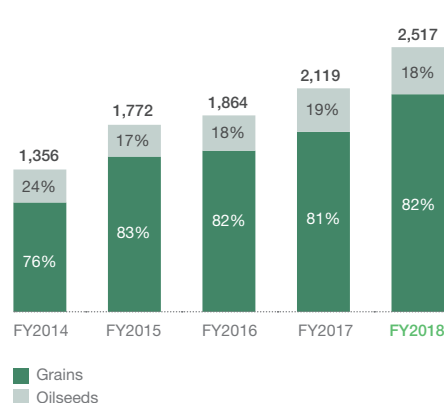


**Kernel's crop yields**  
tons per ha



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

**Kernel's production of key crops**  
thousand tons



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 fertilizer 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.

We apply best-quality non-GMO seeds. Most of it is grown in-house from parent seeds, sometimes jointly with established global seed producers, and the remaining is supplied by recognized global producers. 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. We are testing drones also for application of crop protection agents.

## Key achievements

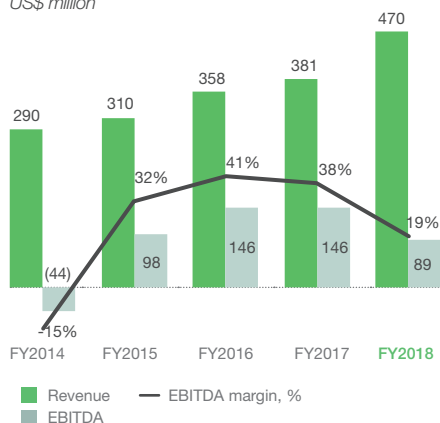
In FY2018 our activities were focused in two directions: integration of the farming business acquired in summer 2017 into our production model, and efficiency improvements.

Following the acquisition of more than 200 thousand hectares of leasehold farmland bank land, we immediately launched the disposal of several distant land blocks, which were suboptimal for our operations, exiting at prices comparable with the acquisition price. As a result, we ended up with 550 thousand hectares of lands under management. All the new lands were integrated into our existing clusters, thus providing us synergies we were targeting. We optimized the organizational structure, centralized the service functions, unified the machinery and equipment used.

Productivity of the new landbank was low due to heavy historical underinvestment, which resulted in 17-36% lower crop yields for the harvest 2017. Immediately, in autumn 2017 we started to implement Kernel's production approaches on the new farmlands, and we expect to significantly reduce the gap for the 2018 harvest and completely eliminate it for 2019 harvest. We materially reduced the farming division employees per thousand hectares of combined farmland: from 20.4 as of 30 June 2016 to 16.0 as of 30 June 2018, further adding to efficiency of operations.

In FY2018, we had substantial progress with infrastructure streamlining in one of our clusters, which lagged behind others in terms of financial performance. Over the year we replaced numerous branches and regional divisions within the cluster with 8 mechanized units, each having separate staff and machinery and operating 8-10 thousand ha. As a result, we reduced the labor intensity from 19 employees per ha to 15, with plans to reach 13. Payroll savings were allocated to increase salaries for remaining employees to keep up with wage inflation in Ukraine. We also saved 3 US\$/ha owing to lower

**Profitability dynamics**  
US\$ million



## Farming division performance

		FY2017	FY2018	y-o-y
Revenue	US\$ million	381.3	470.5	23.4%
EBITDA	US\$ million	145.5	88.7	(39.0%)
Volumes sold	thousand tons	2,073.7	2,594.4	25.1%
Acreage harvested	thousand ha	385.3	595.9	54.6%
Revenue per hectare	US\$ / ha	989.5	789.6	(20.2%)
EBITDA per hectare	US\$ / ha	377.7	148.9	(60.6%)
EBITDA margin	%	38.2%	18.9%	(19.3pp)

Please see more details about net IAS 41 effect on page 78.

## Farming continued

usage of machinery leased from third parties, and increased inventory turnover by automation of processes. A number of non-core operations were outsourced, and non-core assets were divested. Infrastructure streamlining allowed us to increase the share of high-margin crops in the crop mix.

Over the reporting period, we became one of a few companies in Ukraine progressing with applying liquid fertilizers during pre-sowing fertilizing. It requires a significant change in the production technology, but provides substantial cost savings.

### Performance overview

Our farming division had relatively weak performance this season. Despite the significantly increased scale of operations as a result of the acquisition of leasehold farmland in summer 2017, total division's EBITDA reduced by 39% y-o-y. The following major factors stood behind that decline:

- Unfavorable weather conditions. As a result of a drought in Ukraine during the spring crop pollination period, our yields on initial landbank reduced by 9-30% depending on the crop.
- Limited contribution from the leasehold farmland bank acquired. The acquired business was poorly managed in the season preceding the sale, and we inherited crops in the fields in a miserable condition, further diluting the contribution from our farming business.
- Cost inflation of 6% (or approximately 40 US\$/ha), primarily driven by land lease and payroll costs growth.

### FY2019 outlook

We expect a rebound in farming division performance in FY2018. Supportive weather conditions and strong progress with integration of the recently acquired land are expected to deliver yields improvements by 38-70% for spring crops (corn, sunflower, soybean), while weaker yield recovery for winter wheat.

Enhanced by Avere support with hedging, we managed to pre-sell grain this year at 5-10% higher prices as compared to FY2018. On the cost side, salary and land lease payments will remain key contributors to overall cost inflation. Our target is to achieve 300 US\$/ha of EBITDA in FY2019.

### Non-financial performance

#### Health and safety

Regrettably, there was one fatal incident in our farming division: a car accident caused by a third party took the lives of two of our employees, who were driving for business needs. The number of non-fatal injuries stood at 10, the same as a year ago. We are paying special attention to minimize such accidents 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 divisions, we pay special attention to professional development and training of our farming employees. In FY2018, 3.6 thousand of our farming employees participated in our training and development activities, spending 29 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.

### Energy consumption and emissions intensity

As a result of the farmland bank expansion, total energy consumed by our farming division increased by 28% y-o-y. However, the energy spent per ton of crop grown increased only 7%, as the operations on the lands we acquired are not 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.

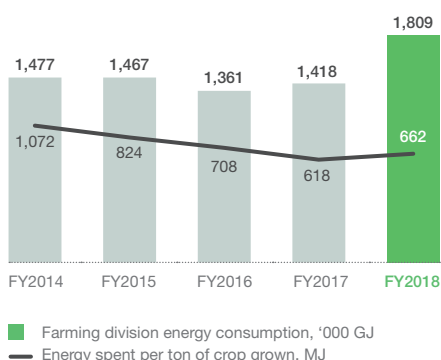
Emissions intensity remained at a record low 71 kg of CO<sub>2</sub> equivalent per ton of grain grown.

### Giving back to local communities

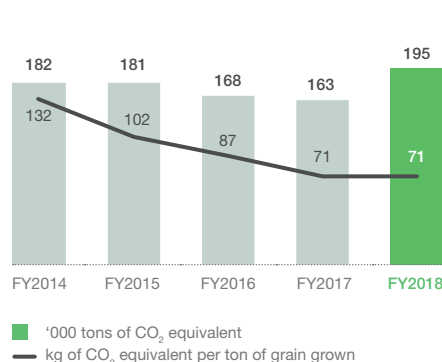
Rural communities within the scope of our farming operations are a key focus of our company's social and charity activities. More than two hundred of our employees serve as relationship managers with their respective communities, some working full-time in this role while others are part-time. Direct 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 FY2018 our social expenses totaled US\$ 2.4 million, comprising mostly from investments into infrastructure (US\$ 760 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)



# Sustainability



**Kernel is committed to conduct business in a sustainable way: to produce the highest quality food products, farm in a sustainable way and ensure our supply chain is compliant with modern quality requirements. We are progressing on reduction of energy consumption and emissions intensity, and guarantee competitive compensation, labor safety and professional development to our employees.**

## Our approach

Our approach to sustainability is underpinned by several principles embedded throughout every level of our company. We aim to efficiently produce best-quality products with the lowest possible consumption of energy and 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.

## FY2018 performance

Over the course of FY2018, we focused on the reduction of energy consumption and emissions intensity, investing into numerous energy saving projects. Following the increase of our farmland bank in summer 2017, we extended our sustainable farming approaches onto the new lands, thus increasing our sustainability footprint. We dedicated a lot of efforts to training and development of our employees and improving the labor safety standards. We also strongly progressed on implementing anti-fraud and anti-corruption initiatives, and got recognitions of our product quality by obtaining new quality certificates.

Our approach in sustainability got two recognitions in surveys conducted by a reputable Ukrainian media group Focus, which named Kernel as the best employer in agriculture in Ukraine, and the company with the best reputation in agriculture in Ukraine.

## Social spending in FY2018

**US\$ 2.4 million**

-7% y-o-y

## Energy consumption

**7,139 terajoules**

+9% y-o-y

## FY2019 outlook

For the next year we aim to further enhance our approach to sustainability by implementing energy saving 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.

# Sustainability continued

## Our approach to materiality and report content

We have thought to apply the guidance of the GRI Sustainability Reporting principles for defining report content and quality. As a result, management considers capital providers and employees to be key target audiences for the annual report of the company, while communication with other stakeholder groups is primarily done through other

communication channels. This report focuses on material issues determined based on the responses to questionnaires run separately for employee and capital provider groups and a managerial assessment of the aspects' importance for the sustainable development of the company. Following the materiality exercise, the list of aspects to be disclosed

was approved by the executive management. See an index of GRI content on page 41.

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.

### Key stakeholder groups and engagement channels

	Website	Hotline	Social networks	Direct engagement	External media	Corporate newspaper	Intranet	Events
<b>Internal</b>								
Employees	✓	✓	✓	✓	✓	✓	✓	✓
Management	✓		✓	✓	✓	✓	✓	✓
Shareholders	✓			✓				✓
<b>External</b>								
Debt providers and rating agencies	✓			✓				✓
National media	✓			✓				
Local media	✓			✓		✓		
Local communities	✓	✓		✓	✓	✓		✓
Local officials	✓			✓	✓	✓		✓
Regulatory authorities	✓			✓				
Suppliers	✓		✓	✓				
Customers	✓		✓	✓				

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

### Mapping material topics to external stakeholder groups

Debt providers and rating agencies	National and local media	Local communities	Local officials	Regulatory authorities	Customers
<ul style="list-style-type: none"> <li>Energy consumption and efforts to reduce it</li> <li>What does the Company do to identify and combat fraud and corruption</li> <li>Product safety</li> <li>Direct economic value generated and distributed</li> </ul>	<ul style="list-style-type: none"> <li>Ethical business operations</li> <li>Dialogue, transparency, collaboration</li> <li>Contribution to local communities</li> </ul>	<ul style="list-style-type: none"> <li>Employment</li> <li>Land lease payments</li> <li>Fair agriculture practices</li> <li>Investments in local infrastructure and social development</li> </ul>	<ul style="list-style-type: none"> <li>Employment and job creation</li> <li>Emissions</li> <li>Direct economic value generated and distributed</li> <li>Local investments</li> </ul>	<ul style="list-style-type: none"> <li>Product safety</li> <li>Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>Product safety</li> <li>GHG emissions</li> </ul>

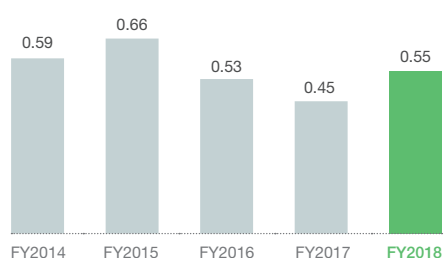
# Sustainability continued

## Key non-financial KPIs

		FY2014	FY2015	FY2016	FY2017	FY2018
Total number of full-time employees		16,518	15,229	14,075	16,103	15,116
sunflower oil		17%	18%	17%	16%	17%
grain and infrastructure		20%	20%	23%	22%	22%
farming		60%	58%	55%	58%	56%
headoffice and other		3%	4%	4%	4%	6%
Total injury accidents		18	19	16	14	16
incl. fatalities		2	1	1	-	4
Injury frequency rate	<i>accidents / million worked hours</i>	0.59	0.66	0.53	0.45	0.55
Total training expenditures	<i>thousand US\$</i>	254	241	194	445	474
Total social spending	<i>thousand US\$</i>	2,703	1,919	1,668	2,616	2,440
Direct (Scope 1) GHG emissions	<i>thousand tons of CO<sub>2</sub> equivalent</i>	285	248	207	245	280
Total energy consumption	<i>thousand gigajoules</i>	6,320	6,026	5,130	6,571	7,139
incl. renewable	<i>thousand gigajoules</i>	2,549	2,849	2,561	3,090	3,224
Renewable energy produced and sold	<i>thousand gigajoules</i>	42	45	46	42	34
Energy spent per ton of sunflower seeds processed	<i>megajoules</i>	1,525	1,463	1,408	1,430	1,374
Energy spent per ton-% of grain dried	<i>megajoules</i>	63	67	66	72	65
Energy spent per ton of grain grown	<i>megajoules</i>	1,072	824	708	618	662
Sunflower oil produced at ISO 22000 certified plants	<i>%</i>	94%	96%	100%	100%	100%

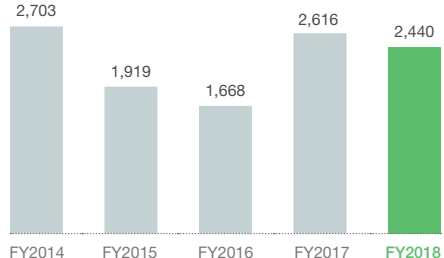
### Injury frequency rate

*accidents / million worked hours*



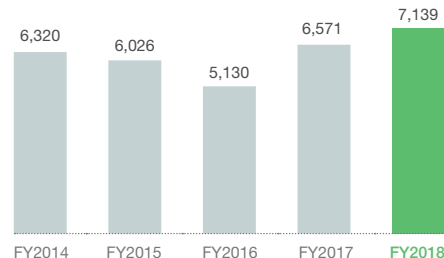
### Total social spending

*US\$ thousand*



### Total energy consumption

*thousand gigajoules*



# Sustainability continued

## Environment

We follow two targets in our environmental approach: constant improvements in energy efficiency and avoidance of any material harm to nature.

### Energy consumption

In FY2018, Kernel consumed 7,139 terajoules of energy, 9% up y-o-y. The growth was primarily driven by farming business expansion in June-July 2017, partially offset by continued energy intensity reduction.

Farming division remains the largest consumer of fossil energy, but a 5-year downward sloping trend in energy intensity per ton of output clearly illustrates our efforts: in FY2018, we spent 662 megajoules of energy per ton of grain grown vs 1,072 megajoules spend in FY2014. Fuel consumption per ton of output reduced 38% over the same period. To achieve that, we continuously updated our machinery park, replacing every 5-6 years older equipment with new machinery, more powerful and larger in size, ensuring lower relative consumption of diesel. We use only machinery from recognized global suppliers, whose products are typically on the edge of technological progress and efficiency. Secondly, we constantly improve the effectiveness 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 wide network of controls tracking the usage of fuel eliminates thefts of diesel. Over the course of FY2018 within our farming division, we also progressed in replacing incandescent industrial lighting with LED, which is less energy consuming, and we aim to complete this project by the end of FY2019.

Similar progress in energy efficiency improvement was achieved by our crushing business, where energy intensity reduced by 10% over the period of FY2014-FY2018, reaching the lowest ever 1.4 gigajoules of energy used to crush one ton of sunflower seed. In FY2018, we reduced division-wise consumption of natural gas by replacing a natural gas-fired dryer of sunflower seeds on our Vovchansk plant with a steam-powered dryer. In FY2018 we also replaced the industrial lighting on our crushing plants with LED, which is less energy consuming.

Our silo business demonstrated the energy efficiency improvement in FY2018 as well. While total energy consumed increased 7% y-o-y, we spent 10% less energy per one ton-% of grain dried. In FY2018, we replaced the industrial lighting on most of our silos and terminals with LED, which is less energy consuming. On most of our silos, we upgraded the heating system of administrative buildings, replacing

## Our values and principles

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

gas-fired boilers with solid fuel boilers targeting cost reduction. Finally, on one of our silos, we launched a test project, where we replaced the drying equipment consuming diesel with one consuming waste by-products, including sunflower husk. In the event we are satisfied with the results of this project, we will do similar replacements on other our silos, changing natural gas-based drying equipment with ones burning silo waste.

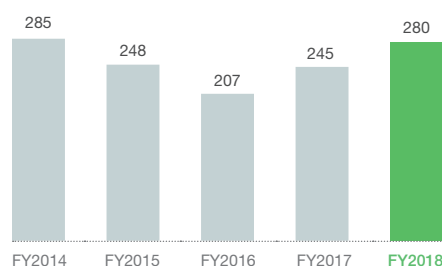
### Emissions

A major portion of our direct (Scope 1) greenhouse gas emissions is produced by our farming business, as machinery consumes diesel for field works and transportation. Most of our carbon emissions are related to energy consumption, therefore we manage our emissions by focusing on the optimization of our use of energy resources. At the same time, we strictly control other emissions that are naturally generated at our sunflower oil production plants, fully complying with local legislation and the specific limits set for our production plants by local regulatory authorities. For the disclosure of our emissions by type and asset group, please refer to page 39 of this report.

### Producing green energy from waste

All our crushing plants burn sunflower husk, a biomass-type residue in crushing process, to produce steam for sunflower oil production purposes. One of our oil-extraction plants also has co-generation equipment installed, allowing it to supply green energy to the grid. In FY2018, it burned 55 thousand tons of sunflower husk to produce 158 gigacalories of heat for production purposes and generate 9.4 million kWh of electricity.

**Total direct (Scope 1) GHG emission**  
thousand tons of CO<sub>2</sub> equivalent



### Sustainable farming

Kernel is strongly adherent 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.
- 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 the thresholds are set for any pest control actions, and cultural methods are applied prior to the use of pesticides. We comply with all applicable pesticides regulations and use only those crop protection agents, which are registered for the use in Ukraine by the Ministry of Ecology and Natural resources of 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. Disposal of empty plant protection product containers and waste is applied. Plant protection products are applied and stored in a safe and environmentally responsible way in compliance with ISCC requirements, e.g. chemicals are labeled and stored securely, well ventilated and on sealed floors. Safe working conditions are ensured through training, education, use of protective clothing and proper and timely assistance in the event of accidents.

# Sustainability continued

Only 0.2% of our landbank is irrigated (production of seeds for internal purposes), thus not affecting our sustainability approach.

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.

## Waste management

We apply the general principles of waste hierarchy to our waste management system. Our main waste by volumes is sunflower seed husk – a biomass-type residue in sunflower seed crushing process. In FY2018, we produced 570 thousand tons of sunflower seed husk, of which 42% was burned to produce heat and power needed for production processes, and the remaining was sold to third parties pelletized or in bulk.

The key waste produced by our crop production branch 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.

All but one our crushing plants implemented the requirements of the ISO 14001 standard, which sets out criteria for an 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 FY2019.

## Biodiversity

As an environmentally responsible company, we strive to fully eliminate any impact of our operations on biodiversity. In our farming business, we cultivate only lands historically used for crop production and 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. We apply best-in-class long-term sustainable farming practices and use only certified fertilizers and crop protection agents approved for use by regulators. Notwithstanding that, being one of the largest crop producers in Ukraine, we may have some unintended impact on biodiversity.

Apart from farming, our other businesses do not affect the biodiversity as they are heavily localized.

## Human capital

### Competitive remuneration

Having 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, the number of which was further extended in FY2018. KPIs 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. In farming, for each of the last four years, we organized an "Agribusiness Champions' League" event awarding the best achievements over the year. In all our segments we launched the initiative "We have an idea!", whereby each employee may propose various efficiency improvements and receive a monetary award if such efficiency is chosen by jury to be implemented. The winners are disclosed in corporate media, on our Facebook page and honor boards, promoting an entrepreneurial spirit and attitude to work within the company.

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.

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 labor legislation and pay all salary-related taxes and social contributions, despite somewhat losing competitive advantage versus those market players who are involved in shadow operations.

### Labor practices

We remain committed to providing safe working conditions in compliance with labor legislation. Our commitments, among other things, include:

- Abiding with minimum wage requirements;
- Respect for working hours, vacations and sick leaves;
- Full payment of salary-related taxes and social contributions;
- Holding positions for employees on maternity/paternity leave.

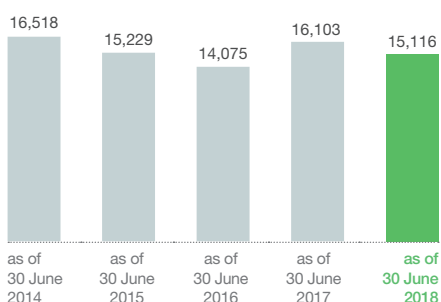
### Investing in training and development

Treating people as our key competitive advantage, we extensively invest in the development of their hard and soft skills, increasing the number of trained employees in FY2018 by 28% y-o-y, to 7.5 thousand.

Our education activities are structured in six different directions:

- Professional education, focused mainly on agribusiness, where we see the highest potential for implementing modern farming practices 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 3.4 thousand employees participated in professional education program in FY2018. Additionally, we organize numerous experience-exchange trips abroad and in Ukraine for our specialists, including attendance of exhibitions, site visits and other events.
- Ad-hoc competency development trainings tutored mostly by external trainers and organized depending on business needs. 490 employees were covered by such activities in FY2018.
- 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. Over 1.3 thousand people attended such events in FY2018.

### Total number of full-time employees



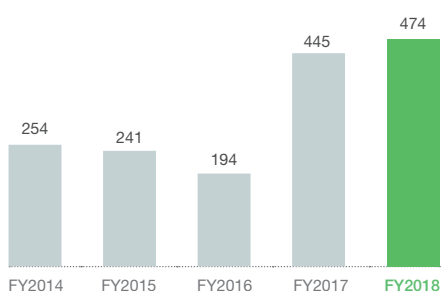
## Sustainability continued

- 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, covering over 600 employees in total in FY2018. 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 simplified version of Corporate MBA is available to high potential specialists and members of our personnel reserve pool.
- Trainings from internal trainers. A pool of 25 internal trainers provides numerous 4-16 hours learning programs, promoting knowledge and experience sharing within the company. The program was launched in 2017 and proved to be extremely successful, with over 750 employees attending the trainings.
- Distance learning, including e-courses, online-tests, webinars. The core element here is Kernel Hub – a distance learning and knowledge web/mobile platform, which has been developed since 2014 and 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 900 in FY2018.

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.

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.

**Total training expenditures**  
US\$ thousand



### Individual development system and career planning

Since 2014, we have made progress on implementing a unified approach to planning individual development, the coverage of which increased in FY2018 to 250 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 clearer visibility of the ambitions talent pool, their training needs and prospects.

We are also progressing on the development of our mentorship program, which is designed to accelerate the adaptation of new employees and develop their hard skills. A 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 FY2018, increasing the number of mentors from 74 in FY2017 to 116 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, trainings for mentors and master-classes for mentees.

In order to provide employees with a better visibility on possible career paths, the management structure is published on the company's internal portal and is available to all employees. Since FY2018, this structure includes all employees of the Company and its subsidiaries.

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.

### Working with universities

In FY2018, we increased the number of specialized universities we cooperate with to 25. All of them participate in "Kernel Chance" – a paid internship program for upper-year students 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 having a ready-made career plan. Since the launch of the program in 2011, we employed

383 "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 FY2018, we received a record 800+ applicants for the program.

On top of that, Sumy National Agrarian University in Ukraine has a joint studying programs with us, whereby Kernel contributes to adaptation of academia curricula to modern market needs, organizes practical courses for students and site visits to our assets, invites professors from EU and USA for reading lectures and seminars, coaches faculty staff etc. The program was launched in 2014, advancing the quality and structure of educational content. For FY2019, we aim to further customize curricula based on job position profiles.

### Health and safety

Operating in the region with historically poor work-related safety culture, we pay special attention to the improvement of labor safety conditions, aiming to reach zero fatalities and reduce injuries as much as possible.

We have a system of hazard risk 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 in 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 of our crushing plants meet the requirements of OHSAS 18001, and we are working on implementing such requirements as well on our grain infrastructure assets. The ultimate goal is to have health and safety systems at most of our production units fully compliant with OHSAS 18001.

Our health and labor 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 45 audits and inspections run by our internal team, members of which constantly undertake trainings under OHSAS 18001 and are supervised by a group level health and safety committee.

Unfortunately, notwithstanding all our efforts, we had four fatalities in FY2018. Two of them happened on assets acquired by us just recently, where the level of safety and labor culture lags behind the one we maintain. Another two employees died in car accident caused by a third party. At the same time, the number of non-fatal injuries is consistently declining since FY2015, standing at 12 cases over the reporting period.

# Sustainability continued

## Social responsibility

### Giving back to local communities

By leasing lands on territories of over 580 local councils and having about 2/3 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, lack of access to basic services and infrastructure. As a reputable long-term partner, Kernel shares responsibility for the development of neighboring local communities, thus constantly investing in their well-being.

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

- a team of 250 dedicated relationship managers who serve as our representatives in rural regions, communicate with landowners, local officials and opinionmakers, help with offering seasonal and full-time jobs in the regions. The team has proven to be quite 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), procedures behind which were fully reorganized in FY2018. As a result, we received 1,200 calls in the reported period (3.5x growth y-o-y), up to 80% of which covers questions related to local communities, proving the efficiency of this tool;
- a constant dialogue with local municipalities.

Over the course of FY2018 our investments into the well-being of local communities totaled to US\$ 2.4 million, comprising from investments into infrastructure (US\$ 760 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](http://razom.kernel.ua) (in Ukrainian) aimed at promoting our social activities and serving as a point of contact with local stakeholders.

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 taking the first steps in the advancement of social entrepreneurship in rural regions: we help people in setting up a business, grant financing needed to start entrepreneurial activity, provide lease-free premises, machinery and equipment, etc. Examples of start-ups supported by us include service cooperatives, family mini- and organic farms, folk arts and handicrafts, and local tourism.

Since 2011 we publish and freely distribute over 50,000 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 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 way. 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 FY2018, we paid US\$ 66 million (UAH 1.8 billion) taxes, a substantial portion of which was directed to local budgets, supporting the wellbeing of local communities.

### Anti-fraud and anti-corruption

Operating in the region historically ranked high in Transparency International's Corruption Perception Index, we are facing fraud and corruption on daily basis. Our policy with respect to that is simple and straightforward: zero-tolerance to any kind of fraudulent and corrupt activities. The initiative comes from the highest level – the Board of Directors who, in May 2018, approved the amended anti-corruption policy, which is the fundamental document of our Conflict of Interest and Anti-Fraud and Corruption Management System. We harshly punish any type of corruption, bribery and fraud within the Company and its subsidiaries, prohibit presents and attendance of events that may influence business decision-making, and prevent any type of conflicts of interest that may result in financial and reputational losses. In cases of detecting signs of corruption or noticing conflicts of interest from our partners' side, we immediately impose a ban on any current and future cooperation with such counterparty.

We apply a wide set of tools to prevent fraud and corruption:

- anti-corruption clause in all our agreements and tendering processes starting from 2017;
- In-depth documented due diligence during KYC procedure, conducted by security service and compliance manager;

- 24/7 toll-free hotline allowing all employees anonymously report about fraudulent and corrupt actions. Following the material upgrade of the hotline process and an extensive promotional campaign, the number of calls received informing on fraudulent and corrupt actions quintupled in FY2018 as compared to the previous period. A special procedure was set in place to protect whistleblowers;
- annual conflict of interest declaration. In FY2018 we strongly expanded the coverage, getting declarations from over 8,400 employees, 4x growth y-o-y. Each declared situation is carefully analyzed for risks and possible settlements;
- promotional materials and warnings on the company website, intranet portal, corporate media, and direct communication to employees. According to the results of internal surveys, all our employees are informed about rules and principles of Corporate Code and Policy for Managing Conflict of Interest, Combating Fraud and Corruption, and 99.9% them know how to report fraud and corruption;
- business gifts and hospitality rules adopted in FY2018, with FAQ on the topic being available on intranet portal. We launched an e-register of business gifts and hospitality, and a compliance officer may provide additional assistance in case of disputable situations;
- diligent additional screening during the employee selection process. In FY2018, our security department started to apply new approaches while screening potential employees, thus materially increasing the share of high risk candidates for potential rejection. Specific attention is also paid to the employment of former government officials.

In June 2017, we appointed a dedicated compliance officer, who also implements key measures of anti-fraud and anti-corruption policy.

As a recognition of all our activities, in FY2018 we underwent an external compliance audit conducted by international business advisory firm Baker Tilly, who tested 40 different parameters including those related to anti-fraud and anti-corruption. The overall assessment of Kernel Corporate Compliance Program was considered very satisfactory, ranking at the top against other companies from Ukraine who perform a similar kind of audit; and our anti-corruption policy in particular was concluded to be compliant with international standards.

In FY2018, we continued to identify and eliminate fraud channels, and improved the tools used to identify fraud and corruption, which helped us to increase the number of identified violations.

## Sustainability continued

As an ultimate punishment measure for fraudulent and corrupt activities, we dismissed 325 employees in FY2018, disclosing such cases to other employees as a preventive measure. Equal treatment here is applied to all employees: top-managers, white and blue collars.

In FY2019, we plan to focus on developing Anticorruption Manuals that describes the Compliance Model and include the rules and recommendations on how to act in regard to most risky areas and the internal control model, and on further development and implementation of compliance controls into the Company's business processes.

### Product responsibility

As the largest exporter of soft commodities from Ukraine, we strive to set the benchmark in terms of product quality, guaranteeing the highest standards of goods we deliver to our customers.

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 crushing 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. Finally, our crushing plant in Poltava is certified under IFS, which opens doors for us to big retailers in EU, and simplifies our access to retailers in EU. Our Bandurka asset is certified under ISCC EU.

Our export terminals are certified under ISO 9001 and GMP+B3. Our subsidiary operating truck fleet is certified under GMP+B4. 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.

All our farming subsidiaries meet the ISCC EU requirements for corn, wheat, soybean, and rapeseed production. The standard indicates prerequisites set for biofuel supply chain sustainability under the Renewable Energy Directive.

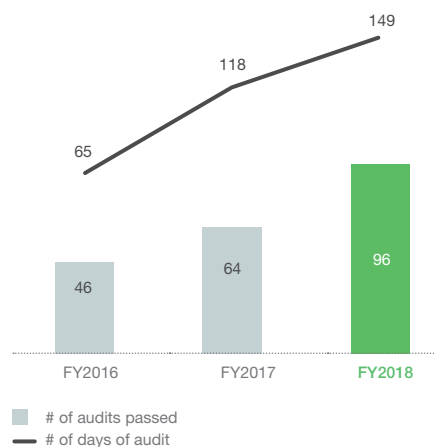
In FY2018, we continued to expand our certification base, getting 11 new certificates in total: Kosher (5 plants) and Kosher Passover

(1 plant), Badatz (one plant), Halal (3 plants), ISCC EU for trading subsidiary, and 3 our companies were certified to sell sunflower meal to Belarus. We also extended the coverage of 11 existing certificates, adding more products under the certificates' umbrella. On top of that, all our crushing facilities obtained the registration allowing to export sunflower meal to China, and one plant obtained the registration to sell sunflower oil to South Korea. Three of our plants were FDA-registered, opening the USA market to us, with our first shipments already completed in FY2018. Finally, this year our oil-extraction plant in Poltava successfully passed BSCI audit (grade 'A'), which confirmed the corporate social responsibility of our business and simplified our access to the EU bottled oil market. Being rewarded for our efforts, we are now allowed to tender and start cooperation with large EU retailers METRO and Kaufland, and passed all requirements needed to enter Auchan and several retail networks in Baltics and Scandinavia.

For the next year we plan to prolong the existing certificates and registrations, as well as reach new markets and clients by obtaining new quality recognitions for our products. Additionally, we plan to bring the operations of our silo business in full accordance with HACCP principles and increase the landbank which meets the ISCC EU requirements.

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 FY2018, we passed 96 independent audits, +50% y-o-y.

### Number of independent quality audits passed



### Product labeling and packaging

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 three-phase control and requires an authorized lab or third-party issued verification for any information exhibited on the markings.

# Sustainability continued

## 1. Human capital indicators

	FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
<b>Total number of employees</b>	<b>16,518</b>	<b>15,229</b>	<b>14,075</b>	<b>16,103</b>	<b>15,116</b>	<b>102-7</b>
by geography						
Ukraine	96.5%	96.1%	99.5%	99.7%	99.7%	102-7
Russia & Other	3.5%	3.9%	0.5%	0.3%	0.3%	102-7
by age						
less than 30 years old	20.9%	20.3%	19.6%	17.2%	17.5%	102-7
up to 50 years old	54.9%	55.4%	55.6%	53.4%	50.6%	102-7
more than 50 years old	24.2%	24.2%	24.9%	29.4%	31.9%	102-7
by gender						
Male	67.7%	72.6%	71.4%	70.2%	73.7%	102-7
Female	32.3%	27.4%	28.6%	29.8%	26.3%	102-7
by level						
Managers	7.3%	7.7%	7.4%	7.2%	6.6%	102-7
Specialists	18.6%	20.2%	22.3%	23.9%	26.2%	102-7
Workers	74.0%	72.1%	70.3%	69.0%	67.3%	102-7
by business division						
sunflower oil	16.8%	18.1%	17.4%	16.1%	16.5%	102-7
grain and infrastructure	19.7%	20.4%	23.1%	21.7%	22.8%	102-7
farming	60.1%	57.6%	55.2%	58.3%	55.9%	102-7
headoffice and other	3.4%	4.0%	4.3%	3.9%	4.8%	102-7
Percentage of women in executive management	29.0%	29.0%	40.0%	33.3%	25.0%	102-7
Percentage of women on Board of Directors	25.0%	25.0%	25.0%	37.5%	37.5%	102-7

## 2. Health and safety indicators

	FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
<b>Total fatalities</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>4</b>	<b>403-2</b>
Sunflower oil	1	-	-	-	1	403-2
Grain and infrastructure	1	1	-	-	1	403-2
Farming	-	-	1	-	2	403-2
<b>Total non-fatal injuries</b>	<b>16</b>	<b>18</b>	<b>15</b>	<b>14</b>	<b>12</b>	<b>403-2</b>
Sunflower oil	3	2	2	2	-	403-2
Grain and infrastructure	7	11	3	2	2	403-2
Farming	6	5	10	10	10	403-2
<b>Total accidents</b>	<b>18</b>	<b>19</b>	<b>16</b>	<b>14</b>	<b>16</b>	<b>403-2</b>
incl. Ukraine	16	18	16	14	16	403-2
incl. Russia	2	1	-	-	-	403-2
Injury frequency rate	0.59	0.66	0.53	0.45	0.55	403-9

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

## 3. Talent development

		FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
Training expenditures	thousand US\$	254	241	194	445	474	404-1
Training hours	hours	88,382	135,426	150,612	83,943	78,477	404-1
Average hours of training	hours per year per employee	5.4	8.9	10.7	5.2	5.2	404-1
% of workforce taking part in standardized performance appraisals		n/a	1.0%	1.3%	1.1%	1.6%	404-3

FY2017 data restated due to computational error.

## 4. Community

		FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
Total social spending	thousand US\$	2,703	1,919	1,668	2,616	2,440	413-1
incl. infrastructure	thousand US\$	n/a	1,025	749	1,049	760	413-1

Social spending includes only direct expenses by the Company.

# Sustainability continued

## 5. Greenhouse gas emissions

		FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
<b>Direct (Scope 1) GHG emissions</b>	<b>thousand tons of CO<sub>2</sub> equivalent</b>	<b>285</b>	<b>248</b>	<b>207</b>	<b>245</b>	<b>280</b>	<b>305-1</b>
sunflower oil	thousand tons of CO <sub>2</sub> equivalent	30	19	7	14	9	305-1
grain and infrastructure	thousand tons of CO <sub>2</sub> equivalent	70	46	31	66	73	305-1
farming	thousand tons of CO <sub>2</sub> equivalent	182	181	168	163	195	305-1
other	thousand tons of CO <sub>2</sub> equivalent	2	2	2	2	1	305-1
Biogenic (Scope 1) GHG emissions	thousand tons of CO <sub>2</sub> equivalent	252	282	253	306	319	305-1
Gross indirect (Scope 2) GHG emissions	thousand tons of CO <sub>2</sub> equivalent	182	183	163	199	213	305-2
<b>GHG emissions intensity ratio</b>							
per ton of sunflower seeds processed	tons CO <sub>2</sub> equivalent	0.013	0.008	0.003	0.005	0.003	305-4
per ton of grain grown	tons CO <sub>2</sub> equivalent	0.132	0.094	0.087	0.071	0.071	305-4

Scope 1 emissions are calculated based on volumes of fossil fuel used across the company and those generated by livestock. Emissions are calculated based on volumes of energy used and conversion factors sourced from DEFRA. 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. The conversion factor was sourced from Global Carbon B.V.'s assessment of emissions factors for the Ukrainian electricity grid.

FY2015 and FY2017 data restated due to computational error.

## 6. Energy consumption

		FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
<b>Total energy consumption</b>	<b>thousand gigajoules</b>	<b>6,320</b>	<b>6,026</b>	<b>5,130</b>	<b>6,571</b>	<b>7,139</b>	<b>302-1</b>
by division							302-1
sunflower oil	thousand gigajoules	3,550	3,690	3,109	3,906	4,011	302-1
grain and infrastructure	thousand gigajoules	1,249	836	634	1,221	1,296	302-1
farming	thousand gigajoules	1,477	1,467	1,361	1,418	1,809	302-1
other	thousand gigajoules	45	33	25	26	24	302-1
by source							
natural gas	thousand gigajoules	1,435	834	592	1,193	1,232	302-1
diesel, gasoline	thousand gigajoules	1,608	1,607	1,322	1,488	1,831	302-1
electricity	thousand gigajoules	727	732	652	798	853	302-1
other non-renewable	thousand gigajoules	-	4	3	2	0	302-1
sunflower seed husk (renewable)	thousand gigajoules	2,549	2,849	2,561	3,090	3,224	302-1
by country							
Ukraine	thousand gigajoules	5,874	5,732	5,129	6,569	7,139	302-1
Russia	thousand gigajoules	447	294	1	2	0	302-1
<b>Renewable energy produced and sold</b>	<b>thousand gigajoules</b>	<b>42</b>	<b>45</b>	<b>46</b>	<b>42</b>	<b>34</b>	<b>302-1</b>
electricity	thousand gigajoules	30	32	35	41	34	302-1
heating	thousand gigajoules	12	13	10	1	-	302-1
<b>Energy intensity</b>							
Energy spent per ton of sunflower seed crushed	megajoules	1,525	1,463	1,408	1,430	1,374	302-3
Energy spent per ton-% of grain dried	megajoules	63	67	66	65	68	302-3
Energy spent per ton of grain grown	megajoules	1,072	824	708	618	662	302-3

Only energy purchased from external suppliers is included in energy consumption. Energy generated internally is excluded. Additionally, energy consumption figures exclude heating purchased from third-party suppliers due to the non-materiality of volumes. There was no consumption of externally purchased cooling and steam.

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 mileage data and approved norms of fuel consumption. 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 DEFRA.

FY2017 data restated due to computational error.

# Sustainability continued

## 7. Materials used in production

		FY2014	FY2015	FY2016	FY2017	FY2018	GRI index
<b>Sunflower oil production</b>							
Sunflower seeds	<i>thousand tons</i>	2,335	2,523	2,208	2,732	3,136	301-1
% of renewable	%	100%	100%	100%	100%	100%	301-1
Associated process materials	<i>thousand tons</i>	1.3	1.4	1.2	1.1	1.2	301-1
% of renewable	%	0%	0%	0%	0%	0%	301-1
Packaging	<i>thousand tons</i>	4.5	5.0	3.8	7.1	6.3	301-1
% of renewable	%	43.2%	43.3%	60.9%	45.9%	47.1%	301-1
<b>Sunflower oil produced at ISO 22000 certified plants</b>	%	94%	96%	100%	100%	100%	301-1
<b>Crop production</b>							
Seeds	<i>thousand tons</i>	22	26	26	38	45	301-1
Fertilizer	<i>thousand tons</i>	285	260	260	238	220	301-1
% of organic fertilizer	%	44.0%	50.8%	50.8%	28.1%	18.2%	301-1
Other non-renewable	<i>thousand tons</i>	1.9	1.8	1.8	2.3	2.3	301-1

The data excludes the grain and infrastructure business, which primarily provides services. Fuel volumes are excluded from the calculation and are presented in a separate disclosure.

Our sunflower oil production uses sunflower seed as the primary input material. Additionally, hexane is used as a component in the solvent extraction process. Less than 10% of our sunflower oil output is packaged. The cardboard we use for packaging (61% of total materials used for packaging) is sourced from reused materials.

Our grain and infrastructure business primarily resells grain and provides logistics services, thus materials used in the production calculation are not relevant to this division.

In our farming operations, we use seeds, fertilizer and plant protective production techniques as primary inputs (diesel spent is calculated in a separate disclosure). 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 changes in technology and the variety of available fertilizers with different nitrogen, phosphorus and potassium content.

FY2017 data restated due to computational error.

## 8. Aspect boundaries

Material topics	Material aspects and indicators disclosed	Material within the organization	Materiality boundaries within organization	Material outside the organization	Relevance outside the organization
<b>Economic performance</b>	Economic performance	✓	All business units	✓	Impacts people and economic development
<b>Human capital</b>	Training and education	✓	All business units	✓	Training and developing our employees, as well as ensuring a proper health and safety environment, contributes to the social and economic development of the communities where we operate.
	Health and safety	✓	All business units	✓	
<b>Giving back to local communities</b>	Local communities		Farming	✓	Our social activities and investments in local infrastructure directly benefit regions where we operate, while our performance also indirectly impacts communities' development through jobs and local tax payments.
	Indirect economic impacts			✓	
<b>Anti-corruption</b>	Anti-corruption	✓	All business units	✓	Reducing corruption within and outside the organization improves the social-economic growth of the countries we operate in.
<b>Product responsibility</b>	Customer health and safety	✓	Sunflower oil	✓	Ensuring the high quality of our products benefits customers' health worldwide.
<b>Environment</b>	Energy	✓	All business units	✓	Reducing energy consumption and carbon emissions contributes to the slowdown of global warming.
	Materials			✓	
	Emissions			✓	
<b>Sustainable farming</b>	Indirect economic impacts	✓	Farming	✓	Growing crops in a sustainable way contributes to local communities' well-being

# Sustainability continued

## 9. GRI Content Index

GRI Standard	Disclosure	Reference or direct response
<b>GRI 101: Foundation 2016</b>		
<b>General Disclosures</b>		
<b>GRI 102: General disclosures 2016</b>		
102-01	Name of the organization	Kernel Holding S.A.
102-2	Activities, brands, products, and services	Our business model (page 8), Kernel at a Glance (page 9)
102-3	Location of headquarters	Kyiv, Ukraine
102-4	Location of operations	Ukraine and Russia. 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.
102-5	Ownership and legal form	Note 2 'Change in Issued Capital' to the Consolidated Financial Statements (page 72)
102-6	Markets served	Sunflower oil (page 14), Grain and Infrastructure (page 20)
102-7	Scale of the organization	Employee structure (page 38), Key highlights (page 3)
102-8	Information on employees and other workers	Employee structure (page 38)
102-9	Supply chain	Our Business Model (page 8)
102-10	Significant changes to the organization and its supply chain	Note 1 to the Consolidated Financial Statements (page 71), Sunflower oil (page 14), Grain and Infrastructure (page 20), Farming (page 25)
102-11	Precautionary Principle or approach	Product responsibility (page 37)
102-12	External initiatives	International Labour Organization's Fundamental Principles and Rights at Work, United Nations Global Compact (UNGC), United Nations Universal Declaration of Human Rights
102-13	Membership of associations	Kernel, through its subsidiaries, is a member of several industry associations, including the Federation of Oils, Seeds and Fats Associations, the Grain and Feed Trade Association, the Ukrainian Grain Association, the Ukrainian Agri-business Club, the Ukrainian Agrarian Association, the American Chamber of Commerce, and the European Business Association.
102-14	Statement from senior decision-maker	Chairman's speech (page 6)
102-16	Values, principles, standards, and norms of behavior	Our values and principles (page 33)
102-18	Governance structure	Corporate governance (page 53)
102-40	List of stakeholder groups	Key stakeholder groups and engagement channels (page 53)
102-41	Collective bargaining agreements	Approximately 95% of total employees are covered by collective bargaining agreements
102-42	Identifying and selecting stakeholders	Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' on page 31. 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 (page 31)
102-44	Key topics and concerns raised	'Mapping material issues to external stakeholders' (page 31), 'Our approach to materiality and report content' (page 31). Also discussed throughout this report.
102-45	Entities included in the consolidated financial statements	Notes 1 to the Consolidated Financial Statements (page 71). Certain sustainability information does not include data for all entities, which is highlighted in each case
102-46	Defining report content and topic Boundaries	Aspects boundaries (page 40).
102-47	List of material topics	'Mapping material issues to external stakeholders' (page 31)
102-48	Restatements of information	'Talent development' (page 38), 'Greenhouse gas emissions' (page 39), 'Energy consumption' (page 39), 'Materials used in production' (page 40)
102-49	Changes in reporting	None
102-50	Reporting period	Fiscal year 2018 ended 30 June 2018. See also Note 1 to the Consolidated Financial Statements (page 71).
102-51	Date of most recent report	23 October 2017, as a sustainability section of the FY2017 annual report
102-52	Reporting cycle	Annually
102-53	Contact point for questions regarding the report	Michael Iavorskyi, m.iavorskyi@kernel.ua; sustainability@kernel.ua
102-56	External assurance	Financial data in Consolidated Financial Statements for 12 months ended 30 June 2018 was audited by Deloitte Audit; see Report of the Reviseur d'Entreprises agree on page 59

# Sustainability continued

## Material topics

### Economic performance

#### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	The Group's strategy defines shareholders' value creation as an ultimate goal, which makes economic performance a material aspect. See also 'Strategy' (page 10). Also discussed throughout this report.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

#### GRI 201: Economic performance 2016

201-1	Direct economic value generated and distributed	Page 67. See Consolidated financial statements
201-4	Financial assistance received from government	Note 27 'Other operating income' to the Consolidated Financial Statements (page 111).

### Indirect Economic Impacts

#### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Giving back to local communities (page 36), Sustainable approach to cultivation (page 33)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

#### GRI 203: Indirect Economic Impacts 2016

203-1	Infrastructure investments and services supported	Giving back to local communities (page 36), Sustainable approach to cultivation (page 33)
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### Anti-corruption

#### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Anti-corruption (page 36), Our approach to materiality and report content (page 31)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

#### GRI 205: Anti-corruption 2016

205-3	Confirmed incidents of corruption and actions taken	Anti-corruption (page 36)
205-1	Operations assessed for risks related to corruption	Anti-corruption (page 36), Corporate Governance (page 53)

### Materials

#### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Materials used in production (page 40), Our approach to materiality and report content (page 31)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

#### GRI 301: Materials 2016

301-1	Materials used by weight or volume	Materials used in production (page 40)
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### Energy

#### GRI 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. Management approach disclosed in 'Energy consumption within the organization' (page 39), Our approach to materiality and report content (page 31).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

#### GRI 302: Energy 2016

302-1	Energy consumption within the organization	Energy consumption (page 39)
302-3	Energy intensity	Energy consumption (page 39)

### Biodiversity

#### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Our approach to materiality and report content (page 31). Biodiversity (page 34)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

#### GRI 304: Biodiversity

304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Biodiversity (page 34)
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# Sustainability continued

## Emissions

### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	Our approach to materiality and report content (page 31).
103-3	Evaluation of the management approach	Environment (page 33)

### GRI 305: Emissions

305-1	Direct (Scope 1) GHG emissions	Greenhouse gas emissions (page 39)
305-2	Energy indirect (Scope 2) GHG emissions	Greenhouse gas emissions (page 39)
305-4	GHG emissions intensity	Greenhouse gas emissions (page 39)

## Occupational health and safety

### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	Our approach to materiality and report content (page 31), Health and safety (page 35)
103-3	Evaluation of the management approach	

### GRI 403: Occupational Health and Safety

403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Health and safety (page 35). Health and safety indicators (page 38)
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## Training and education

### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	Our approach to materiality and report content (page 31), investing in training and development (page 34)
103-3	Evaluation of the management approach	

### GRI 404: Training and Education

404-1	Average hours of training per year per employee	The Company is assessing ways to incorporate this data into its management accounting system. Talent development (page 38) only for aggregated data
404-3	Percentage of employees receiving regular performance and career development reviews	Talent development (page 38)

## Local Communities

### GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	Our approach to materiality and report content (page 31), Giving back to local communities (page 36).
103-3	Evaluation of the management approach	

### GRI 413: Local Communities

413-1	Operations with local community engagement, impact assessments, and development programs	Giving back to local communities (page 36). Social responsibility (page 36). We estimate that over 2/3 of our operations (by labor count) are actively involved in local community engagements, though the frequency and depth of engagement differs by region
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## Customer health and safety

### GRI 103: Management Approach 2016

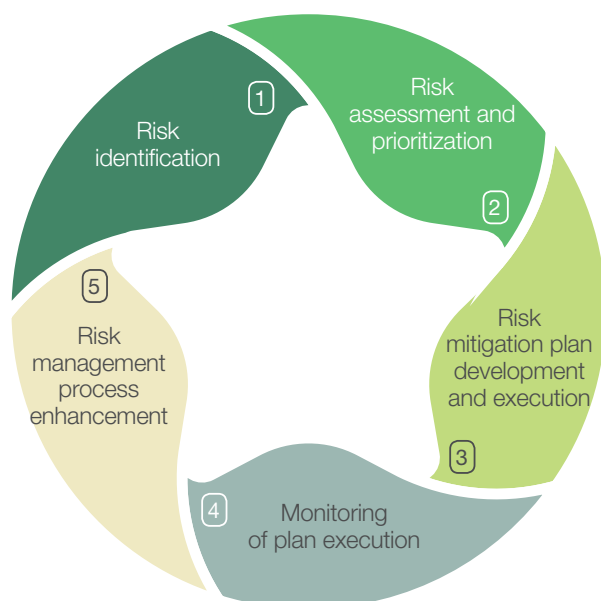
103-1	Explanation of the material topic and its Boundary	
103-2	The management approach and its components	Our approach to materiality and report content (page 31), Product responsibility (page 37)
103-3	Evaluation of the management approach	

### GRI 416: Customer Health and Safety

416-1	Assessment of the health and safety impacts of product and service categories	Product responsibility (page 37), product labeling and packaging (page 37). 90% of produced products by value (excluding products that were traded and services).
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# Risks and Uncertainties

## Kernel's risk identification and mitigation 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.

Moreover, the Board has recognized the importance of risk management, which is defined as a process, realized by all branches of the Company, starting with strategy development and communication all the way to the activities aimed at providing reasonable assurance that the Company's goals are deemed to be achieved.

Therefore, risk management aims at risk identification, assessment and prioritization, as well as monitoring and feedback. Moreover, it is embedded in decisions made by the management and the Board.

As a part of the Group's strategy management process, the Directors identify and manage key (top) risks through development of a detailed mitigation plans. The process of key risks identification, prioritization and mitigation is facilitated by the working group, headed by the CFO and includes Head of Controlling and Head of Internal Audit functions.

As a result of the latest review cycle, the following list was approved by the Board as the key risks faced by the Group:

### Industry-wide risks:

- Country harvest level
- Agricultural commodities price volatility

### Operational risks:

- Maintenance of the land usage rights and the size of the land bank
- Investment projects management
- Trade position management
- Late harvesting
- Fraudulent activities

### Business continuity risks:

- General IT and information security risks
- Human capital risk
- Compliance with environmental standards

## Risks and Uncertainties *continued*

Possible impact	Mitigating approach
<b>Industry-wide risks: country harvest level</b>	
<b>Sunflower seed harvest in Ukraine</b> Insufficient harvest of sunflower seeds in Ukraine might have a negative impact on the capacity utilization of Company's oilseed processing plants and crushing margins, adversely affecting the Company's earning and financial standing.	<ul style="list-style-type: none"> <li>→ Diversified asset base: our oilseed processing plants are located from the south to the north-east of Ukraine across the sunflower seed growing belt. We also plan to enter the western region of Ukraine by constructing a greenfield oilseed processing plant there. Given that sunflower seed is primarily originated within close proximity to the plants, this approach mitigates our exposure to weather volatility in any one particular region;</li> <li>→ Use of comprehensive analysis of sunflower seed supply-demand balances based on the official statistics, market consensuses, inputs from our farming and procurement teams, examination of crop conditions by monitoring of the satellite images. This analysis is further applied in our procurement strategy.</li> <li>→ Provision of pre-crop financing to farmers secured against the future harvest. This enables us to lock-in supplies of sunflower seeds to some extent.</li> </ul>
<b>Grain harvest in Ukraine</b> Significant portion of our grain exports and infrastructure throughput is originated from third-party farmers. Therefore, low harvest may lead to lower profitability throughout the entire value chain.	<ul style="list-style-type: none"> <li>→ Diversified origination base. Our procurement network covers most of the regions of Ukraine</li> <li>→ Our own farming production provides captive throughput volumes for other parts of the business</li> <li>→ Monitoring of regional grain production</li> </ul>
<b>Industry-wide risks: agricultural commodities price volatility</b>	
<b>Weak grain prices</b> Our farming business is directly exposed to soft global commodity prices, in contrast to our sunflower oil, grain export and infrastructure businesses. A significant decrease in the price of grains produced by our farming business could materially undermine our farming division's profitability.	<ul style="list-style-type: none"> <li>→ Hedging grain prices: we use a wide spectrum of hedging tools, including CME corn and soy-bean futures and options, forward contracts for Black Sea origin premium and direct forward contracts. We aim to hedge 75% of the next year's crop prior to its harvesting. Physical delivery forward contracts are typically used for shorter duration hedging, normally within six months.</li> <li>→ 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.</li> <li>→ Detailed analysis of global soft commodity fundamentals: our subsidiary Avere provides the insight on the global soft commodity market, assisting us with the timing and pricing of our hedging operations.</li> </ul>
<b>Sunflower oil price volatility</b> Significant movements in sunflower oil prices within short period of time during the year might have an adverse effect on the Company's earnings, especially when it has an open position.	<ul style="list-style-type: none"> <li>→ 'Balanced book' policy: 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. While this policy allows us to mitigate most 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.</li> </ul>
<b>Operational risks</b>	
<b>Maintenance of the land usage rights and the size of the land bank</b> The Company leases the land it farms from numerous individual owners across Ukraine for an average term of approximately ten years. While these contracts entail a right of first refusal to extend leasehold contract, the Company may fail to prolong certain land lease agreements due to growing competition for the land plots with other land operators, which would result in a decrease in acreage farmed	<ul style="list-style-type: none"> <li>→ Paying market price for land lease;</li> <li>→ Maintaining the excellent reputation of the Company in the regions of our 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 which will allow us to keep direct contact with our land lessors and respond to community needs;</li> <li>→ Emphyteusis agreements. We recently started to sign 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;</li> <li>→ Publicly supporting farmland market reform in Ukraine.</li> </ul>

# Risks and Uncertainties continued

Possible impact	Mitigating approach
<b>Operational risks</b>	

## Investment projects management

Given the Company's extensive capital investment program (construction of grain transshipment terminal, construction of oilseed processing plant and substantial upgrade of the existing plants, construction of silos), there is a risk of project management, which may result in execution delays and/or extra spending

- Application of our expertise. We have the in-house expertise in execution of greenfield projects. Bandurka greenfield processing plant, commissioned in 2010, is the most remarkable testament. We have our own 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. We have 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.

## Trade position management

Mismanagement of our trade position may result in losses

- 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.

## Late harvesting

There is a risk of partial loss of crop due to late harvesting, as a consequence of the lack of capacity for its transportation and storage. Untimely preparation for a new sowing campaign due to late harvesting can lead to a decrease in next year crop yields.

- More intensive use of third-party trucks;
- Debottlenecking of our silos: we constantly work on increasing the in-take, drying, cleaning and off-load capacities of our silos. We launched projects to construct 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;
- Third-party services. We have an optionality to conclude agreements with other silos and export terminal facilities to facilitate grain and oilseeds flow.

## Fraudulent activities

The Company's operations are subject to both internal and external fraud risks, ranging from simple theft to fraudulent procurement practices and conflicts of interest. Failure by one of the Company's significant counterparties to honor their contracts might negatively affect the Company's financial position and its performance.

- Continuous improvement of business processes with periodic assessments conducted by internal auditors: centralization of a warehouses system in the Farming division, improvement of a procurement model, development of analytical procedures aimed to fraud risk identification;
- Zero fraud tolerance approach is widely communicated to employees and counterparties, as an anti-corruption clause is a must in our contracts with counterparties;
- Conservative counterparty risk policy: when buying grain and sunflower seeds from farmers, we rarely provide any pre-payments unless we have an established line of credit with ensured delivery at a fixed future date. When selling our goods to international markets, we execute delivery either against letters of credit or limit counterparty risk by selling only to established global players.

## Business Continuity Risks

### General IT and information security risks

The loss or disclosure of key information may threaten business operations and development of business. With the implementation of business applications that are part of the operational processes and provide the basis for making key decisions, the company has become dependent on the continuity of these applications, as well as on the IT infrastructure that supports these applications.

- Implementation of recommendations developed to increase resistance to virus attacks in the part of: protection against malicious software, protecting network segments, protecting employee data, managing continuity, managing privileged accounts;
- Implemented IT business continuity and data recovery policy.

## Risks and Uncertainties continued

Possible impact	Mitigating approach
<b>Business Continuity Risks</b>	
<b>Human capital risk</b> Staff shortage, low qualification and inability to replace, business and support processes effectiveness and efficiency	<ul style="list-style-type: none"> <li>→ Talent management, professional development and education of our employees. We have numerous education programs with extensive coverage (page 34) and system of individual development and career planning (page 35);</li> <li>→ Attractive 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;</li> <li>→ Safe and convenient working conditions. Improving working conditions and infrastructure for staff.</li> <li>→ Employee involvement through effective KPI system, responsibility delegation, rewards for operation efficiency improvement, and team-building events</li> <li>→ 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.</li> </ul>
<b>Compliance with environmental standards</b> Risk of production assets suspension in view of the violation of environmental legislation and possible local community protests associated with environmental risks.	<ul style="list-style-type: none"> <li>→ Creation of working groups to synchronize measures to control compliance with environmental standards;</li> <li>→ Training of the relevant staff on compliance with environmental norms;</li> <li>→ Identification of areas with increased risks of violations of environmental standards and the development of precaution measures to effectively respond in line with the legislative and regulatory requirements.</li> </ul>

Other risks identified by the Company's management include:

- Increase in competition;
- 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. Andriy Verevskyy, 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.

# Alternative Performance Measures

To comply with European Securities and Markets Authority Directive on Alternative Performance Measures, Kernel Holding S.A. (hereinafter “the Group”) presents this additional disclosure, which enhances the comparability, reliability and comprehension of its financial information.

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

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

## EBITDA and EBITDA margin

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

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

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

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

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

in thousand US\$	FY2017	FY2018
<b>Profit before income tax</b>	197,439	<b>50,054</b>
<b>add back:</b>		
Financial costs, net	(62,280)	<b>(65,099)</b>
Foreign exchange gain/(loss), net	(2,729)	<b>5,375</b>
Other expenses, net	(1,452)	<b>(30,980)</b>
Share of income/(loss) of joint venture	(1,139)	<b>1,193</b>
Amortization and depreciation	(54,140)	<b>(82,975)</b>
<b>EBITDA</b>	<b>319,179</b>	<b>222,540</b>

## Alternative Performance Measures continued

### Working Capital

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

### Fixed Assets Investments

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

### Investing Cash Flows

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

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

in thousand US\$	As of 30 June 2017	As of 30 June 2018
<b>Total current assets</b>	<b>1,120,688</b>	<b>1,204,269</b>
<i>less:</i>		
Cash and cash equivalents	143,392	132,018
Total current liabilities	293,851	475,516
Assets classified as held for sale	-	14,689
<i>add back:</i>		
Short-term borrowings	131,679	224,773
Current portion of long-term borrowings	2,782	2,811
Current portion of obligations under finance lease	2,842	3,236
Interest on bonds issued	17,949	17,949
<b>Working Capital</b>	<b>838,697</b>	<b>830,815</b>

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

in thousand US\$	FY2017	FY2018
<b>Net cash used in investing activities</b>	<b>(223,463)</b>	<b>(155,694)</b>
<i>add back:</i>		
Purchase of intangible and other non-current assets	(702)	(15,670)
Disposal of subsidiaries	5,644	24,706
Acquisition of subsidiaries	(151,705)	(46,512)
Amounts advanced for subsidiaries	4,995	(1,996)
Proceeds from disposal/(Purchases) of financial assets	(34,575)	23,290
Loans for stock options execution	(6,650)	-
<b>Fixed assets investments</b>	<b>(40,470)</b>	<b>(139,512)</b>

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

in thousand US\$	FY2017	FY2018
<b>Net cash used in investing activities</b>	<b>(223,463)</b>	<b>(155,694)</b>
<i>less:</i>		
Purchase of property, plant and equipment	(43,432)	(146,565)
Proceeds from disposal of property, plant and equipment	2,962	7,053
<b>Investing cash flows</b>	<b>(182,993)</b>	<b>(16,182)</b>

# Alternative Performance Measures continued

## Funds from Operations

The Group uses as a measure of the cash generation of its core business operations and which is defined as profit before income tax adding back income, share of (loss)/gain in joint ventures, net other expenses, the foreign exchange gain/(loss), net finance costs, amortization and depreciation, less cash used in purchase of property, plant and equipment, cash from proceeds from disposal of property,

plant and equipment, finance costs paid, income tax paid, movements in allowance for doubtful receivables, loss/(gain) from changes in fair value of biological assets, other accruals, net non-realizable foreign exchange gain/(loss) and other.

## Free Cash Flows

The Group uses as a measure of the cash generation of its core business operations and which is defined as profit/(loss) before income tax

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

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

in thousand US\$	FY2017	FY2018
<b>Profit before income tax</b>	<b>197,439</b>	<b>50,054</b>
<i>add back:</i>		
Financial costs, net	(62,280)	(65,099)
Foreign exchange gain/(loss), net	(2,729)	5,375
Other expenses, net	(1,452)	(30,980)
Share of (loss)/income of joint venture	(1,139)	1,193
Amortization and depreciation	(54,140)	(82,975)
<b>EBITDA</b>	<b>319,179</b>	<b>222,540</b>
<i>less:</i>		
Purchase of property, plant and equipment	(43,432)	(146,565)
Proceeds from disposal of property, plant and equipment	2,962	7,053
Finance costs paid	(34,632)	(64,376)
Income tax paid	(6,484)	(5,204)
Movement in allowance for doubtful receivables	2,961	997
Net change in fair value of biological assets and agriproduce	2,875	(18,699)
Net non-realizable foreign exchange loss/(gain)	(3,446)	(6,804)
Other accruals	10,468	44,870
Other	(7,279)	(59,612)
<b>Funds from operations</b>	<b>243,172</b>	<b>(25,800)</b>

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

in thousand US\$	FY2017	FY2018
<b>Profit before income tax</b>	<b>197,439</b>	<b>50,054</b>
<i>add back:</i>		
Financial costs, net	(62,280)	(65,099)
Foreign exchange gain/(loss), net	(2,729)	5,375
Other expenses, net	(1,452)	(30,980)
Share of (loss)/income of joint venture	(1,139)	1,193
Amortization and depreciation	(54,140)	(82,975)
<b>EBITDA</b>	<b>319,179</b>	<b>222,540</b>
<i>less:</i>		
Net cash used in investing activities	(223,463)	(155,694)
Changes in working capital	(206,236)	(31,235)
Finance costs paid	(34,632)	(64,376)
Income tax paid	(6,484)	(5,204)
Dividends paid	(20,175)	(20,485)
Movement in allowance for doubtful receivables	2,961	997
Net change in fair value of biological assets and agriproduce	2,875	(18,699)
Net non-realizable foreign exchange loss/(gain)	(3,446)	(6,804)
Other accruals	10,468	44,870
Other	(7,279)	(59,612)
<b>Free cash flows</b>	<b>(166,232)</b>	<b>(93,702)</b>

## Alternative Performance Measures continued

### Readily Marketable Inventories

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

Factors which the Group considers when classifying inventory as RMI include whether there is an ascertainable price for the inventory established via international pricing mechanism; whether there are widely available and liquid markets for the inventory; if the pricing and margins on the inventory are hedged through forward sales and can be identified and appropriately valued; if there is stable and/or predictable end-user demand for the inventory; and whether the inventory is not perishable in short-term.

term borrowings, current portion of long-term borrowings, long-term borrowings, bonds issued and present value of lease obligations. Moreover, the Group defines net interest-bearing debt as gross interest-bearing debt less cash and cash equivalents. Additionally, the Group defines adjusted net interest-bearing debt, as net interest-bearing debt less readily marketable inventories.

### Interest-bearing Debt

The Group defines interest-bearing debt as the measure of its leverage and indebtedness, which consists of gross interest-bearing debt, net interest bearing debt and adjusted interest bearing debt. The Group defines gross interest-bearing debt as the sum of short-

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 2017	As of 30 June 2018
Sunflower oil & meal	221,432	217,878
Sunflower seed	89,644	57,599
Grains	42,085	49,031
Other	33,499	43,945
<b>Total</b>	<b>386,660</b>	<b>368,453</b>
<i>of which: Readily marketable inventories</i>	353,947	325,164

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

in thousand US\$	As of 30 June 2017	As of 30 June 2018
Short-term interest-bearing debt	152,410	245,533
Long-term interest-bearing debt	5,562	2,812
Bonds issued	493,648	494,796
Obligations under finance lease	5,744	10,946
<b>Gross interest-bearing debt</b>	<b>657,364</b>	<b>754,087</b>
less: cash and cash equivalents	143,392	132,018
<b>Net interest-bearing debt</b>	<b>513,972</b>	<b>622,069</b>
less: readily marketable inventories	353,947	325,164
<b>Adjusted net financial debt</b>	<b>160,025</b>	<b>296,905</b>

Note: short-term interest-bearing debt as of 30 June 2017 was restated to include also interest on bond issued

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

# Corporate Governance

## Group structure

Kernel Holding S.A. is a holding company for the Kernel group of companies, which includes Kernel Holding S.A. and its subsidiaries (hereinafter 'the Group' or 'the Company' or 'Kernel'). A public limited liability company (société anonyme), Kernel Holding S.A., was incorporated on 15 June 2005, under the laws of the Grand Duchy of Luxembourg (RCS Luxembourg B109173) and has been the holding company of the Group since incorporation. The Company's shares are listed on the main market of the Warsaw Stock Exchange (Bloomberg ticker: KER PW) since November 2007. Kernel Holding S.A.'s registered address is 19 rue de Bitbourg, L-1273 Luxembourg. The list of the Group's primary subsidiaries is presented on page 71 of this report.

## Significant shareholdings and share capital

Kernel Holding S.A. has a single class of shares, all ranking pari passu, having equal voting rights and no special control rights attached to any of the shares. As of 30 June 2018, there were 81,941,230 ordinary shares issued and fully paid. Three shareholders owned more than 5% of the Company's shares as of 30 June 2018, according to notifications received from them:

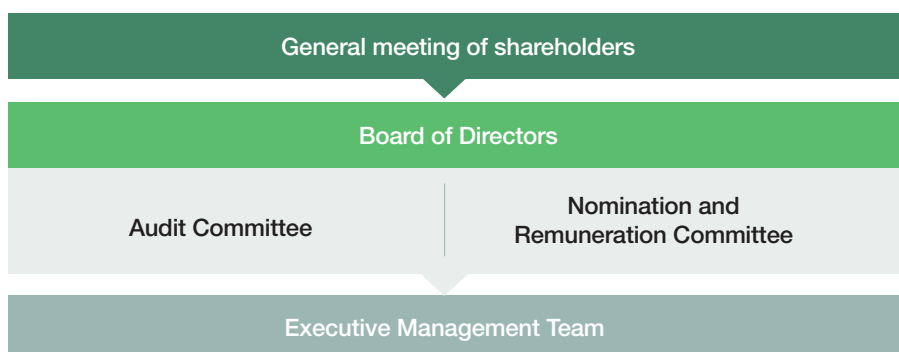
### Ownership structure

	Shares owned	Percentage owned
Namsen Limited	32,344,404	39.47%
Other <sup>1</sup>	49,596,826	60.53%
<b>Total</b>	<b>81,941,230</b>	<b>100.00%</b>

Note 1: including two shareholders controlling between 5% and 10% of total shares: Julius Baer Group (as per notifications received 18 June 2018) and Cascade Investment Fund (as per notification received on 14 November 2017).

The Company didn't own any of its own shares as of 30 June 2018. As a part of the management incentive program, the Company grants options to the management team. As of 30 June 2018, there were a total of 5,150,000 options outstanding, out of which 3,075,000 were vested, with each option representing a right to acquire one ordinary share of the Company.

## Governance structure



## Corporate governance framework

Kernel fully adheres to the corporate law of the Grand Duchy of Luxembourg, which determines the corporate governance framework. Company's system of governance is defined in Kernel Holding S.A. Articles of Association. In May 2018 the Board of Directors of the Company adopted the Corporate Governance Charter, which further specify the corporate governance system. Company complies with most of the provisions of the code of corporate governance 'Best Practices of WSE Listed Companies 2016', as per statement published on Company's website, and, being organized under the Law of Luxembourg, Company voluntarily aims decided to voluntarily comply with most of the provisions of the X Principles of Corporate Governance of the Luxembourg Stock Exchange.

## 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 11 December 2017 approved the Company's management report and annual accounts for the year ended

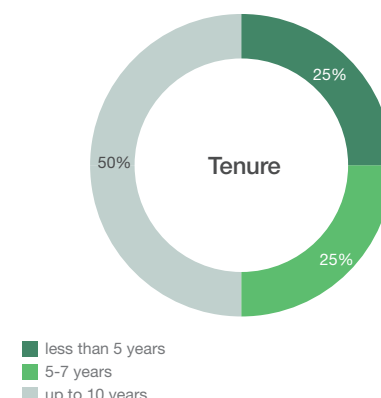
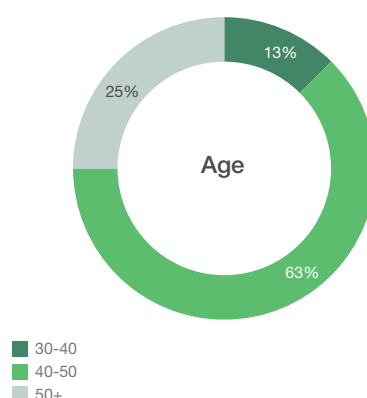
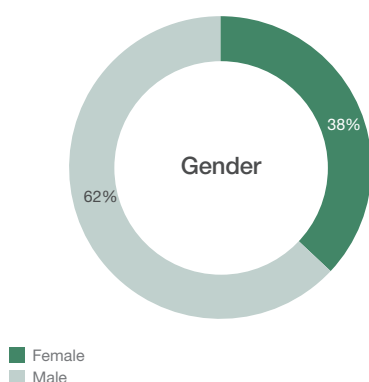
30 June 2017, granted discharge to the directors of the Company, renewed the mandates of six of the directors and appointed Mr. Yevgen Osypov as a new director of the Company. The meeting also approved the directors' fees and reappointed Deloitte Audit as independent auditor of the Company for one-year term mandate.

There were no extraordinary meetings of shareholders of Kernel Holding S.A. in FY2018. The next annual general meeting of shareholders is scheduled for 10 December 2018.

## Board of Directors

Company is managed by the Board of Directors, 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 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. The responsibilities of the Board include the 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.

## Composition of the Board of Directors as of 30 June 2018



# 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 2018 are as follows (with details available on Company's website).



**Andriy Verevskyy, 44**  
Chairman of the Board, Founder

**Tenure:** 11 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, 44**  
Non-executive independent director

**Tenure:** 2 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, 55**  
Non-executive independent director

**Tenure:** 11 years

### Skills and experience:

Rare know-how which combines a strong understanding of western corporate culture and modus operandi with 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, 59**  
Non-executive independent director

**Tenure:** 6 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, 42**  
Chief executive officer

**Tenure:** 1 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, 47**  
Chief financial officer

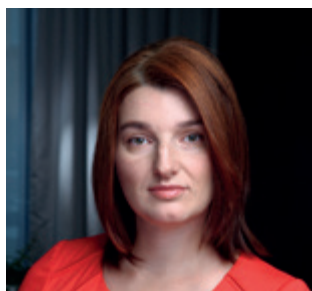
**Tenure:** 11 years

### Skills and experience:

Ms. Usachova holds a MBA degree from IMD (Switzerland), CMA and CFM certification from the Association of Accountants and Financial Professionals in Business (IMA).

### Board Committee:

None



**Viktoriia Lukianenko, 43**  
Chief legal officer

**Tenure:** 11 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, 37**  
Corporate investment director

**Tenure:** 7 years

### Skills and experience:

Mr. Kovalchuk contributes to strategy formulation and is responsible for executing of investment projects. Yuriy has been a Fellow with Association of Chartered Certified Accountants (FCCA), since September 2013.

### Board Committee:

None

# Corporate Governance continued

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.

## Board composition

The Board comprises a Chairman, four executive and three independent directors. The composition of the Board is regularly reviewed by the Nomination and Remuneration Committee to ensure that the Board has an appropriate, diverse and balanced mix of competences, skills, experience, background, knowledge of the Company's affairs, nationality, age and gender.

## Board diversity

Diversity among Directors makes the Board high-performing and efficient, serving the best interests of the Company's key stakeholders. Company benefits from gender, age, experience and industry expertise diversity among Directors. The diversity within the Board is enhanced by Kernel's Equality, Diversity and Inclusion Policy, adopted in 2018.

The non-executive directors are experienced and influential individuals from a range of industries and countries. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its Committees.

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

During the annual Board evaluation process conducted in FY2018, 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.

## 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 Board shall adopt adequate rules concerning the handling of conflicts of interest and establish a procedure for authorization of existing and new situations which may give rise to a conflict of interest in the person of any Director. 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 FY2018.

As of October 2018, non-executive directors occupied the following positions in companies outside the Group:

- Mr. Sergei Shibaev is an Independent Director and Audit Committee Chair at AK BARS Bank, 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.

## Nomination, appointment and re-election

There was one change in the composition of the Board in FY2018: following the nomination of the Nomination and Remuneration Committee of the Board of Directors of Kernel Holding S.A., the annual general shareholders' meeting held of 11 December 2017 appointed Mr. Yevgen Osypov as a new Director of the Company. The same general shareholders' meeting granted discharge to Mr. Kostiantyn Lytvynskyi.

The mandates for six other directors were renewed for one-year period ending on 10 December 2018.

All procedures governing the processes of nomination, appointment and re-election of Directors are described in Company's Corporate Governance Charter, published on Kernel's website.

## Board committees

The Board has created two specialized committees to ensure its efficient performance: Audit Committee and Nomination & Remuneration Committee. This structure contributes to the diversification of the workload, thus allowing motions and resolutions on certain matters to be heard first by a specialized and independent body with explicit professional experience. Annually, the Board reviews the necessity to establish new committees.

## 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.

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 twelve 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.

## Board evaluation

Every two years in the autumn, the Board shall undertake a formal evaluation of its own performance, operating efficiency, compliance with the rules of good government and relationship with the executive management and other stakeholders. The evaluation is conducted through an online questionnaire with each Director anonymously assessing the Board's effective fulfilment of its merit, composition, organizational structure and its effectiveness as a collective body, among other things.

The evaluation survey conducted in FY2018 identified no significant issues with respect to topics mentioned above. The members of the

# Corporate Governance *continued*

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.

## Performance report

The Board holds seven scheduled meetings and one unscheduled meeting in FY2018.

Typically, at each meeting, the Chairman of the Board, together with the Chief Financial Officer, report on strategy implementation. Twice a year, the Board revises, if necessary, its operation plan for the forthcoming season, thus continuously adjusting to the current market conditions. The Directors also receive reports on each of the functions and main businesses from its managers to assess the performance as well as consider if any adjustments to the strategy are necessary. Additionally, the Directors continuously receive updates from the Company Secretary on the corporate governance matters, which are deemed to be necessary for the efficient and compliant functioning of the Board.

The workplan of the Board for FY2018 consisted of the following items:

- review and approval of annual, semi-annual and quarterly accounts, and operations updates
- approval of budgets, review of management accounts, trade limits, financing agreements
- review and approval of strategies and policies
- corporate governance items
- risk and compliance items
- updates from Audit Committee and N&R Committee
- other items.

Most of the directors attended all meetings of the Board during the reporting period.

## 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 3-29. The financials of the group, its liquidity position, borrowing facilities and applicable terms are described in the financial statements accounts.

## Remuneration of the Board of Directors

US\$ thousands

	FY2014	FY2015	FY2016	FY2017	FY2018
Chairman of the Board	-	116.7	200.0	200.0	250.0
Three non-executive Directors	215.0	215.0	251.5	259.6	267.5
Four executive Directors	50.0	50.0	44.1	40.0	50.0
<b>Total Board of Directors</b>	<b>265.0</b>	<b>381.7</b>	<b>495.6</b>	<b>499.6</b>	<b>567.5</b>

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 44-47.

The 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 documents available on Company's website.

### Audit Committee's performance report

The Audit Committee had 5 meetings over the course of the financial year ended 30 June 2018. All the members attended all the meetings of the Audit Committee in FY2018. The chief financial officer, head of internal audit and compliance officer attended the meetings as permanent invitees. External auditors attended all the meetings of the Audit Committee.

To execute its key functions and discharge its responsibilities as outlined in the Corporate Governance Charter, the Committee, during FY2018:

- 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 and critical accounting policies and management estimates;
- conducted oversight over the performance of the internal audit function, including the review of the internal audit activities and plans. The committee had two meetings 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 areas of focus, management letter review, face-to-face discussion with the auditors in the absence of executives, and review of the contract with auditors;
- conducted oversight over the risk-management and compliance functions. The Audit Committee assisted the Board and the executive management team in formulation and description of the risks specific to the Company, monitored and examined the effectiveness of the Company's internal quality control, risk monitoring, review of reports on risk mitigation activities.

## Corporate Governance continued

→ reviewed of the Compliance Action Plan, compliance policies to be adopted, reviewed of the Corporate Governance Charter to be adopted, reviewed the Company's compliance with the best corporate governance practices, monitored of subsidiaries' compliance outside of Ukraine with local regulatory requirements

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

Over the course of FY2018, the Audit Committee has implemented the requirements of EU Audit Market Reform.

### Internal audit

As an integral part of the risk management system, the Company established an internal audit division headed by an experienced professional reporting to the Audit Committee and working closely with the Board.

The Internal Audit shall provide independent and objective assurance and consulting services in the areas of corporate governance, internal control and risk identification, aimed at improving the 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 support Directors on risk identification, assessment and prioritization, mitigations plans development and monitoring plans executions by management through undertaking regular or ad hoc reviews;
- to provide independent and objective evaluation of effectiveness and efficiency of internal control systems within operational and financial framework of the Company;
- to assist personnel and management of the Company in improving the effectiveness of risk identification and internal control systems operation; advise and consult them regarding how to effectively execute their responsibilities, including recommendations on specific improvements in policies and procedures; and
- to ensure open and two-way communication among internal and external auditors, management and personnel, Audit Committee and the Board.

### External auditor

Kernel's annual consolidated and standalone accounts for FY2018 were audited by Deloitte Audit S.a.r.l., having its registered office at 560 rue du Neudorf, L-2220 Luxembourg, and registered with the Luxembourg Trade and Companies' Register under number B 67 895 – an external auditor appointed by the annual

<b>Base salary</b>	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.
<b>Short-term variable bonus</b>	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 required to activate the pay-out. The bonus rewards the financial performance of the Company.
<b>Long-term management incentive plan</b>	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.

general shareholders' meeting held on 11 December 2017. Deloitte has been the auditor of the Company since FY2012.

The Audit Committee regularly meets with external auditors, including the meetings without presence of the executives, to discuss the audit process and management letter among other things and to make recommendations on the external auditor's work program. The Audit Committee review and monitor the level of fees paid by the Company to external auditor, pre-approve permissible non-audit services and monitor the cap on non-audit fees.

Over the course of FY2018, external auditors were not providing the company with non-audit services (non-audit fees of US\$ 6 thousand in FY2017), as compared to the audit fees of US\$ 495 thousand in the reporting period (US\$ 534 thousand a year ago).

## 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. Moreover, the remuneration programs for the Board and executive management team are competitive, internally equitable and straightforward.

The compensation of the Board 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 stakeholders. A significant portion of remuneration comes from a variable part depending on Company's Performance. For details on the compensation structure of the executive management team, 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 policy and incentive plan 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 the long-term management incentive plan. There were no significant amendments of the remuneration policy in FY2018.

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.

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

# Corporate Governance continued

## Nomination and Remuneration Committee

The Nomination and Remuneration committee (hereinafter 'N&R 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 non-executive 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 is available in Corporate Governance Charter, published on Company's website.

## Nomination and Remuneration Committee's performance 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, and settled on the management compensation for FY2018 standing at US\$ 827 thousand, comparing with US\$ 3,290 thousand a year ago.

There were no new management incentive plans approved over FY2018. As of 30 June 2018, there were a total of 5,150,000 options outstanding, out of which 3,075,000 were vested, with each option granting the right to acquire one ordinary share of the Company. Please refer to Note 2 of the financial statements for further details regarding option plans.

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.

## Compliance

Acting with integrity is at the core of all Kernel's policies and values. To maintain the high principles of fair competition, transparency and zero-tolerance to corporate fraud and corruption, Kernel designed and issued in December 2016 a Corporate Compliance Program ('CCP') – an action plan of bringing Company's compliance system in accordance with best international standards. CCP is focused on the following areas:

- anti-corruption and fraud;
- managing the risks of international sanctions;

- compliance with the rules and principles of the Corporate Code;
  - hot line and disciplinary mechanism;
  - protection of whistleblowers;
  - compliance communications and trainings.
- CCP is targeted on mitigation of such compliance risks as violation of Corporate Code requirements, violation of anti-corruption requirements, risk of cooperation with unreliable counterparty, risk of financial abuse, risk of Kernel non-conformity to legislative and regulatory amendments in the compliance of the regime of economic sanctions.

We substantially strengthened the compliance function over the course of FY2018:

- Strengthened the internal compliance function. We created a position of compliance officer in June 2017. Compliance officer was included as an attendee of the Audit Committee meetings and started to report directly to CEO;
- Progressed in compliance with best corporate governance practices, by adoption of Corporate Governance Charter;
- Strengthened our anti-fraud and anti-corruption practices, including adoption of Anti-corruption policy. By employing this policy, Kernel confirms its adherence to the principles of legality, transparency and social responsibility to maintain its high business reputation to all its stakeholders. Moreover, the policy is 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, not to mention the Corporate Code and other internal documents;
- Improved whistleblower protection, security policy, disciplinary mechanism;
- Improved the functioning of our hot line, which is a mechanism to facilitate informing about any possible illegal, unethical and/or improper behavior of employees, counterparties or business partners;

- Launched a massive information campaign targeted on increasing the compliance-culture awareness: systematic trainings on the requirements of the Corporate Code and Anti-Corruption Policy, e-mail distributions, individual consultations for the Company's stakeholders, communication sessions with employees as well as the creation of a 'Compliance FAQ' available to all employees via intranet. etc.

In July 2018, an independent auditor Baker Tilly completed the CCP implementation Audit, granting the overall assessment as very satisfactory.

We also had the established groupwide controls to assess the existing counterparties, business partners and third-party compliance with international sanctions, corruption risks, AML/FT, conflict of interest and/or PEP. Compliance controls are implemented in corporate social responsibility, charity and sponsorship transactions. Employees of the company and its subsidiaries have restrictions on means of communication with the government officials. On a constant basis we, among other, assess the Company's corruption risks and monitor the adherence to compliance measures and controls when entering financial agreement or transaction.

## Investor Relations

Kernel constantly put efforts on establishing adequate and efficient communication with shareholders and bondholders. We maintain ongoing contacts with investors' community by attending numerous equity and credit investor conferences, running non-deal roadshows after results publication, organizing investor days and site visits, host numerous meetings with investors over the year, and provide responses on a wide range of issues, targeting the expansion of investors base.

All reports, presentations and other materials are available to stakeholders on the Company's website [www.kernel.ua](http://www.kernel.ua).

## Kernel Holding S.A. Investor Calendar

Q1 FY2019 Operations Update	22 October 2018
Q1 FY2019 Financial Report	29 November 2018
Annual general shareholders' meeting	10 December 2018
Q2 FY2019 Operations Update	21 January 2019
H1 FY2019 Financial Report	28 February 2019
Q3 FY2019 Operations Update	19 April 2019
Q3 FY2019 Financial Report	27 May 2019
Q4 FY2019 Operations Update	17 July 2019
FY2019 Financial Report	23 October 2019

# Independent Auditor's Report

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

## 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 2018, the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the period from 1 July 2017 to 30 June 2018, 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 2018, 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 2018, the carrying amount of biological assets consisted primarily of current biological assets (mainly crops in fields) of an amount of USD 289,436 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 2018 using actual prices subsequent to year end, average actual yields for last four 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's 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 its selected date of 30 June 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 103,691 thousand as of 30 June 2018 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 were:

- The discount rate ("WACC"), which is based on the weighted average cost of capital.
- Terminal growth rate.
- Exchange rates.
- 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;
- compared the Group's performance during the most recent quarter with the projections used in the models;
- 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.

As disclosed in Note 17, an impairment of goodwill amounting to USD 2,255 thousand was recognized in the current year based on the assumptions disclosed therein.

# Independent Auditor's Report continued

## Why the matter was determined to be a key audit matter

## How the matter was addressed in the audit

### Business combination

As disclosed in Note 7 to the consolidated financial statements as of 30 June 2018, the Group acquired agricultural holding Agroinvest Ukraine ("AIU") for a total consideration of USD 47,216 thousand.

As disclosed in Note 7, the Group recognized the purchase price allocation, which resulted amongst others in a gain amounting to USD 2,309 thousand on a bargain purchase.

Valuation of net assets as of acquisition date and assessment of the result of the transaction is complex and highly judgmental by nature as it is based on assumption on future market and economic conditions (especially in terms of valuation of property, plant and equipment and land-lease rights of the acquired entities as of acquisition date).

The Group hired third party independent valuation experts to assist in the valuation.

We obtained an understanding of controls around the accounting for business combinations.

We have analyzed agreements and substance of transactions regarding acquisition of AIU and evaluated if the appropriate accounting policy (IFRS 3 "Business Combination") has been applied for the AIU acquisition.

We tested:

- the methodology and the model used, for the computations of the fair value of the net assets acquired,
- the significant assumptions and inputs used in this valuation model;

We have involved our internal valuation specialists and with their assistance carried out audit procedures on management's sensitivity analysis.

We have tested determination of consideration and net assets made by the Group as of the acquisition date. We re-performed calculation of the consolidation entries.

We also confirmed that disclosures required by IFRS 3 "Business Combination" appropriately presented in the consolidated financial statements.

### 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 such counterparties to market prices at the date of transaction.

Additionally, we have performed analysis for companies owned by management and the Major Equity Holder and ensured that no such companies are relating to the Group's customers.

# Independent Auditor's Report continued

## 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.

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:

- Identify and assess 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 the purpose of 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.

# Independent Auditor's Report continued

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.

## Report on Other Legal and Regulatory Requirements

We have been appointed as « Réviseur d'Entreprises Agréé » by the General Meeting of the Shareholders on 12 December 2016 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 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

**Sophie Mitchell,**  
Réviseur d'entreprises agréé  
Partner

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

for the year ended 30 June 2018

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.

21 October 2018

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

## Selected Financial Data

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

	USD		PLN		EUR	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
I. Revenue	2,403,003	2,168,931	8,529,459	8,590,919	2,014,918	1,991,079
II. Profit from operating activities	139,565	265,039	495,386	1,049,793	117,025	243,306
III. Profit before income tax	50,054	197,439	177,667	782,036	41,970	181,249
IV. Profit for the period from continuing operations	55,954	178,603	198,609	707,429	46,917	163,958
V. Net cash generated by operating activities	82,477	77,406	292,753	299,608	69,157	71,059
VI. Net cash used in investing activities	(155,694)	(223,463)	(552,636)	(864,936)	(130,549)	(205,139)
VII. Net cash generated by financing activities	76,121	172,953	270,191	669,432	63,827	158,771
VIII. Total net cash flow	2,904	26,896	10,308	104,104	2,435	24,691
IX. Total assets	2,210,514	2,009,083	8,276,164	7,446,063	1,897,505	1,761,765
X. Current liabilities	475,516	293,851	1,780,332	1,089,071	408,183	257,678
XI. Non-current liabilities	557,394	557,623	2,086,883	2,066,662	478,467	488,980
XII. Issued capital	2,164	2,164	8,102	8,020	1,858	1,898
XIII. Total equity	1,177,604	1,157,609	4,408,949	4,290,330	1,010,855	1,015,107
XIV. Number of shares	81,941,230	80,338,776	81,941,230	80,338,776	81,941,230	80,338,776
XV. Profit per ordinary share (in USD/PLN/EUR)	0.64	2.19	2.26	8.69	0.53	2.01
XVI. Diluted number of shares	82,887,231	82,407,733	82,887,231	82,407,733	82,887,231	82,407,733
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	0.63	2.14	2.23	8.47	0.53	1.96
XVIII. Book value per share (in USD/PLN/EUR)	14.29	14.35	53.50	53.18	12.27	12.58
XIX. Diluted book value per share (in USD/PLN/EUR)	14.12	13.99	52.87	51.85	12.12	12.27

# Consolidated Statement of Financial Position

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2018	As of 30 June 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	132,018	143,392
Trade accounts receivable, net	9	92,355	87,192
Prepayments to suppliers and other current assets, net	10, 34	113,342	82,701
Corporate income tax prepaid		6,937	8,198
Taxes recoverable and prepaid, net	11	114,695	135,257
Inventory	12	368,453	386,660
Biological assets	13	289,436	256,247
Other financial assets	37	72,344	21,041
Assets classified as held for sale	14	14,689	—
<b>Total current assets</b>		<b>1,204,269</b>	<b>1,120,688</b>
<b>Non-current assets</b>			
Property, plant and equipment, net	15	588,127	569,714
Intangible assets, net	16	104,466	104,861
Goodwill	17	103,691	114,110
Investments in joint ventures	33	52,218	51,025
Deferred tax assets	24	18,536	11,924
Corporate income tax prepaid		4,645	5,028
Other non-current assets	18, 34	134,562	31,733
<b>Total non-current assets</b>		<b>1,006,245</b>	<b>888,395</b>
<b>Total assets</b>		<b>2,210,514</b>	<b>2,009,083</b>
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade accounts payable	34	73,629	52,776
Advances from customers and other current liabilities	19, 34	104,898	88,665
Short-term borrowings	20	224,773	131,679
Current portion of long-term borrowings	21	2,811	2,782
Interest on bonds issued	23, 30, 36	17,949	17,949
Other financial liabilities	37	51,456	—
<b>Total current liabilities</b>		<b>475,516</b>	<b>293,851</b>
<b>Non-current liabilities</b>			
Long-term borrowings	21	2,812	5,562
Obligations under finance leases	22	7,710	2,902
Deferred tax liabilities	24	19,570	24,865
Bonds issued	23	494,796	493,648
Other non-current liabilities	7, 34	32,506	30,646
<b>Total non-current liabilities</b>		<b>557,394</b>	<b>557,623</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>			
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		8,114	7,014
Revaluation reserve		43,815	43,815
Translation reserve		(724,054)	(707,458)
Retained earnings		1,318,872	1,285,671
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>1,170,733</b>	<b>1,153,028</b>
Non-controlling interests		6,871	4,581
<b>Total equity</b>		<b>1,177,604</b>	<b>1,157,609</b>
<b>Total liabilities and equity</b>		<b>2,210,514</b>	<b>2,009,083</b>
Book value		1,170,733	1,153,028
Number of shares	38	81,941,230	80,338,776
Book value per share (in USD)		14.29	14.35
Diluted number of shares	38	82,887,231	82,407,733
Diluted book value per share (in USD)		14.12	13.99

On behalf of the Board  
**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Profit or Loss

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2018	30 June 2017
<b>Revenue</b>	25	<b>2,403,003</b>	2,168,931
Net change in fair value of biological assets and agricultural produce	13	<b>18,699</b>	(2,875)
Cost of sales	26, 34	<b>(2,107,677)</b>	(1,722,756)
<b>Gross profit</b>		<b>314,025</b>	<b>443,300</b>
Other operating income, net	27	<b>59,092</b>	40,684
<b>Operating expenses</b>			
Distribution costs	28	<b>(153,553)</b>	(159,022)
General and administrative expenses	29	<b>(79,999)</b>	(59,923)
<b>Profit from operating activities</b>		<b>139,565</b>	<b>265,039</b>
Finance costs, net	30	<b>(65,099)</b>	(62,280)
Foreign exchange gain/(loss), net	31	<b>5,375</b>	(2,729)
Other expenses, net	32, 34	<b>(30,980)</b>	(1,452)
Share of income/(loss) of joint ventures	33	<b>1,193</b>	(1,139)
<b>Profit before income tax</b>		<b>50,054</b>	<b>197,439</b>
Income tax benefit/(expenses)	24	<b>5,900</b>	(18,836)
<b>Profit for the period from continuing operations</b>		<b>55,954</b>	<b>178,603</b>
<b>Profit for the period</b>		<b>55,954</b>	<b>178,603</b>
<b>Profit for the period attributable to:</b>			
<b>Equity holders of Kernel Holding S.A.</b>		<b>52,143</b>	<b>176,243</b>
Non-controlling interests		<b>3,811</b>	2,360
<b>Earnings per share</b>			
From continuing operations			
Weighted average number of shares	38	<b>81,941,230</b>	80,338,776
Profit per ordinary share (in USD)		<b>0.64</b>	2.19
Diluted number of shares	38	<b>82,887,231</b>	82,407,733
Diluted profit per ordinary share (in USD)		<b>0.63</b>	2.14

On behalf of the Board  
**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

	30 June 2018	30 June 2017
<b>Profit for the period</b>	<b>55,954</b>	<b>178,603</b>
<b>Other comprehensive loss</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	(16,574)	(15,706)
<b>Other comprehensive loss, net</b>	<b>(16,574)</b>	<b>(15,706)</b>
<b>Total comprehensive income for the period</b>	<b>39,380</b>	<b>162,897</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of Kernel Holding S.A.	35,547	160,670
Non-controlling interests	3,833	2,227

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Changes in Equity

for the year ended 30 June 2018 (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
<b>Balance as of 30 June 2016</b>	<b>2,104</b>	<b>463,879</b>	<b>39,944</b>	<b>6,582</b>	<b>43,815</b>	<b>(691,885)</b>	<b>1,130,890</b>	<b>995,329</b>	<b>1,726</b>	<b>997,055</b>
Profit for the period	—	—	—	—	—	—	176,243	176,243	2,360	178,603
Other comprehensive loss	—	—	—	—	—	(15,573)	—	(15,573)	(133)	(15,706)
<b>Total comprehensive (loss)/income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(15,573)</b>	<b>176,243</b>	<b>160,670</b>	<b>2,227</b>	<b>162,897</b>
Distribution of dividends (Note 2)	—	—	—	—	—	—	(20,175)	(20,175)	—	(20,175)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	(197)	(197)
Acquisition of subsidiaries (Note 7)	—	—	—	—	—	—	—	—	825	825
Issue of ordinary shares under employee share option plan (Note 2)	60	17,999	—	432	—	—	(1,287)	17,204	—	17,204
<b>Balance at 30 June 2017</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>7,014</b>	<b>43,815</b>	<b>(707,458)</b>	<b>1,285,671</b>	<b>1,153,028</b>	<b>4,581</b>	<b>1,157,609</b>
Profit for the period	—	—	—	—	—	—	52,143	52,143	3,811	55,954
Other comprehensive (loss)/income	—	—	—	—	—	(16,596)	—	(16,596)	22	(16,574)
<b>Total comprehensive (loss)/income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(16,596)</b>	<b>52,143</b>	<b>35,547</b>	<b>3,833</b>	<b>39,380</b>
Distribution of dividends (Note 2)	—	—	—	—	—	—	(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
<b>Balance at 30 June 2018</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,114</b>	<b>43,815</b>	<b>(724,054)</b>	<b>1,318,872</b>	<b>1,170,733</b>	<b>6,871</b>	<b>1,177,604</b>

On behalf of the Board

**Andriy Verevskyy**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Consolidated Statement of Cash Flows

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

	Notes	30 June 2018	30 June 2017
<b>Operating activities:</b>			
<b>Profit before income tax</b>		<b>50,054</b>	197,439
<b>Adjustments for:</b>			
Amortization and depreciation		82,975	54,140
Finance costs, net	30	65,099	62,280
Movement in allowance for doubtful receivables		997	2,961
Other accruals		44,870	10,468
Gain on disposal of property, plant and equipment	32	(791)	(1,684)
Net foreign exchange gain		(12,179)	(717)
Write-offs and impairment loss		577	7,529
Net change in fair value of biological assets and agricultural produce	13	(18,699)	2,875
Gain on bargain purchase	7, 32	(2,309)	(1,344)
Share of (income)/loss of joint ventures	33	(1,193)	1,139
Gain on sales of subsidiaries	7, 14, 32	(2,972)	(9,068)
Net gain arising on financial assets classified as held for trading		(23,137)	(1,260)
<b>Operating profit before working capital changes</b>		<b>183,292</b>	<b>324,758</b>
<b>Changes in working capital:</b>			
Change in trade accounts receivable		(7,902)	(7,909)
Change in prepayments and other current assets		(52,382)	(19,308)
Change in restricted cash balance		3,251	(3,824)
Change in taxes recoverable and prepaid		3,273	(2,021)
Change in biological assets		1,675	9,868
Change in inventories		9,866	(193,472)
Change in trade accounts payable		19,049	7,979
Change in advances from customers and other current liabilities		(8,065)	2,451
<b>Cash generated from operations</b>		<b>152,057</b>	<b>118,522</b>
Finance costs paid		(64,376)	(34,632)
Income tax paid		(5,204)	(6,484)
<b>Net cash generated by operating activities</b>		<b>82,477</b>	<b>77,406</b>
<b>Investing activities:</b>			
Purchase of property, plant and equipment		(146,565)	(43,432)
Proceeds from disposal of property, plant and equipment		7,053	2,962
Purchase of intangible and other non-current assets		(15,670)	(702)
Acquisition of subsidiaries	7	(46,512)	(151,705)
Disposal of subsidiaries	7	24,706	5,644
Amount advanced for subsidiaries		(1,996)	4,995
Proceeds from disposal/(Purchases) of financial assets		23,290	(34,575)
Loans for stock options execution		—	(6,650)
<b>Net cash used in investing activities</b>		<b>(155,694)</b>	<b>(223,463)</b>
<b>Financing activities:</b>			
Proceeds from borrowings		777,599	91,956
Repayment of borrowings		(680,026)	(407,313)
Payment of dividends	2	(20,485)	(20,175)
Proceeds from share premium reserve increase		—	14,934
Issued capital		—	60
Proceeds from bonds issued	23	—	497,520
Transactions costs related to corporates bonds issue		—	(3,872)
<b>Net cash generated by financing activities</b>		<b>77,088</b>	<b>173,110</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(967)	(157)
<b>Net increase in cash and cash equivalents</b>		<b>2,904</b>	<b>26,896</b>
Cash and cash equivalents, at the beginning of the year	8	87,165	60,269
Cash and cash equivalents, at the end of the year	8	90,069	87,165
Non-cash financing and investing activities (Note 36)			

On behalf of the Board

**Andriy Verevsky**  
Chairman of the Board

**Anastasiia Usachova**  
Chief Financial Officer

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 1. Corporate Information

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

The Group's principal business activity is the production and subsequent export of sunflower oil and meal in bulk, the production and sale of bottled sunflower oil, the wholesale trade of grain (mainly corn, soybean, wheat and barley), farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities is primarily based in Ukraine and the Russian Federation. As of 30 June 2018, the Group employed 15,116 people (16,103 people as of 30 June 2017).

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 2018 and 30 June 2017, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of	
			30 June 2018	30 June 2017
Jerste BV	Holding companies.	Netherlands	100.0%	100.0%
Inerco Trade S.A.		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	Trading in sunflower oil, meal and grain.	Switzerland	60.0% <sup>(1)</sup>	0.0%
Ukragroinvest LLC		Ukraine	100.0%	100.0%
Poltava OEP PJSC		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%
Kirovogradoliya PJSC		Ukraine	99.2%	99.2%
Ekotrans LLC		Ukraine	100.0%	100.0%
BSI LLC		Ukraine	100.0%	100.0%
Prydniprovskiy 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% <sup>(2)</sup>	0.0%
Bilovodskiy KHP PJSC		Ukraine	91.12%	91.12%
Unigrain-Agro (Semenivka) LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%
Agrofirma Arshytsya LLC		Ukraine	100.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%
Vyshneve Agro ALLC <sup>(2)</sup>		Ukraine	100.0%	100.0%
Palmira LLC		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		Ukraine	100.0% <sup>(2)</sup>	0.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%
Buymerske PE		Ukraine	100.0%	100.0%

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 21 October 2018.

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

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

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding'). The issued capital of the Holding as of 30 June 2018, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value (2017: 81,941,230). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 June 2018		As of 30 June 2017	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen Limited Liability Company registered under the legislation of Cyprus ~ (hereinafter the 'Major Equity Holder')	32,344,404	39.47%	31,245,878	38.13%
Free float	49,596,826	60.53%	50,695,352	61.87%
<b>Total</b>	<b>81,941,230</b>	<b>100.00%</b>	<b>81,941,230</b>	<b>100.00%</b>

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

In December 2016, with purpose to exercise vested options granted to the management (657,820 vested options with a strike price of PLN 24.00 and 360,000 vested options with a strike price of PLN 29.61), Kernel increased the Company's share capital by the issue of 1,017,820 new Ordinary Shares without indication of a nominal value. As a result of the increase, the Company's share capital was set at USD 2,131 thousand divided into 80,701,230 shares without indication of nominal value and share premium reserve increased by USD 7,778 thousand.

In June 2017, with purpose to exercise vested options granted to the management (1,240,000 vested options with a strike price of PLN 29.61), Kernel increased the Company's share capital by the issue of 1,240,000 new Ordinary Shares without indication of a nominal value. As a result of the increase, the Company's share capital is set at USD 2,164 thousand divided into 81,941,230 shares without indication of nominal value and share premium reserve increased by USD 10,221 thousand.

As of 30 June 2018, the fair value of the share-based options granted to the management was USD 8,114 thousand and USD 1,100 thousand was recognized as an expense (part of payroll and payroll related expenses) during the year ended 30 June 2018, with a corresponding increase in equity over the vesting period (30 June 2017: USD 7,014 thousand and USD 2,210 thousand, respectively).

On 11 December 2017, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share amounting to USD 20,485 thousand.

On 26 April 2018, the dividends were fully paid to the shareholders.

On 17 May 2018, the Company received a notification from Towarzystwo Funduszy Inwestycyjnych PZU Spółka Akcyjna, acting for and on behalf of investment funds under management:

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

hereinafter referred to as the 'TFI PZU Funds', that it had disposed 342,708 shares in Kernel Holding S.A., as a result of which it had crossed on 16 May 2018 the threshold below 5%. As of 30 June 2018, TFI PZU Funds owned 3,806,043 shares in the Company, representing 4.65% of the share capital.

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

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 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 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

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 July 2017:

Amendments to IAS 7: Disclosure Initiative (Effective for annual periods beginning on or after 1 January 2017)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The amendments apply prospectively. Entities are not required to present comparative information for earlier periods when they first apply the amendments. The Group's liabilities arising from financing activities consist of bank borrowings, bonds issued, and finance lease obligations. Disclosure of the reconciliation between the opening and closing balances of these items is provided in Note 36.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12

Amendments have been made to clarify the scope of IFRS 12 in respect of interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Specifically it clarifies that entities are not exempt from all of the disclosure requirements in IFRS 12 when entities have been classified as held for sale or as discontinued operations.

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

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 9 'Financial Instruments' (2014)	1 January 2018
IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRS 17 'Insurance Contracts'	1 January 2018
IFRS 16 'Leases'	1 January 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance contracts'	1 January 2018
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-Based Payment Transactions	1 January 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IFRS 1 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Standards and Interpretations Issued but not Effective *continued*

IFRS 16 has been published in January 2016 and establishes a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. For the Group the standard is expected to be effective for annual period beginning on 1 July 2019. The standard distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases have been removed for lessee accounting, and are replaced by a model where a right-of-use asset and corresponding liability have to be recognised in the statement of financial position for all leases by lessees except for short-term leases and leases of low value assets. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. 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.

The Group has a significant number of non-cancellable operating land lease agreements. Related commitments under these agreements amounted to USD 660,630 thousand as at 30 June 2018. IAS 17 'Leases' does not require the recognition of any right-of-use asset or liability for future payments for such land lease agreements, instead, it requires to disclose operating lease commitments in notes to the consolidated financial statements. Based on the Group's assessment these arrangements will meet the definition of a lease under IFRS 16, and thus, the Group will need to recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the Group's consolidated financial statements. The Group finds it impracticable to provide a reasonable estimate of the effect of IFRS 16 until it performs a detailed review of all land lease agreements.

The standard IFRS 15 Revenue from Contracts with Customers has been issued in May 2014. It establishes single comprehensive model to deal with revenue from contracts with customers and replaces all of the revenue standards and interpretations in IFRS. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 applies to new contracts created on or after the effective date and to existing contracts that are not yet complete as of the effective date.

The Group has undertaken an analysis of the impact of the new standard based on a review of the contractual terms of its principal revenue streams with the focus being to understand whether the timing and amount of revenue recognised could differ under IFRS 15.

The Group's revenue is recognized at the moment when the transfer of the significant risks and rewards of ownership of an assets to the customer occur, in generally this moment coincides with the fulfilment of performance obligations as defined by standard.

IFRS 15 requires allocation of the transaction price to each performance obligation (or distinct good or service) such as insurance and freight services to deliver the contracted goods to the customers. Under the definite contractual sales the seller should bring the goods to the point of destination therefore the freight services meet the criteria of a performance obligation separation from the transaction price. The Group has evaluated the impact of the distinction between price of the goods and services provided for the year 30 June 2018. If we applied this standard for the year ended 30 June 2018 the amount of USD 38,994 thousand would have been disclosed as freight services in the revenue without impact on the operating result. We will apply IFRS 15 for annual period beginning on 1 July 2018. Next year the Group will be undertaken analysis of commercial contracts for the purpose of allocation of the price to performance obligations and evaluate if the impact will be material for disclosure.

IFRS 9 Financial Instruments issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes the classification and measurement of financial assets and financial liabilities; Impairment methodology and Hedge accounting.

The Group has undertaken an analysis of the impact of this standard to the financial instruments which it owned. We anticipate that there will be impact on additional disclosure regarding classification and measurement of financial instruments. The Group has performed analysis of the effect from adopting IFRS 9 and anticipates that impact will be immaterial.

### Expected credit loss model

The impairment model for financial assets held at amortized cost reflects expected credit losses whereas previous standard specified incurred credit losses. Under the new approach an entity always accounts expected credit losses and changes in those expected losses, which means that anticipated as opposed to incurred credit losses will be recognized.

### Hedge accounting

The new standard introduces greater flexibility to the types of transactions and the type of risk components of non-financial items eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced. Far more disclosure requirements about an entity's risk management activities have also been introduced.

### Classification and measurement

Under IFRS 9, the number of categories of financial assets has been reduced from four to three (amortised cost, fair value through profit and loss, fair value through other comprehensive income).

The group will apply the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. Measurement of the trade receivables will be based on shared credit risk characteristics and the days past due. The management estimates credit risk of cash and cash equivalents through an external credit rating of banks.

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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Functional and Presentation Currency

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

### Foreign Currencies

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

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

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

Currency	Closing rate as of 30 June 2018	Average rate for the year ended 30 June 2018	Closing rate as of 30 June 2017	Average rate for the year ended 30 June 2017
USD/UAH	26.1892	26.5878	26.0990	26.1919
USD/EUR	0.8584	0.8385	0.8769	0.9180
USD/RUB	62.7565	59.0310	59.0855	60.9404
USD/PLN	3.7440	3.5495	3.7062	3.9609

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

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

### 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 2018.

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.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Basis of Consolidation continued

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 Subsidiary.

The results of Subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition and up to the effective date of disposal.

All inter-company transactions and balances between the Group's enterprises are eliminated on consolidation. 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.

### 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 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 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.

### 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 acquiree and equity interests issued by the Group in exchange for control of the acquiree. 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 or liabilities 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 acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Business Combinations *continued*

In case identifiable net assets attributable to the Group, after reassessment, exceed the cost of acquisition, the difference is recognized in the Consolidated Statement of Profit or Loss as a gain on a bargain purchase.

For each business combination, the Group measures the non-controlling interests in the acquiree either at fair value or at a proportionate share of the acquiree's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in 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 acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity net the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised 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.

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 units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

### 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. 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, 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Non-current assets held for sale and Discontinued Operations *continued*

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 presented as held for sale in those financial statements when issued. However, when those criteria are met after the reporting date but before the authorization of the financial statements for issue, the Group discloses the relevant information in the notes to the financial statements.

### 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 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 (both in bulk and bottled oil segments) are accounted for at revalued amounts, being the fair value, which is determined using external professional expert evaluation. 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.

Except for land, 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Property, Plant and Equipment *continued*

The fair value is defined as the amount for which an asset could have been exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of marketable assets is determined by their market value. If there is no market-based evidence of fair value because of the specialized nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, income or a depreciated replacement cost approach is used to estimate the fair value. Valuations are performed frequently enough to ensure that the fair value of a remeasured asset does not differ materially from its carrying amount. Property, plant and equipment acquired in a business combination are initially recognized at their fair value, which is based on valuations performed by independent professionally qualified appraisers.

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 charged to the Consolidated Statement of Profit or Loss as incurred.

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 surplus in equity. However, such an increase is recognized in the Consolidated Statement of Profit or Loss to the 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

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 measured on initial recognition at cost. Amortization is recognized 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 perspective 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, the amortization period varies from 1 to 22 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Impairment of Other Non-current 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 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 assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of financial instruments. Financial assets and financial liabilities are initially measured at fair value. Financial instruments are classified according to the following categories: financial assets or financial liabilities recognized at fair value through profit or loss (FVTPL); held-to-maturity investments; available-for-sale financial assets; loans and receivables and other financial liabilities. The classification depends on the nature and purpose of the financial assets or financial liabilities and is determined at the time of initial recognition. Financial assets and liabilities of the Group are represented by cash and cash equivalents, trade accounts receivable, other financial assets, leases, bank borrowings, bonds issued, trade accounts payable and other financial liabilities.

Financial assets and financial liabilities are initially measured at fair value. 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 recognised immediately in profit or loss.

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.

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 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Financial Instruments *continued*

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.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the Consolidated Statement of Profit or Loss.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash with banks, and deposits with original maturities of three months or less.

### Loans Receivable

Loans provided by the Group are non-derivative financial assets, created by means of granting money directly to a borrower or participating in the provision of credit services, not including those assets that were created for the purpose of immediate sale or sale during a short-term period or classified as investments held for trading. For loans given at a rate and on terms that are different from market terms and conditions, the difference between the par value of the resources provided and the fair value of the amount lent is reflected in the Consolidated Statement of Profit or Loss for the period when the amount was lent as an adjustment to the loan amount. Loans with fixed maturity terms are measured at amortized cost using the effective interest method. Loans without fixed maturity terms are carried at initial cost. Loans provided are reflected in the Consolidated Statement of Financial Position, less an allowance for estimated non-recoverable amounts.

### Trade Accounts Receivable

Trade accounts receivable are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade accounts receivable are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method, less a provision for impairment.

The Group's trade accounts receivable and loans receivable are included in full in non-current assets, except for those cases when the term of redemption expires within 12 months of the reporting date. Financial assets, which are recognized at fair value through profit or loss, are a part of current assets and available-for-sale investments if the Group's management has the intent to realize them within 12 months from the reporting date. All acquisitions and sales of financial instruments are registered at the settlement date. Investments in equity securities where fair value cannot be estimated on a reasonable basis are stated at cost less impairment 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 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.

### Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indications of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- Probability of the borrower filing for bankruptcy or financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### Impairment of Financial Assets continued

For certain categories of financial assets, such as trade accounts receivable, assets that are assessed as not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, and observable changes in national or local economic conditions that correlate with defaults on accounts receivable.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

### Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### 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 included in expenses for the period to which they relate on a straight-line basis over the term of the relevant lease.

### Financial liabilities at fair value through profit or loss

Such liabilities, including derivatives that are liabilities, shall be measured at fair value. Gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognized in the Consolidated Statement of Profit or Loss.

### 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. 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.

### 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.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies *continued*

### Contingencies

Contingent liabilities are not recognized in the 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 financial statements but is disclosed when an inflow of economic benefits is probable.

### Issued Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity.

### Repurchase of Issued Capital

When issued capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are presented as a deduction from total equity.

### 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.

### Earnings per Share

Earnings per share are calculated by dividing net profit attributable to equity holders of the Holding by the weighted average number of shares outstanding during the period.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group, and the revenue can be reliably measured.

**The following specific recognition criteria must also be met before revenue is recognized:**

#### Sale of Goods and Finished Products

Revenue is recognized when the significant risks and rewards of ownership of goods for resale and finished products have passed to the buyer, the amount of revenue can be measured reliably, and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

#### Rendering of Services

Revenue is recognized in the accounting period in which services are 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 based on actually performed work. 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

In accordance with the Tax Code of Ukraine with new amendments the Group's enterprises that qualify as agricultural producers were entitled to retain a portion of net VAT payable. VAT amounts payable were not transferred to the government, but credited to the entity's separate special account to support the agriculture activities of the Group. Starting from 1 January 2016 and till 31 December 2016, producers of grain and industrial crops, cattle and dairy producers, poultry and other agriculture producers retained VAT in a portion of 15%, 80% and 50%, respectively. Starting from 1 January 2017 the special VAT treatment regime has been abolished.

Till 31 December 2015 100% of net VAT liability was retained by agricultural producers. Abovementioned share of the net result of VAT operations calculated as an excess of the VAT liability over VAT credit is accounted for in the Consolidated Statement of the Profit or Loss as other operating income. VAT receivable exceeding VAT liability is used as a reduction in tax liabilities in the next period.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 3. Summary of Significant Accounting Policies continued

### 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 substantively 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 Fixed 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 2017 and for the year then ended to conform to the current year's presentation.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (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 34,305 thousand and USD 46,039 thousand for the years ended 30 June 2018 and 2017, 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. Based on the results of this review, the Group concluded that the carrying amount of buildings, constructions, production machinery and equipment (bulk and bottled oil segments) does not materially differ from the fair value as of 30 June 2018.

#### 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.

#### 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 2018, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 116,676 thousand (30 June 2017: USD 125,417 thousand). As of 30 June 2018, the impairment loss for goodwill and intangible assets with indefinite useful lives was recognized in the amount of USD 577 thousand (Notes 16, 17) (30 June 2017: USD 7,529 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 17.

#### Impairment 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 2018, no indicators of property, plant and equipment impairment have been identified.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty continued

### 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.

### 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).

### Deferred Tax Recognition

Deferred tax assets, including those arising from unused tax losses are recognized to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax planning strategies. As of 30 June 2018, 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 16,611 thousand recognized with respect to tax losses carried forward by the subsidiaries.

### VAT Recoverability

As of 30 June 2018, total VAT recoverable amounted to USD 114,192 thousand (as of 30 June 2017: USD 135,064 thousand) (Note 11). The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by setting it off against VAT liabilities in future periods. Management classifies the VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within 12 months from the reporting date. In addition, management assessed whether an allowance for irrecoverable VAT needed to be created.

In making this assessment, management considered the past history of receiving VAT refunds from the state budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, management based its estimates on detailed projections of expected excess VAT output over VAT input in the normal course of the business.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 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 the chief operating decision makers.

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

The operating segments' activities are as follows:

Operating segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil sold in bulk	Production and sales of sunflower oil sold in bulk (crude and refined) and meal.
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, proprietary trading
Silo services	Provision of grain cleaning, drying and storage services.
Other	Income and expenses unallocated to other segments, which are related to the administration of the Holding.

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2018:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re- conciliation	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)	—
<b>Total revenue</b>	<b>129,859</b>	<b>1,263,632</b>	<b>53,249</b>	<b>470,489</b>	<b>951,252</b>	<b>72,254</b>	<b>—</b>	<b>(537,732)</b>	<b>2,403,003</b>
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
<b>Profit/(Loss) from operating activities</b>	<b>11,561</b>	<b>48,653</b>	<b>35,897</b>	<b>32,557</b>	<b>17,492</b>	<b>38,579</b>	<b>(45,174)</b>	<b>—</b>	<b>139,565</b>
Finance costs, net									(65,099)
Foreign exchange gain, net									5,375
Other expenses, net									(30,980)
Share of profit of joint ventures									1,193
Income tax benefit									5,900
Profit for the period from continuing operations									55,954
<b>Total assets</b>	<b>60,403</b>	<b>827,907</b>	<b>119,386</b>	<b>700,052</b>	<b>330,571</b>	<b>90,950</b>	<b>81,245</b>	<b>—</b>	<b>2,210,514</b>
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

During the year ended 30 June 2018, revenues of approximately USD 245,201 thousand (2017: USD 333,109 thousand) are derived from a single external customer. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 95% of total external sales.

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

The Group changed the presentation of operating profit for the segment reporting with the purposes to reflect more precisely the farming segment profitability. Namely, to recognize only those sales generated by the Company's farming segment, which were realized from the trading companies to the 3rd parties during the reporting period. The corresponding amendments were made to the segment disclosure for the year ended 30 June 2017.

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

	Revenue from external customers	Non-current assets
	Year ended 30 June 2018	As of 30 June 2018
Ukraine	2,166,346	934,089
Other countries	236,657	53,620
<b>Total</b>	<b>2,403,003</b>	<b>987,709</b>

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

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

Gain/loss from Avere operations with financial derivatives are presented within grain segment.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 6. Key Data by Operating Segment continued

Key data by operating segment for the year ended 30 June 2017:

	Bottled sunflower oil	Sunflower oil sold in bulk	Export terminals	Farming	Grain	Silo services	Other	Re- conciliation	Discontinued operations
Revenue (external)	140,671	1,067,514	784	26,075	923,319	10,568	—	—	2,168,931
Intersegment sales	—	—	58,023	355,223	—	50,105	—	(463,351)	—
<b>Total revenue</b>	<b>140,671</b>	<b>1,067,514</b>	<b>58,807</b>	<b>381,298</b>	<b>923,319</b>	<b>60,673</b>	<b>—</b>	<b>(463,351)</b>	<b>2,168,931</b>
Net change in fair value of biological assets and agricultural produce	—	—	—	(2,875)	—	—	—	—	(2,875)
Other operating income, net	20	1,075	6	35,805	2,420	1,358	—	—	40,684
<b>Profit/(Loss) from operating activities</b>	<b>14,737</b>	<b>68,865</b>	<b>44,568</b>	<b>114,798</b>	<b>22,672</b>	<b>37,151</b>	<b>(37,752)</b>	<b>—</b>	<b>265,039</b>
Finance costs, net									(62,280)
Foreign exchange gain, net									(2,729)
Other expenses, net									(1,452)
Share of income of joint ventures									(1,139)
Income tax expenses									(18,836)
Profit for the period from continuing operations									178,603
<b>Total assets</b>	<b>71,037</b>	<b>907,548</b>	<b>119,939</b>	<b>597,309</b>	<b>163,690</b>	<b>71,191</b>	<b>78,369</b>	<b>—</b>	<b>2,009,083</b>
Capital expenditures	509	5,187	2,407	135,609	—	17,775	1,056	—	162,543
Amortization and depreciation	1,816	14,363	3,036	30,734	—	2,815	1,376	—	54,140
Liabilities	6,603	42,506	1,532	55,082	13,380	2,614	729,757	—	851,474

During the year ended 30 June 2017, revenues of approximately USD 333,109 thousand (2016: USD 371,892 thousand) are derived from a single external customer. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 96% of total external sales.

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

During the year ended 30 June 2017, the Group operated in two principal geographical areas – Ukraine and the Russian Federation. Information about its non-current assets by location of the assets and about revenue from continuing operations generated by the assets located in these areas is detailed below:

	Revenue from external customers	Non-current assets
	Year ended 30 June 2017	As of 30 June 2017
Ukraine	1,975,160	825,419
Russian Federation	193,771	51,052
<b>Total</b>	<b>2,168,931</b>	<b>876,471</b>

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

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries

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

The primary subsidiaries of the acquired group are as follows:

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

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

	Fair value
<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	4
Trade accounts receivable, net	176
Prepayments to suppliers and other current assets, net	316
Corporate income tax prepaid	29
Taxes recoverable and prepaid, net	2,735
Inventory	1,574
Biological assets	12,006
<b>Total current assets</b>	<b>16,840</b>
<b>Non-current assets:</b>	
Property, plant and equipment, net	23,161
Intangible assets, net	14,385
Deferred tax assets	40
Other non-current assets	270
<b>Total non-current assets</b>	<b>37,856</b>
<b>Total assets</b>	<b>54,696</b>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Trade accounts payable	3,021
Advances from customers and other current liabilities	687
<b>Total current liabilities</b>	<b>3,708</b>
<b>Non-current liabilities:</b>	
Deferred tax liabilities	1,463
<b>Total non-current liabilities</b>	<b>1,463</b>
Fair value of net assets of acquired subsidiaries	49,525
Non controlling interest	—
Fair value of acquired net assets	49,525
Gain on bargain purchase	(2,309)
Total cash considerations due and payable	47,216
Less: acquired cash	(4)
Net cash outflow on acquisition of subsidiaries	(46,512)
Net cash due and payable	(700)

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

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

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 re-structuring. 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries (continued)

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.

Net assets of the disposed farming entities as of the date of disposal were as follows:

	Carrying amount
<b>Assets</b>	
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
<b>Total current assets</b>	<b>12,562</b>
<b>Non-current assets:</b>	
Property, plant and equipment, net	6,184
Intangible assets, net	13,295
Other non-current assets	1
<b>Total non-current assets</b>	<b>19,480</b>
<b>Total assets</b>	<b>32,042</b>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Trade accounts payable	959
Advances from customers and other current liabilities	8,378
Short-term borrowings	10
<b>Total current liabilities</b>	<b>9,347</b>
<b>Non-current liabilities:</b>	
Other non-current liabilities	52
<b>Total liabilities</b>	<b>9,399</b>
<b>Net assets disposed</b>	<b>22,643</b>
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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries

On 30 June 2017, the Group has acquired 100% effective ownership of UAI (Ukrainian Agrarian Investments) Group (except for Bilovodskyi KHP - 91.12%): a farming business that manages about 190,000 hectares of leasehold farmland and grain elevators with approximately 200,000 tons of grain storage capacity.

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

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Ukrainian Agrarian Investments S.A.		Luxemburg	100.00%	30 June 2017
Private company limited by shares UkrFarm Funding Limited		Cyprus	100.00%	30 June 2017
Private company limited by shares Firstmed Management Limited	Holding companies.	Cyprus	100.00%	30 June 2017
UAI-TRADE SA	Trading in sunflower oil, meal and grain.	Switzerland	100.00%	30 June 2017
Ukragroinvest LLC		Ukraine	100.00%	30 June 2017
Bilovodskyi KHP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	91.12%	30 June 2017
Druzhba 6 PE		Ukraine	100.00%	30 June 2017
Buymerske PE		Ukraine	100.00%	30 June 2017
AF Semerenky LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat,	Ukraine	100.00%	30 June 2017
Krasnokolyadynske LLC	soybean, sunflower seed, rape-	Ukraine	100.00%	30 June 2017
Kochubiy LLC	seed, forage, pea and barley.	Ukraine	100.00%	30 June 2017
Kalyna LLC		Ukraine	100.00%	30 June 2017

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries continued

As of 30 June 2017, the fair values of assets, liabilities and contingent liabilities were as follows:

	Fair value
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	7,164
Trade accounts receivable, net	3,944
Prepayments to suppliers and other current assets, net	548
Corporate income tax prepaid	26
Taxes recoverable and prepaid, net	13,617
Inventory	18,655
Biological assets	59,144
<b>Total current assets</b>	<b>103,098</b>
<b>Non-current assets:</b>	
Property, plant and equipment, net	51,423
Intangible assets, net	77,179
Deferred tax assets	271
Other non-current assets	93
<b>Total non-current assets</b>	<b>128,966</b>
<b>Total assets</b>	<b>232,064</b>
<b>Liabilities and equity</b>	
<b>Current liabilities:</b>	
Trade accounts payable	2,806
Advances from customers and other current liabilities	35,731
Short-term borrowings	31,067
<b>Total current liabilities</b>	<b>69,604</b>
<b>Non-current liabilities:</b>	
Deferred tax liabilities	4,767
Other non-current liabilities	174
<b>Total non-current liabilities</b>	<b>4,941</b>
<b>Fair value of net assets of acquired subsidiaries</b>	<b>157,519</b>
Non controlling interest	825
Fair value of acquired net assets	156,694
Gain on bargain purchase	(1,344)
Total cash considerations due and payable	155,350
Less: acquired cash	(7,164)
Net cash outflow on acquisition of subsidiaries	(148,186)

Non-controlling interest were measured according to its proportionate share of the acquiree's identifiable net assets.

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 as it is impracticable due to the fact that no IFRS financial information is available for the acquired group from the beginning of the reporting period and up to the date of acquisition.

Acquired group manages one of the largest prime quality farmland banks in Ukraine located near Kernel's existing operations and expands the Group's presence to the Western and Northern regions, potentially capturing the benefits for sunflower and crops production, respectively.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 7. Acquisition and Disposal of Subsidiaries continued

Based on the knowledge available as of 30 June 2018 the management verified that all acquired or assumed liabilities have been fully accounted for, and net assets acquired have not been overstated. Gain on bargain purchase was recognized in the amount of USD 1,344 thousand within 'Other expenses, net' in the consolidated statement of profit or loss.

During the year ended 30 June 2017, as a result of the optimization process of its legal structure, the Group disposed of five grain elevators located in Mykolaiv, Poltava and Kharkiv regions and one holding company. The net assets of the disposed entities as of the date of disposal were equal to USD 800 thousand and the cash consideration received was USD 5,776 thousand (out of which USD 4,561 thousand was received during the year ended 30 June 2017).

During the year ended 30 June 2017, the Group disposed of one of its export terminals located in Mykolaiv region. The net assets of the disposed entity was classified as held for sale and as of the date of disposal were equal to USD 3,408 thousand and the cash consideration received was USD 7,500 thousand (out of which USD 1,083 thousand was received during the year ended 30 June 2017).

## 8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2018	As of 30 June 2017
Cash in banks in USD	92,617	90,369
Cash in banks in UAH	20,407	52,067
Cash in banks in other currencies	18,989	951
Cash on hand	5	5
<b>Total</b>	<b>132,018</b>	<b>143,392</b>
Less restricted and blocked cash on security bank accounts	(676)	(3,927)
Less bank overdrafts (Note 20)	(41,273)	(52,300)
<b>Cash for the purposes of cash flow statement</b>	<b>90,069</b>	<b>87,165</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 9. Trade Accounts Receivable, net

The balances of trade accounts receivable, net were as follows:

	As of 30 June 2018	As of 30 June 2017
Trade accounts receivable	93,471	88,805
Allowance for estimated irrecoverable amounts	(1,116)	(1,613)
<b>Total</b>	<b>92,355</b>	<b>87,192</b>

As of 30 June 2018, accounts receivable from one European customer accounted for approximately 27.9%, and one Ukrainian customer for 3.2% of the total carrying amount of trade accounts receivable (as of 30 June 2017: one European customer for approximately 18.4% and one Ukrainian customer for 2.0%).

The average credit period on sales of goods was 16 days (for the period ended 30 June 2017: 14 days). No interest is charged on the outstanding balances of trade accounts receivable. Trade accounts receivable past due for more than one month are considered to be impaired. Allowances for doubtful debts are recognized against trade accounts receivable that are overdue between 30 and 365 days and are calculated on the basis of the delay in payment by applying a fixed percentage.

Before accepting any new customer, the Group uses an external credit status system to assess the potential customer's credit quality and estimates credit limits by customer. Solvency and payment delays per customers are reviewed each quarter. As of 30 June 2018, the amount of not impaired trade accounts receivables and receivables past due less than one month accounted for USD 92,171 thousand (as of 30 June 2017: USD 86,968 thousand).

As of 30 June 2018, trade accounts receivable past due for more than one year were impaired in full and amounted to USD 165 thousand (2017: USD 1,577 thousand).

## 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 2018	As of 30 June 2017
Prepayments to suppliers	110,509	59,891
Other current assets	8,901	29,497
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(6,068)	(6,687)
<b>Total</b>	<b>113,342</b>	<b>82,701</b>

Increase of prepayments to suppliers and other current assets as of 30 June 2018 in comparison with 30 June 2017 is mostly connected with corresponding increase of land bank, launching of Avere operations and 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 2018	As of 30 June 2017
VAT ('value added tax') recoverable and prepaid	114,192	135,064
Other taxes recoverable and prepaid	503	193
<b>Total</b>	<b>114,695</b>	<b>135,257</b>

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. For the year ended 30 June 2018, the amount of VAT refunded by the government in cash was USD 265,048 thousand (for the year ended 30 June 2017: USD 364,114 thousand).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 12. Inventory

The balances of inventories were as follows:

	As of 30 June 2018	As of 30 June 2017
Finished products	210,687	221,369
Raw materials	81,543	109,951
Goods for resale	37,072	20,227
Agricultural products	22,132	24,166
Fuel	4,411	2,770
Packaging materials	1,634	993
Work in progress	1,620	410
Other inventories	9,354	6,774
<b>Total</b>	<b>368,453</b>	<b>386,660</b>

As of 30 June 2018, finished products mostly consisted of sunflower oil in bulk in the amount of USD 193,460 thousand (as of 30 June 2017 USD 204,596 thousand).

As of 30 June 2018, raw materials mostly consisted of sunflower seed stock in the amount of USD 57,603 thousand (as of 30 June 2017 USD 89,644 thousand).

Write-downs of inventories to net realisable value amounted to USD 5,459 thousand (2017: USD 1,971 thousand). These were recognised as an expense during the year ended 30 June 2018 and included in line "Cost of sales" .

As of 30 June 2018 and 2017, the inventory balances in the amounts of USD 200,849 thousand and USD 83,736 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 2018		As of 30 June 2017	
	Hectares	Value	Hectares	Value
Corn	225,267	123,885	192,215	84,086
Sunflower seed	134,816	80,926	123,416	65,276
Wheat	100,505	56,136	144,465	64,804
Soybean	36,485	16,419	65,385	22,470
Pea	11,109	614	13,709	5,181
Rapeseed	4,605	4,396	7,018	8,076
Forage	2,193	1,345	3,743	1,473
Barley	332	91	2,608	900
Other	5,597	3,046	6,467	2,216
<b>Total</b>	<b>520,909</b>	<b>286,858</b>	<b>559,026</b>	<b>254,482</b>

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2018 and 30 June 2017:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
<b>As of 30 June 2016</b>	<b>154,115</b>	<b>34,295</b>	<b>188,410</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2016)	92,262	—	92,262
Decrease due to harvest (harvest 2016)	(246,377)	(34,295)	(280,672)
Increase resulting from business acquisitions	59,083	—	59,083
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2017)	167,349	—	167,349
Gain arising from changes in fair value attributable to physical changes and to changes in the market price (sowing under harvest 2017)	—	23,483	23,483
Exchange difference	4,240	327	4,567
<b>As of 30 June 2017</b>	<b>230,672</b>	<b>23,810</b>	<b>254,482</b>
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/(loss) 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
<b>As of 30 June 2018</b>	<b>233,277</b>	<b>53,581</b>	<b>286,858</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 13. Biological Assets continued

The balances of current cattle were as follows:

	As of 30 June 2018		As of 30 June 2017	
	Number of heads	Value	Number of heads	Value
Cattle	6,871	2,578	7,366	1,765

As of 30 June 2018, non-current cattle in the amount of USD 7,602 thousand (2017: USD 7,634 thousand) were represented mainly by 7,164 heads of milk cows (2017: 7,659 heads) (Note 18). 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 2018, the net gain arising from changes in the fair value of biological assets in the amount of USD 18,699 thousand (2017: loss of USD 2,875 thousand) includes a USD 3,805 thousand loss on changes in current and non-current cattle's fair value (2017: loss of USD 3,070 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 2017: USD 59,144 thousand), out of which crops in fields amounted to USD 11,832 thousand (30 June 2017: USD 59,083 thousand). 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.

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 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
			Crops prices	USD 151 - 378 (264.5) USD per ton	The higher the crop price, 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	7,602	Discounted cash flows	Milk yield – litre per cow	16.97 – 21.93 (19.45) liters per cow per day	The higher the milk yield, the higher the fair value
			Milk price	USD 0.19 – 0.30 (0.25) per liter	The higher the market price, the higher the fair value
			Meat price	USD 0.89 – 1.24 (1.07) per kg	The higher the market price, 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 48,577 thousand and USD 46,130 thousand, respectively.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 13. Biological Assets continued

Description	Fair value as of 30 June 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	254,482	Discounted cash flow	Crop yields	1.53-7.00 (3.57) tons per hectare	The higher the crop yield, the higher the fair value
			Crop prices	USD 129 - 388 (241) USD per ton	The higher the crop price, the higher the fair value
			Discount rate	23.42% (in UAH, short-term)	The higher the discount rate, the lower the fair value
Milk cows	7,634	Discounted cash flow	Milk yield	5.41 – 19.61 (12.51) liters per cow per day	The higher the milk yield, the higher the fair value
			Milk price	USD 0.25 – 0.29 (0.27) per liter	The higher the market milk price, the higher the fair value
			Meat price	USD 0.57 – 1.21 (0.89) per kg	The higher the market meat price, the higher the fair value
			Weight of 1 calf	30 - 33 (31.5) kg	The higher the weight, the higher the fair value
			Yield of calves from 100 cows per year	70 - 78 (74) calves	The higher the yield, the higher the fair value
			Discount rate	18.50% (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 43,472 thousand and USD 41,527 thousand, respectively.

## 14. Assets Classified as Held for Sale and Discontinued Operations

As of 30 June 2018, according to management's plan to dispose one of oilseed crushing plants, located in Mykolaiv region, its net assets, which predominantly consisted of goodwill in the amount of USD 8,096 thousand and property, plant and equipment in the amount of USD 6,480 thousand were classified as assets held for sale. As of 30 June 2018, advance for the sale of the Subsidiary in the amount of USD 9,999 thousand has been received and represented within the line 'Advances from Customers and Other Current Liabilities' (Note 19). The above mentioned entity was disposed in July 2018. Its operations weren't presented as discontinued operations as it does not meet the criteria of recognition since this entity does not represent a separate major line of business or geographical area of operations.

During the year ended 30 June 2017, the Group disposed of one of export terminals, which predominantly consisted of property, plant and equipment and was classified as held for sale. Net assets as of the date of disposal amounted to USD 3,408 thousand and total cash consideration received was USD 7,500 thousand.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (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 2018:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Net Book Value as at 30 June 2017</b>	<b>319,221</b>	<b>44,924</b>	<b>123,066</b>	<b>59,397</b>	<b>23,106</b>	<b>569,714</b>
Land	2,280	—	48	332	1,163	3,823
Buildings and Constructions	214,124	19,232	18,933	43,597	19,944	315,830
Production machinery and equipment	95,174	23,831	2,512	9,948	24	131,489
Agricultural equipment and vehicles	1,580	175	93,733	1,552	599	97,639
Other fixed assets	2,681	131	4,333	923	1,362	9,430
CIP and uninstalled equipment	3,382	1,555	3,507	3,045	14	11,503
<b>Additions</b>	<b>6,457</b>	<b>7,705</b>	<b>57,333</b>	<b>6,860</b>	<b>1,991</b>	<b>80,346</b>
CIP and uninstalled equipment	6,457	7,705	57,333	6,860	1,991	80,346
<b>Reclassification</b>	<b>36</b>	<b>(74)</b>	<b>(4)</b>	<b>13</b>	<b>29</b>	<b>—</b>
Land	—	—	—	—	—	—
Buildings and Constructions	—	(4)	—	—	162	158
Production machinery and equipment	—	2,021	—	—	—	2,021
Agricultural equipment and vehicles	56	(69)	(4)	(7)	14	(10)
Other fixed assets	(20)	(2,022)	—	20	(147)	(2,169)
CIP and uninstalled equipment	—	—	—	—	—	—
<b>Additions from acquisition of subsidiaries</b>	<b>—</b>	<b>—</b>	<b>7,584</b>	<b>15,297</b>	<b>280</b>	<b>23,161</b>
Land	—	—	10	228	—	238
Buildings and Constructions	—	—	1,487	12,275	—	13,762
Production machinery and equipment	—	—	57	2,546	—	2,603
Agricultural vehicles and equipment	—	—	5,832	172	—	6,004
Other fixed assets	—	—	191	76	280	547
CIP and uninstalled equipment	—	—	7	—	—	7
<b>Transfers</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Land	140	—	5	3	—	148
Buildings and Constructions	272	48	1,128	3,055	464	4,967
Production machinery and equipment	1,798	130	22,368	1,917	4	26,217
Agricultural equipment and vehicles	2,527	9	21,325	829	503	25,193
Other fixed assets	551	2,915	4,035	517	1,003	9,021
CIP and uninstalled equipment	(5,288)	(3,102)	(48,861)	(6,321)	(1,974)	(65,546)
<b>Disposals (at NBV)</b>	<b>(641)</b>	<b>(47)</b>	<b>(10,174)</b>	<b>(1,286)</b>	<b>(399)</b>	<b>(12,547)</b>
Land	—	—	—	—	(49)	(49)
Buildings and Constructions	(1)	—	(1,874)	(818)	(269)	(2,962)
Production machinery and equipment	(575)	(10)	(1,383)	(25)	(8)	(2,001)
Agricultural equipment and vehicles	(2)	—	(6,162)	(10)	—	(6,174)
Other fixed assets	(3)	—	(254)	(5)	(36)	(298)
CIP and uninstalled equipment	(60)	(37)	(501)	(428)	(37)	(1,063)
<b>Transfers to Assets classified as held for sale</b>	<b>(6,480)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(6,480)</b>
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)
<b>Depreciation expense</b>	<b>(16,012)</b>	<b>(3,179)</b>	<b>(39,101)</b>	<b>(5,661)</b>	<b>(1,273)</b>	<b>(65,226)</b>
Buildings and constructions	(6,634)	(784)	(2,029)	(3,168)	(492)	(13,107)
Production machinery and equipment	(8,108)	(2,235)	(1,794)	(1,815)	(4)	(13,956)
Agricultural equipment and vehicles	(622)	(37)	(33,814)	(378)	(206)	(35,057)
Other fixed assets	(648)	(123)	(1,464)	(300)	(571)	(3,106)
<b>Translation difference</b>	<b>136</b>	<b>80</b>	<b>(449)</b>	<b>(533)</b>	<b>(75)</b>	<b>(841)</b>
Land	—	—	1	(3)	(5)	(7)
Buildings and Constructions	—	(7)	(128)	(274)	(72)	(481)
Production machinery and equipment	—	22	123	(77)	2	70
Agricultural equipment and vehicles	52	(2)	352	—	13	415
Other fixed assets	(4)	54	89	(1)	(33)	105
CIP and uninstalled equipment	88	13	(886)	(178)	20	(943)
<b>Net Book Value as at 30 June 2018</b>	<b>302,717</b>	<b>49,409</b>	<b>138,255</b>	<b>74,087</b>	<b>23,659</b>	<b>588,127</b>
Land	842	—	64	560	1,109	2,575
Buildings and Constructions	205,210	18,485	17,517	54,667	19,737	315,616
Production machinery and equipment	86,436	23,759	21,883	12,494	18	144,590
Agricultural equipment and vehicles	3,590	76	81,262	2,158	923	88,009
Other fixed assets	2,522	955	6,930	1,230	1,858	13,495
CIP and uninstalled equipment	4,117	6,134	10,599	2,978	14	23,842

# Notes to the Consolidated Financial Statements *continued*

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## 15. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2017:

	Sunflower oil sold in bulk and bottled	Export terminals	Farming	Silo services	Other	Total
<b>Net book value as of 30 June 2016</b>	<b>330,187</b>	<b>45,803</b>	<b>91,016</b>	<b>47,250</b>	<b>24,472</b>	<b>538,728</b>
Land	2,279	—	36	158	1,218	3,691
Buildings and constructions	219,744	18,898	14,408	37,159	21,209	311,418
Production machinery and equipment	97,930	25,015	2,711	8,515	30	134,201
Agricultural equipment and vehicles	1,882	149	69,139	289	393	71,852
Other fixed assets	3,015	111	2,703	708	1,609	8,146
CIP and uninstalled equipment	5,337	1,630	2,019	421	13	9,420
<b>Additions</b>	<b>5,491</b>	<b>2,333</b>	<b>19,834</b>	<b>4,555</b>	<b>926</b>	<b>33,139</b>
CIP and uninstalled equipment	5,491	2,333	19,834	4,555	926	33,139
<b>Reclassification</b>	<b>(103)</b>	<b>44</b>	<b>(78)</b>	<b>94</b>	<b>43</b>	<b>—</b>
Land	—	—	—	(1)	1	—
Buildings and constructions	—	—	3	28	18	49
Production machinery and equipment	7	10	(142)	63	—	(62)
Agricultural equipment and vehicles	1	(1)	(43)	4	(35)	(74)
Other fixed assets	(16)	(10)	114	—	(1)	87
CIP and uninstalled equipment	(95)	45	(10)	—	60	—
<b>Additions from acquisition of subsidiaries</b>	<b>—</b>	<b>—</b>	<b>38,371</b>	<b>13,052</b>	<b>—</b>	<b>51,423</b>
Land	—	—	7	181	—	188
Buildings and constructions	—	—	4,784	9,692	—	14,476
Production machinery and equipment	—	—	283	1,608	—	1,891
Agricultural equipment and vehicles	—	—	32,477	533	—	33,010
Other fixed assets	—	—	766	72	—	838
CIP and uninstalled equipment	—	—	54	966	—	1,020
<b>Transfers</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Land	1	—	6	1	—	8
Buildings and constructions	1,368	1,099	2,218	509	118	5,312
Production machinery and equipment	5,320	1,044	176	1,047	1	7,588
Agricultural equipment and vehicles	315	71	13,991	818	397	15,592
Other fixed assets	381	83	1,685	428	337	2,914
CIP and uninstalled equipment	(7,385)	(2,297)	(18,076)	(2,803)	(853)	(31,414)
<b>Disposals (at net book value)</b>	<b>(566)</b>	<b>(36)</b>	<b>(1,596)</b>	<b>(518)</b>	<b>(1)</b>	<b>(2,717)</b>
Buildings and constructions	(365)	—	(518)	(316)	—	(1,199)
Production machinery and equipment	(155)	(1)	(29)	(142)	—	(327)
Agricultural equipment and vehicles	(15)	—	(877)	(6)	—	(898)
Other fixed assets	(4)	—	(54)	(15)	—	(73)
CIP and uninstalled equipment	(27)	(35)	(118)	(39)	(1)	(220)
<b>Depreciation expense</b>	<b>(15,782)</b>	<b>(3,016)</b>	<b>(23,072)</b>	<b>(2,778)</b>	<b>(1,216)</b>	<b>(45,864)</b>
Buildings and constructions	(6,623)	(747)	(1,287)	(1,723)	(482)	(10,862)
Production machinery and equipment	(7,928)	(2,184)	(356)	(735)	(6)	(11,209)
Agricultural equipment and vehicles	(536)	(37)	(20,614)	(81)	(155)	(21,423)
Other fixed assets	(695)	(48)	(815)	(239)	(573)	(2,370)
<b>Exchange difference</b>	<b>(6)</b>	<b>(204)</b>	<b>(1,409)</b>	<b>(2,258)</b>	<b>(1,118)</b>	<b>(4,995)</b>
Land	—	—	(1)	(7)	(56)	(64)
Buildings and constructions	—	(18)	(675)	(1,752)	(919)	(3,364)
Production machinery and equipment	—	(53)	(131)	(408)	(1)	(593)
Agricultural equipment and vehicles	(67)	(7)	(340)	(5)	(1)	(420)
Other fixed assets	—	(5)	(66)	(31)	(10)	(112)
CIP and uninstalled equipment	61	(121)	(196)	(55)	(131)	(442)
<b>Net book value as of 30 June 2017</b>	<b>319,221</b>	<b>44,924</b>	<b>123,066</b>	<b>59,397</b>	<b>23,106</b>	<b>569,714</b>
Land	2,280	—	48	332	1,163	3,823
Buildings and constructions	214,124	19,232	18,933	43,597	19,944	315,830
Production machinery and equipment	95,174	23,831	2,512	9,948	24	131,489
Agricultural equipment and vehicles	1,580	175	93,733	1,552	599	97,639
Other fixed assets	2,681	131	4,333	923	1,362	9,430
CIP and uninstalled equipment	3,382	1,555	3,507	3,045	14	11,503

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 15. Property, Plant and Equipment, net *continued*

Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2018 and 2017 were as follows:

Group of property, plant and equipment	Cost as of 30 June 2018	Accumulated depreciation as of 30 June 2018	Cost as of 30 June 2017	Accumulated depreciation as of 30 June 2017
Land	2,575	—	3,823	—
Buildings and constructions	356,489	(40,873)	347,869	(32,039)
Production machinery and equipment	189,624	(45,034)	163,294	(31,805)
Agricultural equipment and vehicles	222,320	(134,311)	201,104	(103,465)
Other fixed assets	25,272	(11,777)	19,305	(9,875)
CIP and uninstalled equipment	23,842	—	11,503	—
<b>Total</b>	<b>820,122</b>	<b>(231,995)</b>	<b>746,898</b>	<b>(177,184)</b>

Had the Group's buildings and constructions and production machinery and equipment (bulk and bottled oil segments) been measured on a historical cost basis, their carrying amount would have been as follows:

Group of property, plant and equipment	As of 30 June 2018	As of 30 June 2017
Buildings and constructions	193,568	200,605
Production machinery and equipment	75,352	82,741
<b>Total</b>	<b>268,920</b>	<b>283,346</b>

As of 30 June 2018, property, plant and equipment with a carrying amount of USD 540 thousand (as of 30 June 2017: USD 100,950 thousand) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 20, 21).

As of 30 June 2018, property, plant and equipment with a carrying amount of USD 25,742 thousand (as of 30 June 2017: USD 27,578 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.

As of 30 June 2018 and 30 June 2017, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 15,976 thousand and USD 15,004 thousand, respectively.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2018:

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Cost as of 1 Jul 2017</b>	<b>22,036</b>	<b>136,259</b>	<b>4,589</b>	<b>162,884</b>
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)
<b>Cost as of 30 June 2018</b>	<b>22,036</b>	<b>149,069</b>	<b>6,200</b>	<b>177,305</b>

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Accumulated amortization and impairment loss as of 1 Jul 2017</b>	<b>(10,729)</b>	<b>(44,606)</b>	<b>(2,688)</b>	<b>(58,023)</b>
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)
<b>Net book value as of 30 June 2018</b>	<b>12,985</b>	<b>88,746</b>	<b>2,735</b>	<b>104,466</b>

The following table represents movements in intangible assets for the year ended 30 June 2017:

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Cost as of 30 June 2016</b>	<b>22,036</b>	<b>61,688</b>	<b>4,003</b>	<b>87,727</b>
Additions from acquisition of subsidiaries (Note 7)	—	77,149	30	77,179
Additions	—	59	709	768
Disposals	—	(7)	(124)	(131)
Exchange difference	—	(2,630)	(29)	(2,659)
<b>Cost as of 30 June 2017</b>	<b>22,036</b>	<b>136,259</b>	<b>4,589</b>	<b>162,884</b>

	Trademarks	Land lease rights	Other intangible assets	Total
<b>Accumulated amortization and impairment loss as of 30 June 2016</b>	<b>(10,010)</b>	<b>(38,636)</b>	<b>(2,263)</b>	<b>(50,909)</b>
Amortization charge	—	(7,748)	(528)	(8,276)
Disposals	—	1	64	65
Impairment loss recognized in the Statement of Profit or Loss	(719)	—	—	(719)
Exchange difference	—	1,777	39	1,816
Accumulated amortization and impairment loss as of 30 June 2017	(10,729)	(44,606)	(2,688)	(58,023)
<b>Net book value as of 30 June 2017</b>	<b>11,307</b>	<b>91,653</b>	<b>1,901</b>	<b>104,861</b>

Included in the intangible assets of Subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with net book values of USD 4,967 thousand, USD 4,298 thousand, USD 3,541 thousand and USD 179 thousand, respectively, in 2018 (USD 3,975 thousand, USD 3,244 thousand, USD 3,909 thousand and USD 179 thousand, respectively, in 2017). 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.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 16. Intangible Assets, net continued

The impairment testing of the value of trademarks as of 30 June 2018 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 bottled oil 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 2018, 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 18.47% for UAH denominated cash flow projections.

As a result of testing performed as of 30 June 2018, recoverable amounts of the trademarks 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' were USD 4,967 thousand, USD 4,298 thousand, USD 3,541 thousand and USD 301 thousand, respectively (30 June 2017: USD 3,975 thousand, USD 3,244 thousand, USD 3,909 thousand and USD 326 thousand, respectively).

As a result of testing performed, impairment of the trademarks 'Zolota' in the amount of USD 368 thousand was recognized as of 30 June 2018 (30 June 2017: 'Stozhar' and 'Schedry Dar' in the amount of USD 732 thousand and USD 212 thousand, respectively) and was recognized as a loss on impairment of intangible assets within 'Other expenses, net' (Note 32). Impairment was caused primarily by shrinkage of consumer demand for premium segment bottled sunflower oil due to the continuing economic recession in Ukraine.

As a result of testing performed, impairment loss for the trademarks 'Stozhar' and 'Schedry Dar' recognized in prior periods was partly reversed in the amount of USD 1,054 thousand and USD 992 thousand, respectively, as of 30 June 2018 (30 June 2017: 'Zolota' in the amount of 225 thousand). Reversal was recognized as a reduction of loss on impairment of intangible assets within 'Other expenses, net' (Note 32). Value recovery was caused primarily by increase of export sales.

For the year ended 30 June 2018, additions included USD 13,613 thousand of amounts paid per land lease agreements, where USD 11,608 thousand of this amount related to agreements with an average lease term of 87 years (for the year ended 30 June 2017: USD 60 thousand and 20 years accordingly), amortized using straight-line method. The amount of amortization of the above mentioned rights for the year ended 30 June 2018 amounted to USD 127 thousand (for the year ended 30 June 2017: USD 50 thousand).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 17. Goodwill

The following table represents movements in goodwill for the year:

	As of 30 June 2018	As of 30 June 2017
Cost	122,624	122,692
Accumulated impairment losses	(10,837)	(8,582)
Other movements	(8,096)	—
<b>Total</b>	<b>103,691</b>	<b>114,110</b>

	As of 30 June 2018	As of 30 June 2017
Cost at beginning of the year	122,692	123,684
Transfer to Assets classified as held for sale (Note 14)	(8,096)	—
Exchange differences	(68)	(992)
<b>Balance at the end of the year</b>	<b>114,528</b>	<b>122,692</b>

Accumulated impairment losses

	As of 30 June 2018	As of 30 June 2017
Balance at the beginning of the year	(8,582)	(1,772)
Impairment losses recognised in the year	(2,255)	(6,810)
<b>Balance at the end of the year</b>	<b>(10,837)</b>	<b>(8,582)</b>

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:

		As of 30 June 2018	As of 30 June 2017
		Goodwill carrying value	Goodwill carrying value
Sunflower oil sold in bulk	BSI LLC	35,331	37,586
	Kirovogradoliya PJSC	31,334	31,334
	Prydniprovskiy OEP LLC	13,225	13,225
	Ekotrans LLC	—	8,096
	Other	1,906	1,906
Export terminals	Transbulkterminal LLC	10,755	10,755
Farming	Druzhba-Nova Group and other agricultural farms	8,993	9,061
Bottled sunflower oil	Prykolotnoe OEP LLC	2,147	2,147
<b>Total</b>		<b>103,691</b>	<b>114,110</b>

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amounts of sunflower oil sold in bulk, export terminals, and bottled sunflower oil 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 10.2% per annum (2017: 9.2%). 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 performance, 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 2018 was 10.2% (30 June 2017: 9.2%). Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. 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. As of 30 June 2017, the assumptions for expected sunflower oil prices were USD 750 to 796 per one metric ton in 2018-2022 with a corresponding cost of USD 350 to 351 per one metric ton of sunflower seeds, which corresponds to a margin of USD 51 to 108 for one metric ton of oil. Management believes that the margin per one metric ton of sunflower oil depends on the supply-demand balance for raw material in Ukraine rather than on the level of prices.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 17. Goodwill continued

For the year ended 30 June 2018, the impairment of goodwill allocated to BSI LLC oilseed crushing plant relating to the Sunflower oil sold in bulk segment was recognized in the amount of USD 2,255 thousand within 'Other expenses, net' (2017: USD 6,810 thousand). Impairment was caused by low margin of sunflower oil in the reporting period due to high competition for raw materials in the region, while subsequently margin has strengthened and no impairment has been recognized in the second half of the year ended 30 June 2018.

Excess of recoverable amount over carrying amount of individual CGUs summarized below:

		As of 30 June 2018
Sunflower oil sold in bulk	BSI LLC	52,475
	Kirovogradoliya PJSC	42,494
	Prydniprovskiy OEP LLC	57,620
	Volchansk	26,374
Bottled sunflower oil	Prykolotnoe OEP LLC	12,496

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 sunflower oil sold in bulk CGUs to exceed its recoverable amount. Management believes that no reasonably possible change in the key assumptions 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.

As of 30 June 2018 and 30 June 2017, no impairment of goodwill allocated to the bottled sunflower oil, export terminals and farming segments was identified.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 18. Other Non-current Assets

The balances of other non-current assets were as follows:

	As of 30 June 2018	As of 30 June 2017
Prepayments for property, plant and equipment	94,047	15,767
Non-current biological assets (Note 13)	7,606	7,634
Prepayments for business acquisitions	4,500	1,702
Other non-current assets	28,409	6,630
<b>Total</b>	<b>134,562</b>	<b>31,733</b>

## 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 2018	As of 30 June 2017
Provision for legal claims (Note 35)	28,971	—
Advances from customers	13,309	16,997
Taxes payable and provision for tax liabilities	13,296	25,009
Prepayment for subsidiaries	12,364	7,440
Accrued payroll, payroll related taxes and bonuses	8,160	7,690
Provision for unused vacations and other provisions	5,911	5,162
Obligation under finance lease payable within one year (Note 22)	3,236	2,842
Accounts payable for property, plant and equipment	2,434	1,952
Settlements with land lessors	2,048	6,731
Other current liabilities	15,169	14,842
<b>Total</b>	<b>104,898</b>	<b>88,665</b>

## 20. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2018	As of 30 June 2017
Bank credit lines	182,657	78,866
Bank overdrafts	41,273	52,300
Interest accrued on short-term borrowings	718	436
Interest accrued on long-term borrowings	125	77
<b>Total</b>	<b>224,773</b>	<b>131,679</b>

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.15%	USD	July 2018	58,672
European bank	Libor + 2.25%	USD	July 2018	41,273
Ukrainian subsidiary of European bank	3.75%	USD	July 2018	29,971
European bank	Libor + 4.00%	USD	July 2018	23,286
European bank	Libor + 3.5%	USD	July 2018	19,200
European bank	Libor + 3.2%	USD	July 2018	10,500
Ukrainian subsidiary of European bank	3.80%	USD	July 2018	6,900
Ukrainian subsidiary of European bank	3.50%	USD	July 2018	6,800
Ukrainian subsidiary of European bank	3.55%	USD	August 2018	6,700
Ukrainian subsidiary of European bank	3.50%	USD	December 2018	5,800
Ukrainian subsidiary of European bank	16.40%	UAH	September 2018	5,475
Ukrainian subsidiary of European bank	3.55%	USD	July 2018	4,500
Ukrainian subsidiary of European bank	16.30%	UAH	July 2018	1,993
Ukrainian subsidiary of European bank	16.40%	UAH	August 2018	1,860
Ukrainian subsidiary of European bank	3.75%	USD	July 2018	1,000
<b>Total bank credit lines</b>				<b>223,930</b>
Interest accrued on short-term loans				718
Interest accrued on long-term loans				125
<b>Total</b>				<b>224,773</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 20. Short-term Borrowings continued

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 3.25%	USD	September 2017	52,300
Ukrainian subsidiary of European bank	3.80%	USD	March 2018	18,503
Ukrainian subsidiary of European bank	4.50%	USD	July 2017	12,450
European bank	Libor + 7.3%	USD	April 2018	10,000
Ukrainian subsidiary of European bank	11.75%	UAH	September 2017	9,960
Ukrainian subsidiary of European bank	12.00%	UAH	July 2017	9,579
Ukrainian subsidiary of European bank	6.50%	USD	September 2017	7,500
Ukrainian subsidiary of European bank	10.50%	UAH	July 2017	5,874
Ukrainian subsidiary of European bank	4.00%	USD	July 2017	5,000
<b>Total bank credit lines</b>				<b>131,166</b>
Interest accrued on short-term borrowings				436
Interest accrued on long-term borrowings				77
<b>Total</b>				<b>131,679</b>

As of 30 June 2018, undrawn short-term bank credit lines amounted to USD 121,908 thousand (as of 30 June 2017: USD 57,710 thousand).

Short-term borrowings from banks were secured as follows:

(Assets pledged)	As of 30 June 2018	As of 30 June 2017
Cash and cash equivalents (Note 8)	—	2,330
Inventory (Note 12)	200,849	83,736
Other financial assets	—	15,420
Property, plant and equipment (Note 15)	540	100,950
Future sales receipts	41,273	—
Controlling stakes in subsidiaries	—	Not quantifiable
<b>Total</b>	<b>242,662</b>	<b>202,436</b>

As of 30 June 2018, stakes in Subsidiaries were not pledged to secure short-term borrowings (as of 30 June 2017: sixteen agricultural companies and one sunflower oil plant).

## 21. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2018	As of 30 June 2017
Long-term bank borrowings	5,623	8,344
Current portion of long-term borrowings	(2,811)	(2,782)
<b>Total</b>	<b>2,812</b>	<b>5,562</b>

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 1.65%	USD	March 2020	5,623

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 21. Long-term Borrowings continued

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

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

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

## 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 2018		As of 30 June 2017	
	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)	3,979	3,236	3,381	2,842
Later than one year and not later than five years	9,096	7,710	3,402	2,902
<b>Total</b>	<b>13,075</b>	<b>10,946</b>	<b>6,783</b>	<b>5,744</b>
Less future finance charges	(2,129)	—	(1,039)	—
<b>Present value of lease obligations</b>	<b>10,946</b>	<b>10,946</b>	<b>5,744</b>	<b>5,744</b>

The average effective interest rate contracted for the year ended 30 June 2018 was at the level of 9.44% (for the year ended 30 June 2017: 8.28%).

## 23. Bonds issued

	As of 30 June 2018	As of 30 June 2017
Unsecured senior notes	500,000	500,000
Less: Unamortized debt issue costs	(5,204)	(6,352)
<b>Total</b>	<b>494,796</b>	<b>493,648</b>

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 2018 and 2017, 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, respectively.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 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 2018 and 2017. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2018 and 2017. 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 Fixed Agricultural Tax (FAT) in accordance with the Tax Code of Ukraine. The FAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The FAT does not constitute an income tax and, as such, is recognized in the Consolidated Statement of Profit or Loss in other operating income.

The components of income tax expense for the years ended 30 June 2018 and 2017 were as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Current income tax charge	(7,391)	(7,722)
Deferred tax benefit/(expenses) relating to origination and reversal of temporary differences	13,291	(11,114)
<b>Total income tax benefit/(expenses) recognized in the reporting period</b>	<b>5,900</b>	<b>(18,836)</b>

The income tax expense is reconciled to the profit before income tax per Consolidated Statement of Profit or Loss as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Profit before income tax	50,054	197,439
Tax expense at Ukrainian statutory tax rate of 18%	(9,010)	(35,539)
Effect of income that is exempt from taxation (farming)	15,996	31,809
Effect of different tax rates of Subsidiaries operating in other jurisdictions	(3,402)	(12,817)
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(510)	(254)
Other expenditures not allowable for income tax purposes and non-taxable income, net	2,826	(2,035)
<b>Income tax benefit/(expense)</b>	<b>5,900</b>	<b>(18,836)</b>

No income tax was recognized in other comprehensive income during the years ended 30 June 2018 and 2017.

The primary components of the deferred tax assets and deferred tax liabilities were as follows:

	30 June 2018	30 June 2017
Tax losses carried forward	16,611	2,328
Valuation of property, plant and equipment	11,620	12,336
Valuation of inventory	334	327
Valuation of advances and other temporary differences	398	337
<b>Deferred tax assets</b>	<b>28,963</b>	<b>15,328</b>
Valuation of property, plant and equipment	(27,781)	(26,489)
Valuation of intangible assets	(2,026)	(1,061)
Valuation of prepayments to suppliers and other temporary differences	(190)	(719)
<b>Deferred tax liabilities</b>	<b>(29,997)</b>	<b>(28,269)</b>
<b>Net deferred tax liabilities</b>	<b>(1,034)</b>	<b>(12,941)</b>

As of 30 June 2018, 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 16,611 thousand (2017: USD 2,328 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 92,283 thousand (2017: USD 12,878 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 24. Income Tax continued

Tax losses incurred by subsidiaries registered in Ukraine can be brought forward for a reasonable period of time.

Unrecognized deferred tax assets arising from tax losses carried forward by the Group's subsidiaries as of 30 June 2018, were USD 764 thousand (as of 30 June 2017: USD 254 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:

	30 June 2018	30 June 2017
Deferred tax assets	18,536	11,924
Deferred tax liabilities	(19,570)	(24,865)
<b>Net deferred tax liabilities</b>	<b>(1,034)</b>	<b>(12,941)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 25. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Revenue from sunflower oil sold in bulk, sunflower meal and cake	1,286,645	1,091,762
Revenue from grain sales	951,252	923,319
Revenue from bottled sunflower oil	106,846	116,423
Revenue from farming	51,529	26,075
Revenue from grain silo services	6,308	10,568
Revenue from transshipment services	423	784
<b>Total</b>	<b>2,403,003</b>	<b>2,168,931</b>

For the year ended 30 June 2018, revenue from the Group's top five customers accounted for approximately 38.6% of total revenue (for the year ended 30 June 2017, revenue from the top five customers accounted for 39.7% of total revenue).

## 26. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Cost of goods for resale and raw materials used	1,876,392	1,585,872
Amortization and depreciation	79,789	51,749
Rental payments	72,694	37,311
Payroll and payroll related costs	55,792	34,894
Other operating costs	23,010	12,930
<b>Total</b>	<b>2,107,677</b>	<b>1,722,756</b>

## 27. Other Operating Income, net

Other operating income, net was as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Gain on operations with commodity futures	32,317	5,448
VAT benefits	10,976	31,053
Gain on sale of hard currency	1,574	1,211
Contracts wash-out (price difference settlement)	850	1,968
Other operating income	13,375	1,004
<b>Total</b>	<b>59,092</b>	<b>40,684</b>

For the year ended 30 June 2018, gain on operations with commodity futures increased mostly due to Avere operations with derivative instruments, particularly their revaluation at the end of the period.

According to the Tax Code of Ukraine and the Law 'On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine on Tax Reform' (enacted from 1 January 2015), companies that generated not less than 75.0% of gross revenues for the previous tax period from sales of its own agricultural products, which were cultivated on the land that such agricultural manufacturers own or lease, and the ownership title and leases have been duly registered, were entitled to retain share of the difference between input VAT paid on items purchased by such companies for their operations and VAT charged on products sold up to 31 December 2016 (Note 3). Such a gain is recognized as VAT benefits.

For the year ended 30 June 2018, gain on sale of hard currency decreased as a result of continuous drop down in fluctuation and differences between the market and official exchange rates for US dollars in Ukraine.

For the year ended 30 June 2018, other operating income included result of assigning transshipment quota entitlement in Zernovoy Terminalny Complex Taman LLC (Note 33).

## 28. Distribution Costs

Distribution costs were as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Carriage and freight	135,072	137,406
Storage and dispatch	10,579	11,372
Customs expenses	3,587	4,474
Certification	1,483	2,720
Sanitation services	765	1,485
Payroll and payroll related costs	588	370
Other expenses	1,479	1,195
<b>Total</b>	<b>153,553</b>	<b>159,022</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 29. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Payroll and payroll related costs	46,887	31,881
Repairs and material costs	6,858	4,075
Audit, legal and other professional fees	6,841	6,295
Business trip expenses	5,073	4,215
Amortization and depreciation	2,870	1,982
Insurance	2,554	2,521
Taxes other than income tax	2,478	1,851
Rental payments	1,815	1,465
Bank services	1,658	1,465
Bad debts expenses	997	2,961
Communication expenses	878	725
Other expenses	1,090	487
<b>Total</b>	<b>79,999</b>	<b>59,923</b>

Audit, legal and other professional fees for the year ended 30 June 2018 include the auditor's remuneration in the amount of USD 495 thousand and no consultancy fees for the respective period (30 June 2017: USD 534 thousand and USD 6 thousand, respectively).

## 30. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Interest on corporate bonds (Note 23)	44,619	17,949
Interest expense on bank loans	15,336	38,744
Other finance costs, net	5,144	5,587
<b>Total</b>	<b>65,099</b>	<b>62,280</b>

## 31. Foreign Exchange Gain/(Loss), net

For the year ended 30 June 2018, foreign exchange gain, net amounted to USD 5,375 thousand (30 June 2017: foreign exchange loss, net in the amount of USD 2,729 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).

During the year ended 30 June 2018, the Ukrainian hryvnia rate remained stable against the US dollar (devalued by 5% for the year ended 30 June 2017) and the Russian ruble devalued by 6% against the US dollar (revalued by 9% for the year ended 30 June 2017).

## 32. Other Expenses, net

Other expenses, net were as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Fines and penalties (Note 35 )	28,923	(45)
Gain on disposal of Subsidiaries (Note 7)	(2,972)	(9,068)
Social spending	2,440	2,616
Gain on bargain purchase (Note 7)	(2,309)	(1,344)
Other material expenses	2,084	163
Gain on disposal of property, plant and equipment	(791)	(1,684)
Impairment of intangible assets and goodwill, net (Note 16, 17)	577	7,529
Other expenses, net	3,028	3,285
<b>Total</b>	<b>30,980</b>	<b>1,452</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 33. 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. The increase of throughput facilities resulted in increased profitability of grain exports from the Russian Federation.

As of 30 June 2018, the Group assigned our transshipment quota entitlement for the year ended 30 June 2019 (2,000,000 tons) in Zernovoy Terminalny Complex Taman LLC to a third party (year ended 30 June 2018: 1,800,000 tons). For the year ended 30 June 2018, income received for the quota entitlement amounted to USD 7,800 thousand and was included in Other operating income, net (Note 27).

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	Proportion of ownership interest and voting rights held by the Group
			As of 30 June 2018	As of 30 June 2017
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 regards to joint ventures, reflecting 100% interest in the underlying joint venture, was as follows:

	As of 30 June 2018	As of 30 June 2017
Current assets	5,621	6,591
Non-current assets	66,260	70,492
Current liabilities	(17,914)	(24,520)
Non-current liabilities	(14,154)	(15,135)
<b>Net assets of joint ventures</b>	<b>39,813</b>	<b>37,428</b>

The above amount of assets and liabilities include the following:

	As of 30 June 2018	As of 30 June 2017
Cash and cash equivalents	1,055	2,571
Property, plant and equipment, net	65,633	69,708
Current financial liabilities (excluding trade and other payables and provisions)	(5,050)	(11,121)
Non-current financial liabilities (excluding trade and other payables and provisions)	(10,532)	(11,042)

Summarized statement of profit or loss and other comprehensive income of joint ventures was as follows:

	For the year ended 30 June 2018	For the year ended 30 June 2017
Revenue	35,572	28,467
Cost of sales	(29,104)	(24,363)
Other operating income	—	2,829
General and administrative expenses	(3,566)	(4,465)
<b>Profit from operating activities</b>	<b>2,902</b>	<b>2,468</b>
Other income /(expenses), net	542	(4,388)
<b>Profit /(Loss) before income tax</b>	<b>3,444</b>	<b>(1,920)</b>
Income tax expenses	(1,058)	(358)
<b>Profit /(Loss) for the period</b>	<b>2,386</b>	<b>(2,278)</b>

### Other comprehensive loss

Exchange differences on translating foreign operations	—	—
<b>Total comprehensive income/(loss)</b>	<b>2,386</b>	<b>(2,278)</b>

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 33. Investments in Joint Ventures continued

The above information for the period includes the following:

	Year ended 30 June 2018	Year ended 30 June 2017
Depreciation and amortization	4,217	4,214
Interest expenses	2,271	3,399

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 2018	Year ended 30 June 2017
Net assets of the joint venture	39,813	37,428
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	52,218	51,025

## 34. 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 2018	Total category as per consolidated statement of financial position as of 30 June 2018	Related party balances as of 30 June 2017	Total category as per consolidated statement of financial position as of 30 June 2017
Prepayments to suppliers and other current assets, net (Note 10)	9,714	113,342	12,525	82,701
Other non-current assets (Note 18)	13,366	134,562	6,439	31,733
Trade accounts payable	73	73,629	188	52,776
Advances from customers and other current liabilities (Note 19)	8,204	104,898	11,282	88,665
Other non-current liabilities	1,058	32,506	3,053	30,646

As of 30 June 2018 and 30 June 2017, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 4,358 thousand and 4,743 thousand, respectively.

As of 30 June 2018, prepayments to suppliers and other current assets and other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,484 thousand provided to Taman Grain Terminal Holding (30 June 2017: USD 2,367 thousand).

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 34. Transactions with Related Parties continued

As of 30 June 2018, other non-current assets included an interest-free financing in the amount of USD 6,076 thousand provided to key management personnel (30 June 2017: USD 5,735 thousand).

As of 30 June 2018, advances from customers and other current liabilities included USD 1,413 thousand in bonuses payable to the management (30 June 2017: USD 3,455 thousand).

Advances from customers and other current liabilities as of 30 June 2017 included an interest-free financial liability in the amount of USD 4,977 thousand due to Namsen Limited, which was paid in full as of 30 June 2018.

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 2018	Total category per consolidated statement of profit or loss for the year ended 30 June 2018	Amount of operations with related parties, for the year ended 30 June 2017	Total category per consolidated statement of profit or loss for the year ended 30 June 2017
Cost of sales (Note 26)	—	(2,107,677)	(2,503)	(1,722,756)
General, administrative expenses and distribution costs (Notes 28, 29)	(7,944)	(233,552)	(22,743)	(218,945)
Finance costs, net (Note 30)	94	(65,099)	(1,325)	(62,280)
Other expenses, net (Note 32)	(2)	(30,980)	109	(1,452)

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

For the year ended 30 June 2018, there were no distribution expenses of services for the transportation of goods paid to Zernovoy Terminalny Complex Taman LLC (for the year ended 30 June 2017: USD 12,113 thousand).

All other transactions occurred with related parties under common control.

As of 30 June 2018, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the year ended 30 June 2018 amounted to USD 568 thousand (30 June 2017: 8 directors, USD 523 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 3,294 thousand for the year ended 30 June 2018 (30 June 2017: 10 people, USD 5,699 thousand), including USD 827 thousand of variable bonus as per approved remuneration scheme (30 June 2017: USD 3,290 thousand).

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 35. Commitments and Contingencies

### Operating Environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2017-2018, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity, and volatility of financial markets.

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

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

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

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts, yet further economic and political developments are currently difficult to predict.

### 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 2018 were USD 15,594 thousand (2017: USD 10,513 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 2018, there were no retirement and other pension obligation expenses of the Group (2017: USD 234 thousand). As of 30 June 2018 and 30 June 2017, 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 2018, the Group had commitments under contracts with a group of suppliers for a total amount of USD 109,681 thousand, mostly for the construction of an oil-crushing plant (30 June 2017: USD 9,925 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal).

### Contractual Commitments on Sales

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.

As of 30 June 2017, the Group had entered into commercial contracts for the export of 1,126,626 tons of grain and 753,869 tons of sunflower oil and meal, corresponding to an amount of USD 212,071 thousand and USD 336,905 thousand, respectively, in contract prices as of the reporting date.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 35. Commitments and Contingencies continued

### Commitments on leases of property plant and equipment

As of 30 June 2018, 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 2018	Future minimum lease payment as of 30 June 2017
Less than 1 year	550	550
From 1 to 5 years	2,198	2,198
More than 5 years	22,289	22,838
<b>Total</b>	<b>25,037</b>	<b>25,586</b>

### Commitments on land operating leases

As of 30 June 2018 and 2017, 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 2018	Future minimum lease payment as of 30 June 2017
Less than 1 year	77,582	51,923
From 1 to 5 years	270,884	187,399
More than 5 years	287,127	229,454
<b>Total</b>	<b>635,593</b>	<b>468,776</b>

## 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 2018, 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-fulfilment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts said to be due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case in which the Group asserted its counterclaims and thereafter written statements of evidence and expert reports were also exchanged. The hearing took place in November 2015. The tribunal delivered its award in late February 2018 and the Company has been received it in early March 2018. That award is subject to challenge in the High Court in London.

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 grounds for the challenge but the amount has not been discounted for the purposes of this estimate, since at the moment of estimation both the outcome of the challenge and the expected period of time in which the Court will make its decision are unknown.

The carrying amount of the provision for legal claims is USD 28,971 thousand as of 30 June 2018 and related expenses are included within the line "Other expenses, net" (Note 32). No payment has been made to the claimant pending the outcome of the challenge.

As of 30 June 2018, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for total amount of USD 60,604 thousand (30 June 2017: USD 86,548 thousand), from which USD 42,882 related to VAT recoverability (30 June 2017: USD 50,565 thousand), USD 17,382 thousand related to corporate income tax (30 June 2017: 35,469 thousand) and USD 340 thousand related to other tax issues (30 June 2017: 514 thousand).

As of 30 June 2018, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 31,480 thousand (30 June 2017: USD 30,802 thousand), included in the abovementioned amount. Out of this amount, USD 19,159 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 2017: USD 23,260 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 35. Commitments and Contingencies continued

### Taxation and Legal Issues continued

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

Facing the current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting significant amendments of the Tax Code of Ukraine which became effective from 1 January 2015, 1 January 2016, 1 January 2017 and 1 January 2018 except for certain provisions, which take effect at a later date.

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

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

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

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

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

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 35. Commitments and Contingencies continued

### Taxation and Legal Issues continued

The draft law also provides the following:

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

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

## 36. Financial Instruments

### Capital Risk Management

During the years ended 30 June 2018 and 2017, there were no material changes to the objectives, policies and processes for capital risk, credit risk, liquidity risk, currency risk, interest rate risk and other market 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 capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 20 and 21, Bonds issued (Note 23) and obligations under finance leases (Note 22), cash and cash equivalents and equity attributable to Kernel Holding S.A. shareholders, comprising issued capital, reserves and retained earnings. 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 2018	As of 30 June 2017
Debt liabilities <sup>1</sup> (Notes 20, 21, 22, 23)	754,087	657,364
Less cash and cash equivalents (Note 8)	(132,018)	(143,392)
Net debt	622,069	513,972
Equity <sup>2</sup>	1,170,733	1,153,028
<b>Net debt liabilities to capital</b>	<b>53%</b>	<b>45%</b>

### Categories of financial instruments

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 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 customers are an international customer, which accounted for USD 25,785 thousand, and a local customer, which accounted for USD 2,994 thousand out of total trade accounts receivable as of 30 June 2018 (as of 30 June 2017 one international customer accounted for USD 16,037 thousand and one local customer for USD 1,709 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.

(1) Debt includes short-term and long-term borrowings, obligations under finance leases, bonds issued and accrued interest.

(2) Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings and translation reserve.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 36. Financial Instruments continued

### Credit Risk continued

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

The Group's policy is to provide financial guarantees only to wholly owned (controlled) Subsidiaries. As of 30 June 2018 as well as at 30 June 2017, no guarantees were outstanding in favor of third parties.

### 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 2018, the carrying amount of the Group's maximum exposure to financial obligations was USD 960,300 thousand (30 June 2017: USD 826,609 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 11 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 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
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 non-current liabilities	32,506	(56,064)	(1,867)	(3,007)	(51,190)	—
<b>Total</b>	<b>786,593</b>	<b>(975,958)</b>	<b>(278,544)</b>	<b>(52,741)</b>	<b>(644,673)</b>	<b>—</b>

Financial liabilities, which were not included above, are repayable within one year.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2017. 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
Short-term borrowings (Note 20)	131,679	(133,269)	(133,269)	—	—	—
Long-term borrowings (Note 21)	8,344	(8,648)	(3,024)	(2,721)	(2,903)	—
Obligations under finance leases (Note 22)	5,744	(6,783)	(3,381)	(1,524)	(1,737)	(141)
Bonds issued (Note 23)	511,597	(718,750)	(43,750)	(43,750)	(631,250)	—
Other non-current liabilities	30,646	(60,825)	(2,087)	(5,843)	(52,895)	—
<b>Total</b>	<b>688,010</b>	<b>(928,275)</b>	<b>(185,511)</b>	<b>(53,838)</b>	<b>(688,785)</b>	<b>(141)</b>

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.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 36. Financial Instruments continued

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. 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 Group calculates VaR over a one-day time horizon with a 95 percent confidence level.

### 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 2018 and 2017 was as follows:

	30 June 2018		30 June 2017	
	UAH	USD	UAH	USD
Cash and cash equivalents	2,215	4,622	32,429	10
Trade accounts receivable, net	10,354	—	4,929	—
Other non-current assets	14,887	—	296	—
Trade accounts payable	(15,702)	(137)	(21,541)	(3,451)
Other non-current liabilities	(31,208)	—	(26,799)	—
Short-term borrowings from Ukrainian subsidiary of European bank (Note 20)	(9,328)	—	(25,622)	(31,068)
Obligations under finance leases	—	(5,087)	—	(959)
<b>Net exposure</b>	<b>(28,782)</b>	<b>(602)</b>	<b>(36,308)</b>	<b>(35,468)</b>

A 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 effect for the year ended 30 June 2018:

10% strengthening of UAH .....	(2,823)
10% depreciation of UAH.....	2,811

Profit or loss effect for the year ended 30 June 2017:

10% strengthening of UAH .....	(406)
10% depreciation of UAH.....	(310)

As of 30 June 2018, the Ukrainian hryvnia stabilized against major foreign currencies. Foreign exchange gains and losses reflected the Ukrainian hryvnia fluctuation against the US dollar for the year ended 30 June 2018 and devaluation by 5% for the year ended 30 June 2017. The Group recognized a net foreign exchange gain in the amount of USD 5,375 thousand for the year ended 30 June 2018 and USD 2,729 thousand of a net foreign exchange loss for the year ended 30 June 2017 (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 2018.

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 2,403,003 thousand, sales in USD comprised USD 2,198,445 thousand and in EUR comprised USD 86,230 thousand for the year ended 30 June 2018. Export sales represented 95% of the total sales volume.

# Notes to the Consolidated Financial Statements continued

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 36. Financial Instruments continued

### Interest Rate Risk

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains borrowings with both fixed and variable rates.

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2018	Carrying amount as of 30 June 2017
Fixed rate instruments (financial liabilities)	583,911	582,022
Variable rate instruments (financial liabilities)	225,267	75,342
<b>Total</b>	<b>809,178</b>	<b>657,364</b>

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 instruments 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 ended 30 June 2018 would decrease/increase by USD 2,253 thousand (2017: decrease/increase by USD 753 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

### Other Market Price Risk

The Group enters into agricultural commodities 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).

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.

Reconciliation of liabilities arising from financing activities:

	As of 30 June 2017	Cash flow from proceeds/ (repayments)	New finance leases	Amortization of one-off comm and transaction costs	Foreign exchange movements	Other changes <sup>(i)</sup>	As of 30 June 2018
Bank borrowings (Note 20, 21)	87,210	105,173	—	1,798	(1,587)	(4,314)	188,280
Finance lease obligation (Note 22)	5,744	(7,600)	11,572	—	(35)	1,265	10,946
Bonds issued (Note 23)	493,648	—	—	1,148	—	—	494,796
<b>Total</b>	<b>586,602</b>	<b>97,573</b>	<b>11,572</b>	<b>2,946</b>	<b>(1,622)</b>	<b>(3,049)</b>	<b>694,022</b>

(i) other changes include translation difference, repayment of transactions costs and one-off borrowing commissions and other non-cash changes

## 37. Fair Value of Financial Instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 'Financial Instruments: Disclosure' and 13 'Fair value measurement'. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 37. Fair Value of Financial Instruments *continued*

The financial assets and liabilities are presented by class in the tables below at their carrying values:

As at 30 June 2018

Assets	Amortised cost	FVTPL <sup>1</sup>	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
<b>Liabilities</b>			
Trade accounts payable	73,629	—	73,629
Advances from customers and other current liabilities (Note 19)	48,622	—	48,622
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 non-current liabilities	32,506	—	32,506

<sup>1</sup> FVTPL – Fair value through profit and loss.

As at 30 June 2017

Assets	Amortised cost	FVTPL	Total
Cash and cash equivalents (Note 8)	143,392	—	143,392
Trade accounts receivable, net (Note 9)	87,192	—	87,192
Other financial assets	—	21,041	21,041
Other non-current asset	3,227	—	3,227
<b>Liabilities</b>			
Trade accounts payable	52,776	—	52,776
Advances from customers and other current liabilities (Note 19)	23,525	—	23,525
Borrowings	140,023	—	140,023
Obligations under finance lease (Note 22)	5,744	—	5,744
Bonds issued (Note 23)	511,597	—	511,597
Other non-current liabilities	30,646	—	30,646

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

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

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

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

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

Financial liabilities <sup>(1)</sup>	30 June 2018		30 June 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note 21)	5,623	5,623	8,344	8,344
Obligations under finance lease (Note 22)	10,946	10,873	5,744	5,744
Bonds issued (Note 23)	512,745	499,205	511,597	535,220

(1) Including accrued interests

For the year ended 30 June 2018, the fair value of bank long-term borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 4.42% (2017: 3.27%) 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.

# Notes to the Consolidated Financial Statements *continued*

for the year ended 30 June 2018 (in thousands of US dollars, unless otherwise stated)

## 37. Fair Value of Financial Instruments *continued*

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 2018 (30 June 2017: nil).

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
<b>Total</b>	<b>5,041</b>	<b>67,303</b>	<b>72,344</b>

Other financial liabilities

Physical forwards	—	49,023	49,023
Futures	1,003	—	1,003
Options	1,430	—	1,430
<b>Total</b>	<b>2,433</b>	<b>49,023</b>	<b>51,456</b>

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

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

As of 30 June 2017, other financial assets included financial assets classified as at fair value through profit or loss, which are presented by government bonds in the amount of USD 21.0 million classified as held for trading since they had been acquired principally for trading purposes in the near time (as of 30 June 2018: nil). Fair value was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

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

As of 30 June 2018, fair value of other non-current liabilities does not differ materially from its carrying amount and are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk. For the year ended 30 June 2018 and 2017, 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 22.93%.

There were no transfers between levels of fair value hierarchy.

There were no changes in the valuation technique since the previous year.

## 38. 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 2018, 81,941,230 and weighted average number of ordinary shares 81,941,230 for the period ended then and as of 30 June 2017 81,941,230 and weighted average number of ordinary shares 80,338,776 for the period ended), 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 82,887,231 ordinary shares is taken into account (30 June 2017: 82,407,733).

As of 30 June 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 (as of 30 June 2017: 3,000,000 options).

## 39. Subsequent Events

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

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

# Corporate Information

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## Registered number

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## Stock information

Exchange..... Warsaw Stock Exchange  
Stock quote currency..... PLN  
Shares issued as of 30 June 2018..... 81,941,230  
Bloomberg..... KER PW  
Reuters ticker..... KERN.WA  
ISIN code..... LU0327357389

## Investor calendar

Q1 FY2019 Operations Update..... 22 October 2018  
Q1 FY2019 Financial Report ..... 29 November 2018  
Annual general shareholders' meeting..... 10 December 2018  
Q2 FY2019 Operations Update..... 21 January 2019  
H1 FY2019 Financial Report ..... 28 February 2019  
Q3 FY2019 Operations Update..... 19 April 2019  
Q3 FY2019 Financial Report ..... 27 May 2019  
Q4 FY2019 Operations Update..... 17 July 2019  
FY2019 Financial Report ..... 23 October 2019

## Cautionary statement

Certain statements in this document are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this document or to correct any inaccuracies which may become apparent in such forward-looking statements.

This document does not constitute or form part of any offer or invitation to sell or purchase, or any solicitation of any offer to sell or purchase any shares or securities. It is not intended to form the basis upon which any investment decision or any decision to purchase any interest in Kernel Holding S.A. is made. Information in this document relating to the price at which investments have been bought or sold in the past or the yield on investments cannot be relied upon as a guide to future performance.