

KERNEL

H1

FY2019

Condensed Consolidated Interim Financial Statements

For the six months ended
31 December 2018.



Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018

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Key Highlights

for the three and the six months ended 31 December 2018

Key Highlights

- Driven by the strong grain export volumes from Ukraine and Avere physical trade operations, the **revenue** of the Kernel Holding S.A. (*hereinafter "Kernel", the "Company", the "Group"*) in Q2 FY2019 increased 2 times y-o-y, to US\$ 1.1 bn.
- The **EBITDA** of the Company stood at US\$ 129 million in Q2 FY2019, 68% up y-o-y on the back of strong farming and oilseed processing segments performance.
 - Oilseeds processing** segment EBITDA doubled y-o-y, reaching US\$ 39 million, driven by margin recovery and strong volumes.
 - EBITDA of **Infrastructure and Trading** segment in Q2 FY2019 reduced 16% y-o-y to US\$ 40 million, mainly due to weaker margins in silo business.
 - Supported by record crop yields achieved this season, **farming** segment generated US\$ 62 million EBITDA in October-December 2018, more than 3 times exceeding last year result.
- As of 31 December, **net profit attributable to shareholders** reached US\$ 89 million in Q2 FY2019, 32% up y-o-y.
- Leverage** of the company increased to 2.7x net-debt-to-EBITDA following the seasonal accumulation of grain and oilseeds inventories after completion of the harvesting campaign in Ukraine.
- In January 2019, the Company extended its US\$ 100 million pre-export credit facility (grains) to 2021, similar to the extension of US\$ 200 million pre-export facility (sunflower seeds) completed in October 2018.
- In February 2019, the investment fund owned by the Company **acquired 100% interest in RTK-Ukraine** for the enterprise value of US\$ 64 million. Adjusted for working capital and net debt, Company paid US\$ 49 million in cash at completion while the remaining balance shall be released upon the achievement of certain conditions. RTK-Ukraine owns 2,949 grain railcars composing the largest private fleet of grain hopper wagons in the country. The acquisition shall not only contribute an estimated incremental EBITDA of up to US\$ 20 million annually and protect the Company against ever rising logistic costs, but it shall also procure the smooth and efficient flow of grains from inland silos to the ports as Company's export volumes increase following the commissioning of TransGrainTerminal in the port of Chornomorsk.
- In February 2019, one of Kernel's subsidiaries **acquired 5.85% interest in ViOil Holding Ltd** – a holding entity controlling two multiseed oil-extraction plants with annual crushing capacity of 1.1 million tons of sunflower seeds and a network of silos in Western Ukraine. The Company also entered into a customary shareholder agreement in relation to ViOil with other shareholders of ViOil. This deal is an important initial step towards the future consolidation of the sector where Kernel shall play a leading role.
- On 10 December 2018, the annual General Meeting of Shareholders approved a **dividend** payout of US\$ 0.25 per share for the year ended 30 June 2018. The Board of Directors set record and payment dates for the dividend 18 April 2019 and 25 April 2019, respectively.

Corporate and regulatory

- In December 2018-February 2019 Kernel attracted **long-term project financing** from European Investment Bank and EBRD totaling to US\$ 306 million. The loans will finance expansion projects within the Strategy 2021: construction of a grain export terminal in the port of Chornomorsk, building of an oilseed processing plant in Western Ukraine and several silos, and the commissioning of green energy projects.

| US\$ million except ratios and EPS | Q2 FY2018 | Q1 FY2019 | Q2 FY2019 | y-o-y | q-o-q | H1 FY2018 | H1 FY2019 | y-o-y |
|--|-----------|-----------|----------------|---------|-------|-----------|----------------|---------|
| Income statement highlights | | | | | | | | |
| Revenue | 536.1 | 1,140.3 | 1,114.9 | +2.1x | (2%) | 1,072.2 | 2,255.2 | +2.1x |
| EBITDA ¹ | 77.1 | 100.5 | 129.3 | 68% | 29% | 123.1 | 229.9 | 87% |
| Net profit attributable to equity holders of Kernel Holding S.A. | 67.0 | 75.5 | 88.5 | 32% | 17% | 89.8 | 164.0 | 83% |
| EBITDA margin | 14.4% | 8.8% | 11.6% | (2.8pp) | 2.8pp | 11.5% | 10.2% | (1.3pp) |
| Net margin | 12.5% | 6.6% | 7.9% | (4.6pp) | 1.3pp | 8.4% | 7.3% | (1.1pp) |
| EPS ² , US\$ | 0.82 | 0.92 | 1.08 | 32.1% | 17% | 1.10 | 2.00 | 83% |

Cash flow highlights

| | | | | | | | | |
|---|---------|--------|----------------|-------|------|---------|----------------|-------|
| Operating profit before working capital changes | 78.1 | 54.1 | 115.6 | 48% | 2.1x | 116.5 | 169.7 | 46% |
| Change in working capital | (264.5) | (29.9) | (240.0) | (9%) | 8.0x | (202.3) | (269.9) | 33% |
| Cash generated from operations | (186.3) | 24.2 | (124.3) | (33%) | n/a | (85.8) | (100.2) | (17%) |
| Net cash generated by operating activities | (193.9) | (3.8) | (139.4) | (28%) | 36x | (119.0) | (143.2) | 20% |
| Net cash used in investing activities | 3.5 | (48.8) | (49.9) | n/a | 2% | (71.6) | (122.2) | 71% |

| US\$ million except ratios | 31 Dec 2017 | 30 Sep 2018 | 31 Dec 2018 | y-o-y | q-o-q | 31 Dec 2017 | 31 Dec 2018 | y-o-y |
|---|-------------|-------------|----------------|-------|-------|-------------|----------------|-------|
| Liquidity and credit metrics | | | | | | | | |
| Net interest-bearing debt | 697.9 | 686.1 | 875.3 | 25% | 28% | 697.9 | 875.3 | 25% |
| Readily marketable inventories ³ | 690.5 | 415.7 | 726.7 | 5% | 75% | 690.5 | 726.7 | 5% |
| Adjusted net debt ⁴ | 7.4 | 270.5 | 148.7 | +20x | (45%) | 7.4 | 148.7 | +20x |
| Shareholders' equity | 1,134.9 | 1,176.9 | 1,253.7 | 10% | 7% | 1,134.9 | 1,253.7 | 10% |
| Net debt / EBITDA ⁵ | 2.9x | 2.5x | 2.7x | -0.3x | +0.2x | 2.9x | 2.7x | -0.3x |
| Adjusted net debt / EBITDA ⁵ | 0.0x | 1.0x | 0.5x | +0.4x | -0.5x | 0.0x | 0.5x | +0.4x |
| EBITDA / Interest ⁶ | 3.5x | 4.0x | 4.4x | +0.9x | +0.3x | 3.5x | 4.4x | +0.9x |

Note: Financial year ends 30 June, Q1 ends 30 September, Q2 and H1 ends 31 December.

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

² EPS is measured in US Dollars per share based on 81.9 million shares for Q1 and Q2 FY2019 and Q2 FY2018, 81.9 million shares in H1 FY2018 and in H1 FY2019.

³ 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.

⁴ 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.

⁵ Calculated based on 12-month trailing EBITDA.

⁶ Calculated based on 12-month trailing EBITDA and net finance costs.

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

Segment Results and Discussion

for the three and the six months ended 31 December 2018

Segment results summary (new format)

| | Revenue, US\$ million | | | EBITDA, US\$ million | | |
|--------------------------------|-----------------------|----------------|-------------|----------------------|--------------|-------------|
| | Q2 FY2018 | Q2 FY2019 | y-o-y | Q2 FY2018 | Q2 FY2019 | y-o-y |
| Oilseed Processing | 304.2 | 379.6 | 25% | 20.6 | 39.4 | 91% |
| Infrastructure and Trading | 257.0 | 873.7 | 3.4x | 48.3 | 40.4 | (16%) |
| Farming | 198.7 | 211.1 | 6% | 18.4 | 61.8 | 3.4x |
| Unallocated corporate expenses | | | | (10.3) | (12.3) | 20% |
| Reconciliation | (223.9) | (349.5) | 56% | | | |
| Total | 536.1 | 1,114.9 | 2.1x | 77.1 | 129.3 | 1.7x |

| | Revenue, US\$ million | | | EBITDA, US\$ million | | |
|--------------------------------|-----------------------|----------------|-------------|----------------------|--------------|-------------|
| | H1 FY2018 | H1 FY2019 | y-o-y | H1 FY2018 | H1 FY2019 | y-o-y |
| Oilseed Processing | 674.1 | 736.5 | 9% | 41.6 | 55.6 | 34% |
| Infrastructure and Trading | 418.5 | 1,741.2 | 4.2x | 66.6 | 78.7 | 18% |
| Farming | 267.0 | 324.5 | 22% | 34.9 | 114.7 | 3.3x |
| Unallocated corporate expenses | | | | (20.0) | (19.1) | (5%) |
| Reconciliation | (287.4) | (547.1) | 1.9x | | | |
| Total | 1,072.2 | 2,255.2 | 2.1x | 123.1 | 229.9 | 1.9x |

Differences are possible due to rounding.

Oilseeds Processing

- Our oil-extraction plants operated at full capacity in Q2 FY2019, setting a new production record by **crushing 941 thousand tons of sunflower seeds**, a 3% growth y-o-y. We maintain our target to process 3.1 million tons of oilseeds in the current season.
- We have **sold 379 thousand tons of sunflower oil** in Q2 FY2019, up 29% y-o-y, including 30 thousand tons of bottled sunflower oil. The share of oil sold through Avere exceeded 50% (171 thousand tons) in Q2 FY2019. Starting from Q3, Avere will be selling all unrefined sunflower oil produced by Kernel plants, purchasing sunflower oil from Kernel at market prices (FOB Black Sea) and paying Kernel a fee.
- Profitability of the segment substantially improved in September-December 2018, with **EBITDA margin** reaching US\$ 104 per ton of oil sold, 48% up y-o-y and 2.6x higher than in the previous quarter. The growth was driven by improved supply of sunflower seeds following a record 15.7 million tons harvest in Ukraine and supports our view on the margin recovery trend for the whole current season at the level of 60-65 US\$ per ton of oil sold.
- Consequently, **sunflower oil segment EBITDA** doubled in Q2 FY2019 as compared to the same period a year ago, totaling at US\$ 39 million.

Infrastructure and Trading

- We **exported** the record in a single quarter 1.7 million tons of **grain from Ukraine** in Q2 FY2019 (54% up y-o-y), with key tailwinds being:
 - Record crop yields of our farming division** which supplied 1 million tons out of total volumes exported in Q2;
 - Strong efforts of our procurement team** which originated 0.7 million tons of grain exported in Q2 from 3rd-party farmers;
 - Full capacity utilization of our own infrastructure.** Silo intake volumes increased 36% y-o-y, to 2.3 million tons, and export terminal's throughput in Ukraine increased 12% y-o-y, to the highest ever 1.3 million tons. Despite the storage capacities of our facilities remaining unchanged, we managed to substantially improve the productivity, with some of our silos exceeding 4x storage capacity turnover;
 - Usage of 3rd-party export terminal** in the port of Yuzhnyi.
- We became the largest grain exporter from Ukraine in 1H FY2019, outperforming numerous international and local peers, and remain committed to export 6.0-6.2 million tons of grain from Ukraine for the whole FY2019.
- Margins dynamics within the segment was twofold. While grain trading operations in Ukraine enjoyed strong 5 US\$ / t EBITDA margin, profitability of our infrastructure expectedly reduced: lack of rains during the harvesting period lowered demand for grain drying services (the most profitable services for our silos), and increased competition in the export terminals business negatively impacted margins of that our branch as well.

- Despite some volatility in Q2 FY2019 results, **Avere** operations secured positive EBITDA contribution for the whole 1H FY2019.
- As a result, EBITDA of the segment in Q2 FY2019 declined 16% y-o-y, to US\$ 40 million.
- Our new grain export terminal in the port of Chornomorsk accepted its first railcars with grain in February 2019, completing the commissioning of the first stage of the project (up to 1.0 million tons of incremental annual throughput capacity). We envisage commissioning of the second (final) stage of the project by the end of 2019, with another 3 million tons throughput capacity to be added.

Farming

- Considering our four key crops (corn, sunflower, wheat, soybean), we harvested 3.3 million tons this season, 31% up y-o-y, despite a 9% reduction in the acreage under these crops this season due to disposal of lands suboptimal for our operations.
- EBITDA margin** in H1 FY2019 increased to 35% of revenue (from 13% for the same period a year ago) stemming from record crop yields achieved this season. Total **farming EBITDA** in July-December 2018 tripled y-o-y, amounting to US\$ 115 million. For the whole season we expect to generate US\$ 170 million EBITDA (net of IAS 41 effect).
- 2019 harvest winter crops** are in a good condition with risks being quite limited as of today. We have planted over 100 thousand hectares under winter wheat and almost 10 thousand hectares under winter rapeseed.

Segment volumes

| metric tons | Q2 FY2018 | Q2 FY2019 | y-o-y |
|---|-----------|-----------|---------|
| Oilseeds processed | 910,517 | 940,556 | 3.3% |
| Sunflower oil sales ¹ | 294,463 | 379,392 | 28.8% |
| Trading volumes | 1,181,186 | 2,857,671 | 2.4x |
| Ukraine | 1,137,010 | 1,745,807 | 53.5% |
| Russia | 44,176 | — | n/m |
| Other ² | — | 1,111,864 | n/m |
| Export terminal's throughput | 1,648,027 | 1,718,186 | 4.3% |
| Ukraine | 1,125,041 | 1,256,723 | 11.7% |
| Russia | 522,986 | 461,463 | (11.8%) |
| Grain and oilseeds received in inland silos | 1,678,899 | 2,282,061 | 35.9% |

Note 1 Includes 171,150 tons of sunflower oil produced by Kernel plants and sold to Avere. Margins on that volumes are allocated to both Oilseed Processing and Infrastructure & Trading segments. Differences are possible due to rounding.

Segment Results and Discussion

for the three and the six months ended 31 December 2018

Harvest update

| | Acreage, thousand hectares | | | Net yields ¹ , tons / hectare | | | Net tonnage, thousand tons | | |
|--------------------|----------------------------|------------|--------------|--|--------|-------|----------------------------|--------------|------------|
| | FY2018 | FY2019 | y-o-y | FY2018 | FY2019 | y-o-y | FY2018 | FY2019 | y-o-y |
| Corn | 202 | 224 | 11% | 6.7 | 9.9 | 48% | 1,357 | 2,227 | 64% |
| Sunflower | 134 | 135 | 1% | 2.3 | 3.2 | 36% | 311 | 426 | 37% |
| Wheat | 146 | 100 | (31%) | 4.9 | 5.1 | 5% | 709 | 509 | (28%) |
| Soybean | 65 | 36 | (44%) | 1.8 | 3.0 | 68% | 115 | 108 | (6%) |
| Other ² | 50 | 34 | (32%) | | | | | | |
| Total | 596 | 529 | (11%) | | | | 2,493 | 3,269 | 31% |

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

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

Segment results summary (old format)¹

| | Revenue, US\$ million | | | EBITDA, US\$ million | | | Volume, thousand tons ² | | | EBITDA margin, US\$/t ³ | | |
|---------------------------------|-----------------------|----------------|-------------|----------------------|--------------|--------------|------------------------------------|-----------|-------|------------------------------------|-----------|-------|
| | Q2 FY2018 | Q2 FY2019 | y-o-y | Q2 FY2018 | Q2 FY2019 | y-o-y | Q2 FY2018 | Q2 FY2019 | y-o-y | Q2 FY2018 | Q2 FY2019 | y-o-y |
| Sunflower oil | | | | | | | | | | | | |
| Sunflower oil sold in bulk | 274.3 | 344.1 | 25% | 17.5 | 35.1 | 2.0x | 269.1 | 349.2 | 30% | 65.1 | 100.4 | 54% |
| Bottled sunflower oil | 29.9 | 35.5 | 19% | 3.1 | 4.3 | 40% | 27.0 | 31.7 | 17% | 114.4 | 136.7 | 19% |
| | 304.2 | 379.6 | 25% | 20.6 | 39.4 | 1.9x | | | | | | |
| Grain and infrastructure | | | | | | | | | | | | |
| Grain trading | 213.9 | 836.4 | 3.9x | 8.3 | 7.1 | (14%) | 1,181 | 2,687 | 2.3x | 7.0 | 2.7 | (62%) |
| Export terminals ⁴ | 14.2 | 13.3 | (6%) | 10.2 | 9.9 | (3%) | 1,125 | 1,257 | 12% | 9.1 | 7.9 | (14%) |
| Silo services | 44.3 | 38.7 | (13%) | 29.8 | 23.4 | (22%) | 1,679 | 2,282 | 36% | 17.8 | 10.2 | (42%) |
| | 272.4 | 888.4 | 3.3x | 48.3 | 40.4 | (16%) | | | | | | |
| Farming | 198.7 | 211.1 | 6% | 18.4 | 61.8 | 3.4x | | | | | | |
| Unallocated expenses | | | | (10.3) | (12.3) | 20% | | | | | | |
| Reconciliation | (239.3) | (364.3) | 52% | | | | | | | | | |
| Total | 536.1 | 1,114.9 | 2.1x | 77.1 | 129.3 | 1.7x | | | | | | |

| | Revenue, US\$ million | | | EBITDA, US\$ million | | | Volume, thousand tons ² | | | EBITDA margin, US\$/t ³ | | |
|---------------------------------|-----------------------|----------------|-------------|----------------------|--------------|-------------|------------------------------------|-----------|-------|------------------------------------|-----------|-------|
| | H1 FY2018 | H1 FY2019 | y-o-y | H1 FY2018 | H1 FY2019 | y-o-y | H1 FY2018 | H1 FY2019 | y-o-y | H1 FY2018 | H1 FY2019 | y-o-y |
| Sunflower oil | | | | | | | | | | | | |
| Sunflower oil sold in bulk | 608.6 | 668.4 | 10% | 34.3 | 49.0 | 43% | 662 | 724 | 9% | 51.9 | 67.7 | 30% |
| Bottled sunflower oil | 65.5 | 68.1 | 4% | 7.3 | 6.6 | (10%) | 60 | 64 | 7% | 122.0 | 103.3 | (15%) |
| | 674.1 | 736.5 | 9% | 41.6 | 55.6 | 34% | | | | | | |
| Grain and infrastructure | | | | | | | | | | | | |
| Grain trading | 363.1 | 1,691.8 | 4.7x | 9.8 | 31.3 | 3.2x | 1,986 | 5,575 | 2.8x | 4.9 | 5.6 | 14% |
| Export terminals ⁴ | 25.6 | 23.9 | (7%) | 18.8 | 18.2 | (3%) | 1,962 | 2,239 | 14% | 9.6 | 8.1 | (15%) |
| Silo services | 56.9 | 51.9 | (9%) | 38.0 | 29.2 | (23%) | 3,071 | 3,840 | 25% | 12.4 | 7.6 | (38%) |
| | 445.6 | 1,767.6 | 4.0x | 66.6 | 78.7 | 18% | | | | | | |
| Farming | 267.0 | 324.5 | 22% | 34.9 | 114.7 | 3.3x | | | | | | |
| Unallocated expenses | | | | (20.0) | (19.1) | (5%) | | | | | | |
| Reconciliation | (314.6) | (573.5) | 82% | | | | | | | | | |
| Total | 1,072.2 | 2,255.2 | 2.1x | 123.1 | 229.9 | 1.9x | | | | | | |

Note 1 Starting from FY 2019, the Group has changed the presentation of segment information in line with the performance management approach to its business activities. Segment reporting in old format is presented only for comparability of information with current segment reporting.

Note 2 Million liters for bottled sunflower oil.

Note 3 US\$ per thousand of liters for bottled sunflower oil.

Note 4 Excluding Taman. Earnings from the joint venture are accounted for below EBITDA. Differences are possible due to rounding.

Financial Highlights

for the three and the six months ended 31 December 2018

Income statement highlights:

- The company generated US\$ 1.1 billion **sales** in Q2 FY2019, over 2 times higher than a year ago, driven by strong grain export volumes from Ukraine and Avere physical trading operations.
- Kernel recognized minus US\$ 6 million **IAS 41 effect** in Q2 FY2019, as negative impact from expensing the gain related to high 2018 harvest outweighed the positive effect from biological transformation of the new harvest 2019 winter crops.
- Cost of sales** increased in line with revenues, 2.1x y-o-y, to US\$ 976 million in Q2 FY2019.
- Consequently, **gross profit** of the company comprised US\$ 133 million, demonstrating 2.1x growth y-o-y.
- Other operating income** totaled at US\$ 1.2 million in Q2 FY2019, as compared to US\$ 14 million income for the same period a year ago, mainly due to a volatility in Avere operations and reduction of VAT benefit effect in FY2019.
- General and administrative expenses** added 15% y-o-y, amounting to US\$ 23 million in Q2 FY2019.
- As a result, **operating profit** doubled y-o-y in Q2 FY2019, reaching US\$ 111 million.
- Net financial costs** increased to US\$ 22.5 million mainly due to seasonal accumulation of working capital and corresponding short-term debt financing.
- Net foreign exchange gain** totaled to US\$ 5 million, being driven mostly by the revaluation of intra-group balances denominated in other than functional currencies.
- Adding US\$ 1.3 million of **other income** and minor contribution from **profit of joint venture, profit before tax** amounted to US\$ 95 million in Q2 FY2019, 47% up y-o-y.
- Accounting for US\$ 7 million income tax expenses, **net profit attributable to shareholders of Kernel Holding S.A.** totaled to US\$ 89 million, a 32% growth y-o-y.

Cash flow highlights:

- Operating profit before working capital changes** in Q2 FY2019 increased by US\$ 37 million y-o-y, to US\$ 116 million.
- Seasonal **working capital** accumulation caused a US\$ 240 million cash outflow in Q2 FY2019.
- Adjusting for income tax and finance cost paid, **net cash outflow from operating activities** in October-December 2018 comprised US\$ 139 million, as compared to US\$ 194 million outflow in Q2 FY2018.
- Net cash outflow from investing activities** totaled to US\$ 50 million, including US\$ 45 million purchases of property, plant and equipment.

Credit metrics highlights:

- Company continued to accumulate grains and oilseeds stocks in Q2 FY2019 right after the harvesting, adding US\$ 311 million of **readily-marketable inventories** ("RMI") between 30 September and 31 December 2018. It triggered the US\$ 189 million increase in **net debt** over the same period, driven by higher utilization of short-term working-capital financing facilities.
- As a result, **net-debt-to-EBITDA** ratio as of 31 December 2018 (measured on 12 months trailing basis) reached 2.7x, as compared to 2.5x three months ago.
- At the same time, **net debt adjusted for RMI** measured as of 31 December 2018 actually reduced by US\$ 122 million during October-December 2018, pushing adjusted-net-debt-EBITDA ratio down to 0.5x from 1.0x as of 30 September 2018.
- EBITDA-to-interest** ratio improved to 4.4x in 2Q FY2019, remaining well above our 3.0x covenant.
- In December 2018, the Company attracted project financing from the **European Investment Bank**, amounting to US\$ 250 million. The funds will be used to construct a greenfield oilseed processing plant in Western Ukraine and co-generation power plants, build inland grain storage facilities and construct a grain handling and storage terminal in the port of Chornomorsk. The amounts will be withdrawn in tranches depending on CapEx needs. The loan matures in 10 years, having a grace period of two years. Additionally, in February 2019 we signed an agreement with **EBRD** to attract the 8-year loan for the total amount up to US\$ 56 million to finance our green energy projects. The beginning of cooperation in long-term funding with such reputable international financial institutions demonstrates transparency and the high standards of our business, as well as our proven business strategy.

Credit metrics

| US\$ million, except ratios | 31 Dec 2017 | 30 Sep 2018 | 31 Dec 2018 | y-o-y | q-o-q |
|---|-------------|-------------|--------------|------------|--------------|
| Short-term interest-bearing debt | 350 | 288 | 494 | 41% | 71% |
| Long-term interest-bearing debt | 499 | 499 | 499 | 0% | 0% |
| Obligations under finance lease | 7 | 10 | 9 | 35% | (13%) |
| Gross interest-bearing debt | 855 | 798 | 1,002 | 17% | 26% |
| Cash and cash equivalents | 157 | 112 | 127 | (20%) | 13% |
| Net interest-bearing debt | 698 | 686 | 875 | 25% | 28% |
| Readily marketable inventories | 690 | 416 | 727 | 5% | 75% |
| of which | | | | | |
| Sunflower oil and meal | 177 | 65 | 106 | (40%) | 64% |
| Sunflower seeds | 299 | 212 | 340 | 14% | 61% |
| Grains and other RMIs | 215 | 139 | 280 | 30% | 102% |
| Adjusted net financial debt | 7 | 270 | 149 | 20x | (45%) |
| Shareholders' equity ¹ | 1,135 | 1,177 | 1,254 | 10% | 7% |
| Net debt / EBITDA ² | 2.9x | 2.5x | 2.7x | -0.3x | 0.2x |
| Adjusted net debt / EBITDA ² | 0.0x | 1.0x | 0.5x | 0.4x | -0.5x |
| EBITDA / Interest ³ | 3.5x | 4.0x | 4.4x | 0.9x | 0.3x |

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

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

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

Differences are possible due to rounding.

Principal Risks and Uncertainties

for the three and the six months ended 31 December 2018

Kernel's management identifies ten principal risks that could materially influence the Company's operations and financial results:

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

For a detailed disclosure of the possible impact of each of the key risks and our management approach, please refer to pages 44-47 of the annual report for the year ended 30 June 2018, available at www.kernel.ua.

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.

Significant Events

for the three and the six months ended 31 December 2018

On 10 December 2018, Kernel Holding S.A. convened its annual General Meeting of Shareholders, which adopted the following resolutions with immediate effect:

- The general meeting, after having reviewed the management report of the board of directors of the Company and the report of the independent auditor of the Company, approves these reports.
- The general meeting, after having reviewed the management report of the board of directors of the Company and the report of the independent auditor of the Company, approves in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2018, with a resulting consolidated net profit attributable to equity holders of the Company of fifty-two million one hundred and forty-three thousand US dollars (USD 52,143,000. -).
- The general meeting, after having reviewed the management report of the board of directors and the report of the independent auditor of the Company, approves in their entirety the Parent Company's annual accounts (unconsolidated) for the financial year ended on 30 June 2018, with a resulting net loss for Kernel Holding S.A. as parent company of the Kernel Holding S.A. group of twenty-three million nine hundred nine thousand two hundred and thirty-two US dollars and eighty-two cents (USD 23,909,232.82).
- The general meeting approves the proposal of the board of directors (i) to carry forward the net loss of the Parent Company annual accounts (non-consolidated) of twenty-three million nine hundred nine thousand two hundred and thirty-two US dollars and eighty-two cents (USD 23,909,232.82) and (ii) after allocation to the legal reserve of the Company, to declare a dividend at twenty-five cents per ordinary share (USD 0.25) for the financial year ended on 30

June 2018. The general meeting delegates to the board of directors to set up record and payment dates for the dividend distribution.

- The general meeting decides to grant discharge to the directors of the Company for their management duties and the exercise of their mandates in the course of the financial year ended on 30 June 2018.
- The general meeting, having acknowledged the end of the mandates of directors and in consideration of the proposal to reappoint Mr. Andrzej Danilczuk for a one-year term, decides to renew the mandates of Mr. Andrzej Danilczuk, Mrs. Nathalie Bachich, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mr. Yuriy Kovalchuk, Mrs. Viktoriia Lukianenko and Mr. Yevgen Osyrov for a one-year term mandate, which shall terminate on the date of the general meeting of shareholders to be held in 2019.
- The general meeting, having acknowledged that fees (tantiemes) paid to the independent directors for their previous term in office amounted in total to two hundred sixty thousand US dollars (USD 260,000. -), approves the independent directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2019, for a total gross annual amount of two hundred sixty thousand US dollars (USD 260,000. -).
- The general meeting, having acknowledged that fees (tantiemes) paid to the executive directors for their previous term as members of the board of directors amounted in total to three hundred thousand US dollars (USD 240,000. -), approves the executive directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2019, for a total gross annual amount of two hundred forty thousand US dollars (USD 240,000. -)

including two hundred thousand US dollars (USD 200,000. -) to be paid to the chairman of the board of directors.

- The general meeting grants discharge to the independent auditor of the Company, Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 for the financial year ended on 30 June 2018.
- The general meeting, following proposal by the board of directors to reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as independent auditor of the Company, resolves to reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 560, rue du Neudorf, L-2220 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as independent auditor of the Company for a one-year term mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2019.

Alternative Performance Measures

for the three and the six months ended 31 December 2018

To comply with ESMA Directive on APMs, Kernel Holding S.A. (hereinafter “the Company”) and its subsidiaries (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 income/(loss) of joint ventures, net other income/(expenses), 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 if the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- EBITDA and EBITDA margin do not reflect the impact of financial costs, which significance reflect macroeconomic conditions and have little effect on the Group's operating performance;

- EBITDA and EBITDA margin do not reflect the impact of taxes on 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\$ | 3 months ended 31 December 2017 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 6 months ended 31 December 2018 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Profit before income tax | 64,947 | 95,347 | 82,609 | 170,624 |
| add back: | | | | |
| Financial costs, net | (15,908) | (22,508) | (31,923) | (42,087) |
| Foreign exchange gain, net | 29,886 | 5,275 | 37,294 | 17,217 |
| Other income/(expenses), net | (4,980) | 1,149 | (2,993) | 1,580 |
| Share of income/(loss) of joint venture | 69 | 147 | (432) | 536 |
| Amortization and depreciation | (21,208) | (18,037) | (42,396) | (36,477) |
| EBITDA | 77,088 | 129,324 | 123,059 | 229,855 |

Alternative Performance Measures *continued*

for the three and the six months ended 31 December 2018

Working Capital

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

Fixed Assets Investments

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

Investing Cash Flows

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

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

| in thousand US\$ | As of 31 December 2017 | As of 30 September 2018 | As of 31 December 2018 |
|--|---------------------------|----------------------------|---------------------------|
| Total current assets | 1,322,687 | 1,324,332 | 1,499,983 |
| <i>less:</i> | | | |
| Cash and cash equivalents | 157,494 | 111,742 | 126,753 |
| Assets classified as held for sale | – | – | 1,991 |
| Total current liabilities | 515,751 | 603,410 | 733,885 |
| <i>add back:</i> | | | |
| Short-term borrowings | 329,351 | 277,700 | 471,807 |
| Current portion of long-term borrowings | 2,794 | 3,625 | 3,993 |
| Current portion of obligations under finance lease | 2,173 | 3,404 | 2,675 |
| Interest on bonds issued | 17,949 | 7,131 | 17,949 |
| Working Capital | 1,001,709 | 901,040 | 1,133,778 |

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

| in thousand US\$ | 3 months ended 31 December 2017 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 6 months ended 31 December 2018 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net cash used in investing activities | 3,509 | (49,956) | (71,621) | (122,198) |
| <i>less:</i> | | | | |
| Purchase of intangible and other non-current assets | (2,652) | (10,595) | (3,733) | (20,274) |
| Disposal of subsidiaries | – | 1,140 | 1,404 | 6,545 |
| Acquisition of subsidiaries | – | – | (46,512) | – |
| Amounts advanced for subsidiaries | 17,002 | 1,825 | 19,504 | 1,825 |
| Amount advanced to related parties | – | (85) | – | (10,085) |
| Payment to acquire financial assets | (10,000) | (240) | (10,000) | (13,669) |
| (Purchases) / sale of financial assets | 6,981 | – | (8,045) | – |
| Fixed assets investments | (7,822) | (42,001) | (24,239) | (86,540) |

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

| in thousand US\$ | 3 months ended 31 December 2017 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 6 months ended 31 December 2018 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Net cash used in investing activities | 3,509 | (49,956) | (71,621) | (122,198) |
| <i>less:</i> | | | | |
| Purchase of property, plant and equipment | (8,326) | (45,061) | (25,786) | (92,100) |
| Proceeds from disposal of property, plant and equipment | 504 | 3,060 | 1,547 | 5,560 |
| Investing cash flows | 11,331 | (7,955) | (47,382) | (35,658) |

Alternative Performance Measures continued

for the three and the six months ended 31 December 2018

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 income/(loss) of joint ventures, net other income/(expenses), the net 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 before income tax adding back share of income/(loss) of joint ventures, net other income/(expenses), 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, net change in fair value of biological assets, other accruals, net foreign exchange gain/(loss) and other.

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

| in thousand US\$ | 3 months ended 31 December 2017 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 6 months ended 31 December 2018 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Profit before income tax | 64,947 | 95,347 | 82,609 | 170,624 |
| <i>add back:</i> | | | | |
| Financial costs, net | (15,908) | (22,508) | (31,923) | (42,087) |
| Foreign exchange gain, net | 29,886 | 5,275 | 37,294 | 17,217 |
| Other income/(expenses), net | (4,980) | 1,149 | (2,993) | 1,580 |
| Share of income/(loss) of joint venture | 69 | 144 | (432) | 536 |
| Amortization and depreciation | (21,208) | (18,037) | (42,396) | (36,477) |
| EBITDA | 77,088 | 129,324 | 123,059 | 229,855 |
| <i>less:</i> | | | | |
| Purchase of property, plant and equipment | (8,326) | (45,061) | (25,786) | (92,100) |
| Proceeds from disposal of property, plant and equipment | 504 | 3,060 | 1,547 | 5,560 |
| Finance costs paid | (7,126) | (14,465) | (29,571) | (40,802) |
| Income tax paid | (468) | (595) | (3,647) | (2,268) |
| Movement in allowance for doubtful receivables | 412 | 4,261 | 465 | 4,340 |
| Net change in fair value of biological assets and agriproduce | (961) | 5,826 | (3,768) | (35,640) |
| Net foreign exchange loss/(gain) | 2,826 | 4,136 | 1,278 | (4,724) |
| Other accruals | 2,845 | (2,583) | 3,701 | (2,857) |
| Other | (4,073) | (25,336) | (8,240) | (21,225) |
| Funds from operations | 62,721 | 58,567 | 59,038 | 40,139 |

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

| in thousand US\$ | 3 months ended 31 December 2017 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 6 months ended 31 December 2018 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Profit before income tax | 64,947 | 95,347 | 82,609 | 170,624 |
| <i>add back:</i> | | | | |
| Financial costs, net | (15,908) | (22,508) | (31,923) | (42,087) |
| Foreign exchange gain, net | 29,886 | 5,275 | 37,294 | 17,217 |
| Other income/(expenses), net | (4,980) | 1,149 | (2,993) | 1,580 |
| Share of income/(loss) of joint venture | 69 | 144 | (432) | 536 |
| Amortization and depreciation | (21,208) | (18,037) | (42,396) | (36,477) |
| EBITDA | 77,088 | 129,324 | 123,059 | 229,855 |
| <i>less:</i> | | | | |
| Net cash used in investing activities | 3,509 | (49,956) | (71,621) | (122,198) |
| Changes in working capital | (264,482) | (239,976) | (202,313) | (269,921) |
| Finance costs paid | (7,126) | (14,465) | (29,571) | (40,802) |
| Income tax paid | (468) | (595) | (3,647) | (2,268) |
| Movement in allowance for doubtful receivables | 412 | 4,261 | 465 | 4,340 |
| Net change in fair value of biological assets and agriproduce | (961) | 5,826 | (3,768) | (35,640) |
| Net foreign exchange loss/(gain) | 2,826 | 4,136 | 1,278 | (4,724) |
| Other accruals | 2,845 | (2,583) | 3,701 | (2,857) |
| Other | (4,073) | (25,336) | (8,240) | (21,225) |
| Free cash flows | (190,430) | (189,364) | (190,657) | (265,440) |

Alternative Performance Measures continued

for the three and the six months ended 31 December 2018

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.

Interest-bearing Debt

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

bearing debt as the sum of short-term borrowings, current portion of long-term borrowings, long-term borrowings, 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.

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 31 December 2017 | As of 30 September 2018 | As of 31 December 2018 |
|---|---------------------------|----------------------------|---------------------------|
| Sunflower oil & meal | 177,065 | 64,957 | 106,394 |
| Sunflower seed | 298,571 | 211,824 | 340,085 |
| Grains | 214,090 | 138,882 | 280,172 |
| Other | 79,121 | 85,925 | 104,107 |
| Total | 768,847 | 501,588 | 830,758 |
| <i>of which: Readily marketable inventories</i> | <i>690,497</i> | <i>415,663</i> | <i>726,651</i> |

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

| in thousand US\$ | As of 31 December 2017 | As of 30 September 2018 | As of 31 December 2018 |
|--------------------------------------|---------------------------|----------------------------|---------------------------|
| Short-term interest-bearing debt | 350,094 | 288,456 | 493,749 |
| Long-term interest-bearing debt | 4,189 | 3,854 | 3,577 |
| Bonds issued | 494,391 | 495,072 | 495,591 |
| Obligations under finance lease | 6,758 | 10,490 | 9,142 |
| Gross interest-bearing debt | 855,432 | 797,872 | 1,002,059 |
| less: cash and cash equivalents | 157,494 | 111,742 | 126,753 |
| Net interest-bearing debt | 697,938 | 686,130 | 875,306 |
| less: readily marketable inventories | 690,497 | 415,663 | 726,651 |
| Adjusted net financial debt | 7,441 | 270,467 | 148,655 |

Alternative Performance Measures *continued*

for the three and the six months ended 31 December 2018

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

| APM | Calculation | Why APM is the most important for management |
|---------------------------------------|---|--|
| EBITDA | Profit before income tax adding back share of income/(loss) of joint ventures, net other income/(expenses), 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. |
| Working Capital | Current assets (excluding cash and cash equivalents, and assets classified as held for sale) less current liabilities (excluding short-term borrowings, current portion of long-term borrowings, current portion of obligations under finance lease and Interest on bonds issued). | The indicator of working capital is important for the 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. |
| Fixed Assets Investments | 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, less payment to acquire financial assets, less amount advanced to related parties. | Kernel is executing a solid investment program as a part of Strategy 2021, and fixed assets investment is an important measure to monitor capital expenditure as a part of the execution of investment program. |
| Investing Cash Flows | 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. |
| Funds from Operations | Profit before income tax adding back income, share of income/(loss) in joint ventures, net other income/(expenses), the foreign exchange gain, 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, net change in fair value of biological assets and agricultural produce, other accruals, net foreign exchange gain and other. | The Group uses this APM as a pre-working capital measure that reflects our ability to generate cash for investment, debt servicing and distributions to shareholders. |
| Free Cash Flows | Profit before income tax adding back share of income/(loss) of joint ventures, net other income/(expenses), net foreign exchange gain, net finance costs, amortization and depreciation, less net cash used in investing activities, finance costs paid, income tax paid, changes in working capital, movements in allowance for doubtful receivables, net change in fair value of biological assets, other accruals net foreign exchange gain and other. | The Group uses free cash flow APM as it reflects the cash generating capability of the Group to repay debt or carry out acquisitions. |
| Readily Marketable Inventories | Agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil. | The Group uses Readily Marketable Inventories (hereinafter 'RMI'), as an additional measure of its liquidity, which the Group uses to provide a supplemental tool to assist management and investors in evaluating current business performance and in calculating credit ratios under certain of the Group's financing arrangements. |
| Interest-bearing Debt | Sum of short-term borrowings, current portion of long-term borrowings, long-term borrowings, bonds issued and present value of lease obligations. | The Group uses Interest-bearing Debt APM, as it is a useful measure of the leverage of the Group, which is widely used by credit investors and rating agencies. |

Management Statement

for the three and six months ended 31 December 2018

This statement is provided to confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') and its subsidiaries (hereinafter together - the 'Group') for the six months ended 31 December 2018, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - 'Interim financial reporting' (hereinafter, 'IAS 34') and give a true and fair view of the financial position, cash flows, changes in equity and profit or loss and other comprehensive income, and that the directors' report on the operations of the Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that Deloitte Audit S.a.r.l. has been appointed in accordance with applicable laws and performed the review as an independent auditor of the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. for the six months ended 31 December 2018, and that the entities of the Group and the independent auditor performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Review Engagements.

27 February 2019

On behalf of the Board

Andriy Verevskyy

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

Statement of Management Responsibilities

for the three and six months ended 31 December 2018

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

- the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') presented in this Interim Report and established in conformity with IAS 34 give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2018;
- the interim accounts of the Company presented in this Interim Report and established in conformity with Luxembourg legal and regulatory requirements relating to the preparation of interim accounts give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2018;
- the Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

27 February 2019

On behalf of the Board

Andriy Verevskyy

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

To the Shareholders of
Kernel Holding S.A.
19, rue de Bitbourg
L-1331 Luxembourg

Deloitte Audit
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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Kernel Holding S.A. as of 31 December 2018, and the related condensed consolidated interim statement of profit or loss, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity, condensed consolidated interim statement of cash flows for the six-month period then ended, and the notes to the condensed consolidated interim financial statements as at 31 December 2018 ("the condensed consolidated interim financial information"). The Board of Directors is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34, *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

Other matter

The accompanying condensed consolidated interim financial information for the three-month ended 31 December 2018 and 2017, were not audited or reviewed by us and accordingly we do not express any other form of assurance on it.

For Deloitte Audit, *Cabinet de Révision Agréé*



Marco Crosetto, *Réviseur d'Entreprises Agréé*
Partner

28 February 2019

Selected Financial Data

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

| | | USD | | PLN | | EUR | |
|--------|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 |
| I. | Revenue | 2,255,163 | 1,072,165 | 8,425,289 | 3,869,765 | 1,958,158 | 911,555 |
| II. | Profit from operating activities | 193,378 | 80,663 | 722,460 | 291,137 | 167,910 | 68,580 |
| III. | Profit before income tax | 170,624 | 82,609 | 637,451 | 298,161 | 148,153 | 70,234 |
| IV. | Profit for the period from continuing operations | 166,861 | 90,191 | 623,393 | 325,526 | 144,885 | 76,680 |
| V. | Net cash used in operating activities | (143,242) | (119,036) | (535,152) | (472,894) | (124,377) | (101,205) |
| VI. | Net cash used in investing activities | (122,198) | (71,621) | (456,532) | (284,529) | (106,105) | (60,892) |
| VII. | Net cash generated by financing activities | 290,430 | 190,990 | 1,085,046 | 758,746 | 252,180 | 162,380 |
| VIII. | Total net cash flow | 24,990 | 333 | 93,362 | 1,323 | 21,698 | 283 |
| IX. | Total assets | 2,555,648 | 2,210,414 | 9,608,470 | 7,695,115 | 2,234,403 | 1,845,032 |
| X. | Current liabilities | 733,885 | 515,751 | 2,759,187 | 1,795,484 | 641,636 | 430,497 |
| XI. | Non-current liabilities | 558,812 | 556,033 | 2,100,966 | 1,935,718 | 488,569 | 464,121 |
| XII. | Issued capital | 2,164 | 2,164 | 8,136 | 7,534 | 1,892 | 1,806 |
| XIII. | Total equity | 1,262,951 | 1,138,630 | 4,748,317 | 3,963,913 | 1,104,198 | 950,414 |
| XIV. | Number of shares | 81,941,230 | 81,941,230 | 81,941,230 | 81,941,230 | 81,941,230 | 81,941,230 |
| XV. | Profit per ordinary share (in USD/PLN/EUR) | 2.00 | 1.10 | 7.48 | 3.96 | 1.74 | 0.93 |
| XVI. | Diluted number of shares | 82,825,519 | 82,776,896 | 82,825,519 | 82,776,896 | 82,825,519 | 82,776,896 |
| XVII. | Diluted profit per ordinary share (in USD/PLN/EUR) | 1.98 | 1.09 | 7.40 | 3.92 | 1.72 | 0.92 |
| XVIII. | Book value per share (in USD/PLN/EUR) | 15.30 | 13.85 | 57.52 | 48.22 | 13.38 | 11.56 |
| XIX. | Diluted book value per share (in USD/PLN/EUR) | 15.14 | 13.71 | 56.92 | 47.73 | 13.24 | 11.44 |

Condensed Consolidated Interim Statement of Financial Position

as of 31 December 2018 (in thousands of US dollars, unless otherwise stated)

| | Notes | As of 31 December 2018 | As of 30 June 2018 | As of 31 December 2017 |
|--|-------|---------------------------|-----------------------|---------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 7 | 126,753 | 132,018 | 157,494 |
| Trade accounts receivable, net | 8 | 203,391 | 92,041 | 117,974 |
| Prepayments to suppliers and other current assets, net | 21 | 76,843 | 113,342 | 75,062 |
| Corporate income tax prepaid | 20 | 8,032 | 6,937 | 9,057 |
| Taxes recoverable and prepaid, net | | 142,619 | 114,695 | 127,162 |
| Inventory | 9 | 830,758 | 368,453 | 768,847 |
| Biological assets | 10 | 29,855 | 289,436 | 32,673 |
| Assets classified as held for sale | 6 | 1,991 | 14,689 | — |
| Other current assets | | 79,741 | 72,344 | 34,418 |
| Total current assets | | 1,499,983 | 1,203,955 | 1,322,687 |
| Non-current assets | | | | |
| Property, plant and equipment, net | 11 | 624,913 | 588,127 | 577,091 |
| Intangible assets, net | | 110,790 | 104,466 | 106,799 |
| Goodwill | | 102,621 | 103,691 | 110,465 |
| Investments in joint ventures | 12 | 52,754 | 52,218 | 50,593 |
| Deferred tax assets | | 14,350 | 18,536 | 13,222 |
| Corporate income tax prepaid | 20 | 3,623 | 4,645 | 5,291 |
| Other non-current assets | 21 | 146,614 | 134,562 | 24,266 |
| Total non-current assets | | 1,055,665 | 1,006,245 | 887,727 |
| Total assets | | 2,555,648 | 2,210,200 | 2,210,414 |
| Liabilities and equity | | | | |
| Current liabilities | | | | |
| Trade accounts payable | 13 | 97,000 | 73,629 | 41,435 |
| Advances from customers and other current liabilities | 21 | 117,794 | 104,898 | 120,459 |
| Short-term borrowings | 14 | 471,807 | 224,773 | 329,351 |
| Current portion of long-term borrowings | 15 | 3,993 | 2,811 | 2,794 |
| Interest on bonds issued | 16 | 17,949 | 17,949 | 17,949 |
| Other current liabilities | | 25,342 | 51,456 | 3,763 |
| Total current liabilities | | 733,885 | 475,516 | 515,751 |
| Non-current liabilities | | | | |
| Long-term borrowings | 15 | 3,577 | 2,812 | 4,189 |
| Obligations under finance leases | | 6,467 | 7,710 | 4,585 |
| Deferred tax liabilities | | 19,453 | 19,570 | 20,477 |
| Bonds issued | 16 | 495,591 | 494,796 | 494,391 |
| Other non-current liabilities | 21 | 33,724 | 32,506 | 32,391 |
| Total non-current liabilities | | 558,812 | 557,394 | 556,033 |
| Equity attributable to Kernel Holding S.A. equity holders | | | | |
| Issued capital | | 2,164 | 2,164 | 2,164 |
| Share premium reserve | | 481,878 | 481,878 | 481,878 |
| Additional paid-in capital | | 39,944 | 39,944 | 39,944 |
| Equity-settled employee benefits reserve | 2 | 8,625 | 8,114 | 6,639 |
| Revaluation reserve | | 42,189 | 43,815 | 43,815 |
| Translation reserve | | (784,521) | (724,054) | (796,468) |
| Retained earnings | | 1,463,408 | 1,318,558 | 1,356,963 |
| Total equity attributable to Kernel Holding S.A. equity holders | | 1,253,687 | 1,170,419 | 1,134,935 |
| Non-controlling interests | | 9,264 | 6,871 | 3,695 |
| Total equity | | 1,262,951 | 1,177,290 | 1,138,630 |
| Total liabilities and equity | | 2,555,648 | 2,210,200 | 2,210,414 |
| Book value | | 1,253,687 | 1,170,419 | 1,134,935 |
| Number of shares | 2 | 81,941,230 | 81,941,230 | 81,941,230 |
| Book value per share (in USD) | | 15.30 | 14.28 | 13.85 |
| Diluted number of shares | | 82,825,519 | 82,887,231 | 82,776,896 |
| Diluted book value per share (in USD) | | 15.14 | 14.12 | 13.71 |

On behalf of the Board

Andriy Verevsky

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

Condensed Consolidated Interim Statement of Profit or Loss

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

| | Notes | 6 months ended 31 December 2018 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 3 months ended 31 December 2017 |
|--|-------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Revenue | 17 | 2,255,163 | 1,114,859 | 1,072,165 | 536,071 |
| Net change in fair value of biological assets and agricultural produce | | 35,640 | (5,826) | 3,768 | 961 |
| Cost of sales | 3, 18 | (2,071,644) | (975,732) | (976,139) | (474,656) |
| Gross profit | | 219,159 | 133,301 | 99,794 | 62,376 |
| Other operating income, net | | 18,342 | 1,215 | 19,448 | 13,765 |
| General and administrative expenses | 21 | (44,123) | (23,229) | (38,579) | (20,261) |
| Profit from operating activities | | 193,378 | 111,287 | 80,663 | 55,880 |
| Finance costs, net | | (42,087) | (22,508) | (31,923) | (15,908) |
| Foreign exchange gain, net | 19 | 17,217 | 5,275 | 37,294 | 29,886 |
| Other income/(expenses), net | 21 | 1,580 | 1,149 | (2,993) | (4,980) |
| Share of income/(loss) of joint ventures | 12 | 536 | 144 | (432) | 69 |
| Profit before income tax | | 170,624 | 95,347 | 82,609 | 64,947 |
| Income tax (expenses)/benefit | 20 | (3,763) | (6,915) | 7,582 | 2,425 |
| Profit for the period from continuing operations | | 166,861 | 88,432 | 90,191 | 67,372 |
| Profit for the period | | 166,861 | 88,432 | 90,191 | 67,372 |
| Profit for the period attributable to: | | | | | |
| Equity holders of Kernel Holding S.A. | | 163,999 | 88,506 | 89,816 | 66,998 |
| Non-controlling interests | | 2,862 | (74) | 375 | 374 |
| Earnings per share | | | | | |
| From continuing operations | | | | | |
| Weighted average number of shares | | 81,941,230 | 81,941,230 | 81,941,230 | 81,941,230 |
| Profit per ordinary share (in USD) | | 2.00 | 1.08 | 1.10 | 0.82 |
| Diluted number of shares | | 82,825,519 | 82,852,444 | 82,776,896 | 82,650,622 |
| Diluted profit per ordinary share (in USD) | | 1.98 | 1.07 | 1.09 | 0.81 |

On behalf of the Board
Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

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

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

| | 6 months ended 31 December 2018 | 3 months ended 31 December 2018 | 6 months ended 31 December 2017 | 3 months ended 31 December 2017 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Profit for the period | 166,861 | 88,432 | 90,191 | 67,372 |
| Other comprehensive (loss)/income | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations | (60,742) | 7,018 | (89,493) | (64,735) |
| Other comprehensive (loss)/income, net | (60,742) | 7,018 | (89,493) | (64,735) |
| Total comprehensive income for the period | 106,119 | 95,450 | 698 | 2,637 |
| Total comprehensive income/(loss) attributable to: | | | | |
| Equity holders of Kernel Holding S.A. | 103,532 | 95,417 | 806 | 2,654 |
| Non-controlling interests | 2,587 | 33 | (108) | (17) |

On behalf of the Board

Andriy Verevsky
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

| | Attributable to Kernel Holding S.A. shareholders | | | | | | | Total | Non-controlling interests | Total equity |
|--|--|-----------------------|----------------------------|--|---------------------|---------------------|-------------------|------------------|---------------------------|------------------|
| | Issued capital | Share premium reserve | Additional paid-in capital | Equity-settled employee benefits reserve | Revaluation reserve | Translation reserve | Retained earnings | | | |
| Balance as of 30 June 2017 | 2,164 | 481,878 | 39,944 | 7,014 | 43,815 | (707,458) | 1,285,671 | 1,153,028 | 4,581 | 1,157,609 |
| Profit for the period | — | — | — | — | — | — | 89,816 | 89,816 | 375 | 90,191 |
| Other comprehensive loss | — | — | — | — | — | (89,010) | — | (89,010) | (483) | (89,493) |
| Total comprehensive (loss)/income for the period | — | — | — | — | — | (89,010) | 89,816 | 806 | (108) | 698 |
| Distribution of dividends (Note 2) | — | — | — | — | — | — | (20,485) | (20,485) | — | (20,485) |
| Effect of changes in non-controlling interests | — | — | — | — | — | — | 778 | 778 | (778) | — |
| Recognition of share-based payments (Note 2) | — | — | — | (375) | — | — | 1,183 | 808 | — | 808 |
| Balance as of 31 December 2017 | 2,164 | 481,878 | 39,944 | 6,639 | 43,815 | (796,468) | 1,356,963 | 1,134,935 | 3,695 | 1,138,630 |
| (Loss)/Profit for the period | — | — | — | — | — | — | (37,673) | (37,673) | 3,436 | (34,237) |
| Other comprehensive income | — | — | — | — | — | 72,414 | — | 72,414 | 505 | 72,919 |
| Total comprehensive income/(loss) for the period | — | — | — | — | — | 72,414 | (37,673) | 34,741 | 3,941 | 38,682 |
| Effect of changes on minority interest | — | — | — | — | — | — | 765 | 765 | (765) | — |
| Recognition of share-based payments | — | — | — | 1,475 | — | — | (1,183) | 292 | — | 292 |
| Balance as of 30 June 2018 (as previously reported) | 2,164 | 481,878 | 39,944 | 8,114 | 43,815 | (724,054) | 1,318,872 | 1,170,733 | 6,871 | 1,177,604 |
| Effect of IFRS 9 implementation (Note 3) | — | — | — | — | — | — | (314) | (314) | — | (314) |
| Balance as of 30 June 2018 (restated) | 2,164 | 481,878 | 39,944 | 8,114 | 43,815 | (724,054) | 1,318,558 | 1,170,419 | 6,871 | 1,177,290 |
| Profit for the period | — | — | — | — | — | — | 163,999 | 163,999 | 2,862 | 166,861 |
| Other comprehensive loss | — | — | — | — | — | (60,467) | — | (60,467) | (275) | (60,742) |
| Total comprehensive (loss)/income for the period | — | — | — | — | — | (60,467) | 163,999 | 103,532 | 2,587 | 106,119 |
| Distribution of dividends (Note 2) | — | — | — | — | — | — | (20,969) | (20,969) | — | (20,969) |
| Disposal of subsidiaries | — | — | — | — | (1,626) | — | 1,626 | — | — | — |
| Effect of changes on minority interest | — | — | — | — | — | — | 194 | 194 | (194) | — |
| Recognition of share-based payments | — | — | — | 511 | — | — | — | 511 | — | 511 |
| Balance as of 31 December 2018 | 2,164 | 481,878 | 39,944 | 8,625 | 42,189 | (784,521) | 1,463,408 | 1,253,687 | 9,264 | 1,262,951 |

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

| | Notes | 6 months ended 31 December 2018 | 6 months ended 31 December 2017 |
|--|-------|------------------------------------|------------------------------------|
| Operating activities: | | | |
| Profit before income tax | | 170,624 | 82,609 |
| Adjustments for: | | | |
| Amortization and depreciation | | 36,477 | 42,396 |
| Finance costs, net | | 42,087 | 31,923 |
| Movement in allowance for doubtful receivables | | 4,340 | 465 |
| Other accruals | | (2,857) | 3,701 |
| (Gain)/Loss on disposal of property, plant and equipment | | (1,270) | 1,708 |
| Net foreign exchange gain | | (21,941) | (36,016) |
| Write-offs and impairment loss | | — | 2,255 |
| Net change in fair value of biological assets and agricultural produce | 10 | (35,640) | (3,768) |
| Share of (income)/loss of joint ventures | 12 | (536) | 432 |
| Gain on sales of Subsidiaries | 5 | (1,693) | (1,876) |
| Gain on bargain purchase | 5 | — | (2,309) |
| Net gain arising on financial liabilities designated as at fair value through profit or loss | | (19,842) | — |
| Net gain arising on financial assets classified as held for trading | | — | (1,569) |
| Other gains | | — | (3,456) |
| Operating profit before working capital changes | | 169,749 | 116,495 |
| Changes in working capital: | | | |
| Change in trade accounts receivable | | (112,060) | (31,321) |
| Change in prepayments and other current assets | | 33,706 | 16,864 |
| Change in restricted cash balance | | (10,470) | (12,377) |
| Change in taxes recoverable and prepaid | | (32,461) | 1,458 |
| Change in biological assets | | 287,998 | 219,567 |
| Change in inventories | | (467,472) | (382,296) |
| Change in trade accounts payable | | 24,685 | (13,455) |
| Change in advances from customers and other current liabilities | | 6,153 | (753) |
| Cash used in operations | | (100,172) | (85,818) |
| Finance costs paid | | (40,802) | (29,571) |
| Income tax paid | | (2,268) | (3,647) |
| Net cash used in operating activities | | (143,242) | (119,036) |
| Investing activities: | | | |
| Purchase of property, plant and equipment | | (92,100) | (25,786) |
| Proceeds from disposal of property, plant and equipment | | 5,560 | 1,547 |
| Purchase of intangible and other non-current assets | | (20,274) | (3,733) |
| Disposal of subsidiaries | | 6,545 | 1,404 |
| Acquisition of subsidiaries | | — | (46,512) |
| Purchases of financial assets | | — | (8,045) |
| Payment to acquire financial assets | | (13,669) | (10,000) |
| Amount advanced to related parties | | (10,085) | — |
| Amount advanced for subsidiaries | | 1,825 | 19,504 |
| Net cash used in investing activities | | (122,198) | (71,621) |
| Financing activities: | | | |
| Proceeds from borrowings | | 377,784 | 427,561 |
| Repayment of borrowings | | (85,791) | (233,096) |
| Net cash generated by financing activities | | 291,993 | 194,465 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | (1,563) | (3,475) |
| Net increase in cash and cash equivalents | | 24,990 | 333 |
| Cash and cash equivalents, at the beginning of the period | 7 | 90,069 | 87,165 |
| Cash and cash equivalents, at the end of the period | 7 | 115,059 | 87,498 |

On behalf of the Board

Andriy Verevskyy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

1. Corporate Information

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

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

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

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

As of 31 December 2018, 30 June 2018 and 31 December 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 | | |
|-------------------------------|---|--------------------------|--|--------------|------------------|
| | | | 31 December 2018 | 30 June 2018 | 31 December 2017 |
| Jerste S.a.r.l./BV | Holding companies. | Netherlands | 100.0% | 100.0% | 100.0% |
| Inerco Trade S.A. | | Switzerland | 100.0% | 100.0% | 100.0% |
| Restomon Ltd | Trading in sunflower oil, meal and grain. | British Virgin Islands | 100.0% | 100.0% | 100.0% |
| Kernel-Trade LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Avere Commodities SA | | Switzerland | 60.0% | 60.0% | 60.0% |
| Ukragroinvest LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Poltava OEP PJSC | Oilseed crushing plants. Production of sunflower oil and meal. | Ukraine | 99.7% | 99.7% | 99.7% |
| Bandurka OEP LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Vovchansk OEP PJSC | | Ukraine | 99.4% | 99.4% | 99.4% |
| Prykolotnoe OEP LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Kirovogradoliya PJSC | | Ukraine | 99.2% | 99.2% | 99.2% |
| Ekotrans LLC | | Ukraine | 0.0% ⁽¹⁾ | 100.0% | 100.0% |
| BSI LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Prydniprovskiy OEP LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Estron Corporation Ltd | Provision of grain, oil and meal handling and transshipment services. | Cyprus | 100.0% | 100.0% | 100.0% |
| Poltava HPP PJSC | Grain elevators. Provision of grain and oil-seed cleaning, drying and storage services. | Ukraine | 94.0% | 94.0% | 94.0% |
| Kononivsky Elevator LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Agro Logistics Ukraine LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Bilovodskiy KHP PJSC | | Ukraine | 91.12% | 91.12% | 91.12% |
| Unigrain-Agro (Semenivka) LLC | Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley. | Ukraine | 0.0% ⁽²⁾ | 100.0% | 100.0% |
| Agrofirma Arshytsya LLC | | Ukraine | 0.0% ⁽³⁾ | 100.0% | 100.0% |
| Hliborob LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Vyshneve Agro ALLC | | Ukraine | 0.0% ⁽²⁾ | 100.0% | 100.0% |
| Prydniprovskiy Kray ALLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Enselco Agro LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Druzhba-Nova ALLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Hovtva ALLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Agro Invest Ukraine LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Druzhba 6 PE | | Ukraine | 100.0% | 100.0% | 100.0% |
| AF Semerenky LLC | | Ukraine | 100.0% | 100.0% | 100.0% |
| Buymerske PE | | Ukraine | 0.0% ⁽⁴⁾ | 100.0% | 100.0% |

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

Note 1 The company was disposed on 30 July 2018

Note 2 The company merged to Prydniprovskiy Kray ALLC

Note 3 The company merged to Hovtva ALLC

Note 4 The company merged to AF Semerenky LLC

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 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 31 December 2018 and 2017, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value. Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

| | As of 31 December 2018 | | As of 31 December 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') | 32,716,775 | 39.93% | 32,344,404 | 39.47% |
| Free float | 49,224,455 | 60.07% | 49,596,826 | 60.53% |
| Total | 81,941,230 | 100.00% | 81,941,230 | 100.00% |

As of 31 December 2018 and 2017, 100% of the beneficial interest in the Major Equity Holder was held by Andriy Mykhailovych Verevskyy (hereinafter the 'Beneficial Owner').

As of 31 December 2018, the fair value of the share-based options granted to the management was USD 8,625 thousand and USD 511 thousand was recognized as an expense (part of payroll and payroll related expenses) during the six months ended 31 December 2018, with a corresponding increase in equity over the vesting period (31 December 2017: USD 6,639 thousand and USD 808 thousand, respectively).

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

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 31 December 2018 (31 December 2017: USD 210 thousand), may not be distributed as dividends.

3. Summary of Significant Accounting Policies

Basis of Preparation and Accounting

These Condensed Consolidated Interim Financial Statements for the six months ended 31 December 2018 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' and do not include all of the information and disclosures required in the annual consolidated financial statements.

The accounting policies adopted are consistent with those of the previous financial year, except the adoption of new and amended standards and change in accounting policy in respect of handling and shipping costs classification as set out below.

Adoption of New and Revised Standards

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

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

The Group elected the modified retrospective method in the result of applying of the IFRS 15 with no restatement of comparative information for prior period in accordance with the practical expedient not to restate contracts that begin and end within the same annual reporting period or have been completed as at 1 July 2018. The Group's revenue is recognized at the moment when the transfer of the significant risks and rewards of ownership of an assets to the customer occur, in generally this moment coincides with the fulfillment of performance obligations and transfer of controls as defined by standard. The Group regularly engages third-party service providers (subcontractors) to provide freight and other services to its customers. When the Group obtains a contract from a customer, the Group enters into a contract with one of those service providers, directing the service provider to render freight and other services for the customer. The Group is obliged to pay the service provider even if the customer fails to pay. Also the Group is responsible for inventory risk during the freight service provision. The adoption of this standard has had no material impact on timing and amount of revenue recognized in the current period.

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

| | |
|-----------------------------------|------------------|
| Revenue from sales of commodities | 2,145,798 |
| Freight and other services | 109,365 |
| Total | 2,255,163 |

Cost of freight does not materially differ from revenue from freight.

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

3. Summary of Significant Accounting Policies *continued*

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

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

adjusted on observable and reasonable information. The Group accounts for expected credit losses and changes in those at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

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

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

The loss allowances further increased by USD 3,472 thousand to USD 4,902 thousand for trade receivables during the six months ended 31 December 2018. The increase would have been USD 2,445 thousand lower under the incurred loss model of IAS 39.

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

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

The Group's management is currently completing its assessment of effect from adoption of IFRS 16 Leases which will be effective for the year beginning on 1 July 2019. In general, the management anticipates that the application of the new standard would have significant impact on the financial statements of the Group.

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

Change in Accounting Policy

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

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

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

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

| | 6 months ended 31 December 2018 New Policy | 6 months ended 31 December 2018 Old Policy | 6 months ended 31 December 2018 Effect | 6 months ended 31 December 2017 New Policy | 6 months ended 31 December 2017 Old Policy | 6 months ended 31 December 2017 Effect |
|--------------------|--|--|--|--|--|--|
| Cost of sales | (2,071,644) | (1,909,870) | (161,774) | (976,139) | (914,126) | (62,013) |
| Distribution costs | — | (161,774) | 161,774 | — | (62,013) | 62,013 |

The change in accounting policies had no effect on earnings per share either in the current or previous periods.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 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 and grain trading, 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 31 December 2018 | Average rate for the 6 months ended 31 December 2018 | Closing rate as of 31 December 2017 | Average rate for the 6 months ended 31 December 2017 |
|----------|--|--|--|--|
| USD/UAH | 27.6883 | 27.6496 | 28.0672 | 26.9617 |
| USD/EUR | 0.8743 | 0.8683 | 0.8347 | 0.8491 |
| USD/RUB | 69.4706 | 66.0073 | 57.6002 | 58.4080 |
| USD/PLN | 3.7597 | 3.7360 | 3.4813 | 3.5938 |

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

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

Reclassifications

Certain reclassifications have been made to the condensed consolidated interim financial statements as of 31 December 2017 and for the period then ended to conform to the current period's presentation.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

4. Operating Segments

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

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

Starting from FY 2019, the Group has changed the presentation of segment information in line with the performance management approach to its business activities. Comparative information as of 31 December 2017 was restated to reflect the changes in presentation.

Starting with 1 July 2018, Kernel is presenting its segment results within three business segments: Oilseeds Processing, Infrastructure and Trading, and Farming. The reason behind this aggregation is to align representation with the management decision making, as business processes within six business segments are not separate and decisions are mostly made to account for the combined effect on several segments.

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

In Infrastructure and Trading segment, the Group combines what was previously presented in Export Terminals, Silo Services, and Grain segments. These parts of the business form an integrated supply chain which is managed jointly. The management's decision-making has evolved compared with previous years to account for a throughput margin while making a decision on whether to buy or not a specific volume of grain. Under current framework, the management considers export terminals and grain storage facilities as production assets which serve grain merchandizing business and consequently uses a combined throughput margin to evaluate performance of Infrastructure and Trading business. In FY 2019, 100% of the Group's export terminals capacity and majority of grain storage capacity is planned to be used for own export volumes.

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

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

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment

Key data by operating segment for the six months ended 31 December 2018:

| | Oilseeds processing | Infrastructure and Trading | Farming | Other | Re-conciliation | Continuing operations |
|--|---------------------|----------------------------|----------------|-----------------|------------------|-----------------------|
| Revenue (external) | 538,016 | 1,696,518 | 20,629 | — | — | 2,255,163 |
| Intersegment sales | 198,500 | 44,673 | 303,919 | — | (547,092) | — |
| Total revenue | 736,516 | 1,741,191 | 324,548 | — | (547,092) | 2,255,163 |
| Net change in fair value of biological assets and agricultural produce | — | — | 35,640 | — | — | 35,640 |
| Other operating income, net | (3,248) | 13,807 | 7,783 | — | — | 18,342 |
| Profit/(Loss) from operating activities | 47,336 | 74,343 | 91,581 | (19,882) | — | 193,378 |
| Finance costs, net | | | | | | (42,087) |
| Foreign exchange gain, net | | | | | | 17,217 |
| Other income, net | | | | | | 1,580 |
| Share of income of joint ventures | | | | | | 536 |
| Income tax expenses | | | | | | (3,763) |
| Profit for the period from continuing operations | | | | | | 166,861 |
| Total assets | 1,061,198 | 734,786 | 655,219 | 104,445 | — | 2,555,648 |
| Capital expenditures | 10,758 | 26,246 | 67,209 | 2,689 | — | 106,902 |
| Amortization and depreciation | 8,229 | 4,339 | 23,079 | 830 | — | 36,477 |
| Liabilities | 42,958 | 119,756 | 83,094 | 1,046,889 | — | 1,292,697 |

Allocated revenue of promised goods and services by operating segment for the six months ended 31 December 2018 under requirements IFRS 15 was as follows:

| | Oilseeds processing | Infrastructure and Trading | Farming | Continuing operations |
|---|---------------------|----------------------------|---------------|-----------------------|
| Revenue from sales of commodities | 512,732 | 1,615,050 | 18,016 | 2,145,798 |
| Freight and other services | 25,284 | 81,468 | 2,613 | 109,365 |
| Total external revenue from contracts with customers | 538,016 | 1,696,518 | 20,629 | 2,255,163 |

During the six months ended 31 December 2018, revenues of approximately USD 208,262 thousand are derived from a single external customer. These revenues are attributed to Oilseeds processing and Infrastructure and Trading segments. Also, during that period, export sales amounted to 96% of total external sales.

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

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

| | Revenue from external customers 6 months ended 31 December 2018 | Non-current assets As of 31 December 2018 |
|-----------------|---|---|
| Ukraine | 1,173,496 | 985,545 |
| Asia | 626,531 | — |
| South America | 282,345 | — |
| Other locations | 172,791 | 55,770 |
| Total | 2,255,163 | 1,041,315 |

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

4. Key Data by Operating Segment continued

Key data by operating segment for the six months ended 31 December 2017:

| | Oilseeds processing | Infrastructure and Trading | Farming | Other | Re-conciliation | Continuing operations |
|--|---------------------|----------------------------|----------------|-----------------|------------------|-----------------------|
| Revenue (external) | 674,102 | 367,613 | 30,450 | — | — | 1,072,165 |
| Intersegment sales | — | 50,855 | 236,588 | — | (287,443) | — |
| Total revenue | 674,102 | 418,468 | 267,038 | — | (287,443) | 1,072,165 |
| Net change in fair value of biological assets and agricultural produce | — | — | 3,768 | — | — | 3,768 |
| Other operating income, net | 404 | 7,547 | 11,497 | — | — | 19,448 |
| Profit/(Loss) from operating activities | 33,357 | 62,244 | 5,746 | (20,684) | — | 80,663 |
| Finance costs, net | | | | | | (31,923) |
| Foreign exchange gain, net | | | | | | 37,294 |
| Other expenses, net | | | | | | (2,993) |
| Share of loss of joint ventures | | | | | | (432) |
| Income tax benefit | | | | | | 7,582 |
| Profit for the period from continuing operations | | | | | | 90,191 |
| Total assets | 1,142,941 | 362,396 | 565,940 | 139,137 | — | 2,210,414 |
| Capital expenditures | 5,401 | 23,462 | 43,550 | 2,205 | — | 74,618 |
| Amortization and depreciation | 8,259 | 4,329 | 29,131 | 677 | — | 42,396 |
| Liabilities | 47,980 | 24,096 | 43,959 | 955,749 | — | 1,071,784 |

Presentation of the operating segments' activities in previous condensed consolidated financial statements for the six months ended 31 December 2017:

| | Bottled sunflower oil | Sunflower oil sold in bulk | Export terminals | Farming | Grain | Silo services | Other | Re-conciliation | Discontinued operations |
|--|-----------------------|----------------------------|------------------|----------------|----------------|---------------|-----------------|------------------|-------------------------|
| Revenue (external) | 65,487 | 608,615 | 268 | 30,450 | 363,105 | 4,240 | — | — | 1,072,165 |
| Intersegment sales | — | — | 25,313 | 236,588 | — | 52,669 | — | (314,570) | — |
| Total revenue | 65,487 | 608,615 | 25,581 | 267,038 | 363,105 | 56,909 | — | (314,570) | 1,072,165 |
| Net change in fair value of biological assets and agricultural produce | — | — | — | 3,768 | — | — | — | — | 3,768 |
| Other operating income, net | 25 | 379 | 3 | 11,497 | 7,000 | 544 | — | — | 19,448 |
| Profit/(Loss) from operating activities | 6,363 | 26,994 | 17,209 | 5,746 | 9,799 | 35,236 | (20,684) | — | 80,663 |
| Finance costs, net | | | | | | | | | (31,923) |
| Foreign exchange gain, net | | | | | | | | | 37,294 |
| Other expenses, net | | | | | | | | | (2,993) |
| Share of income of joint ventures | | | | | | | | | (432) |
| Income tax expenses | | | | | | | | | 7,582 |
| Profit for the period from continuing operations | | | | | | | | | 90,191 |
| Total assets | 85,853 | 1,057,088 | 117,047 | 565,940 | 178,567 | 66,782 | 139,137 | — | 2,210,414 |
| Capital expenditures | 297 | 5,104 | 5,678 | 43,550 | — | 17,784 | 2,205 | — | 74,618 |
| Amortization and depreciation | 913 | 7,346 | 1,580 | 29,131 | — | 2,749 | 677 | — | 42,396 |
| Liabilities | 4,331 | 43,649 | 3,613 | 43,959 | 18,740 | 1,743 | 955,749 | — | 1,071,784 |

During the six months ended 31 December 2017, revenues of approximately USD 115,950 thousand are derived from one external customer. These revenues are attributed to Grain and Sunflower oil sold in bulk segments. Also, during that period, export sales amounted to 94% of total external sales.

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

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

| | Revenue from external customers | Non-current assets |
|--------------------|------------------------------------|---------------------------|
| | 6 months ended 31 December 2017 | As of 31 December 2017 |
| Ukraine | 1,054,176 | 823,857 |
| Russian Federation | 17,989 | 50,648 |
| Total | 1,072,165 | 874,505 |

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

5. Acquisition and Disposal of Subsidiaries

No entities were acquired during the six months ended 31 December 2018.

During the six months ended 31 December 2018, as a result of the optimization process of the logistic assets, the Group disposed of three grain elevators located in Ternopil, Kyiv and Chernihiv regions, and one agricultural company with about 2,850 ha of leasehold farmland, located in Zhytomyr region. The net assets of the disposed entities as of the date of disposal were equal to USD 1,282 thousand and the cash consideration receivable was USD 2,328 thousand (out of which USD 1,532 thousand was received during this reporting period).

During the six months ended 31 December 2018, according to management's plan, the Group disposed of one of its oilseed crushing plants, previously classified as assets held for sale, located in Mykolaiv region. The net assets as of the date of disposal amounted to USD 14,432 thousand (including goodwill in the amount of USD 8,096 thousand). The cash consideration received was USD 15,079 thousand (out of which USD 5,013 thousand was received during this reporting period).

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

The primary subsidiaries of the acquired group are as follows:

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

5. Acquisition and Disposal of Subsidiaries continued

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 valuation of net assets has been finalized. Gain on bargain purchase was recognized in the amount of USD 2,309 thousand within 'Other expenses, net' in the consolidated statement of profit or loss.

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

During the six months ended 31 December 2017, as a result of the optimization process of its legal structure, the Group disposed of one grain elevator located in Poltava region. The net assets of the disposed entity as of the date of disposal were equal to USD 137 thousand and the cash consideration received was USD 2,013 thousand (out of which USD 1,404 thousand was received during this reporting period).

6. Assets Classified as Held for Sale

As of 31 December 2018, according to management's plan to dispose one of export terminals and silo, their net assets, which predominantly consist of property, plant and equipment in the amount of USD 1,330 thousand were classified as assets held for sale. As of 31 December 2018, advances for sale of the subsidiaries in the amount of USD 1,290 has been received.

7. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

| | As of 31 December 2018 | As of 30 June 2018 | As of 31 December 2017 |
|--|---------------------------|-----------------------|---------------------------|
| Cash in banks in USD | 116,114 | 92,617 | 109,230 |
| Cash in banks in UAH | 9,192 | 20,407 | 46,510 |
| Cash in banks in other currencies | 1,445 | 18,989 | 1,748 |
| Cash on hand | 2 | 5 | 6 |
| Total | 126,753 | 132,018 | 157,494 |
| Less restricted and blocked cash on security bank accounts | (11,146) | (676) | (16,304) |
| Less bank overdrafts (Note 14) | (548) | (41,273) | (53,692) |
| Cash for the purposes of cash flow statement | 115,059 | 90,069 | 87,498 |

8. Trade Accounts Receivable, net

Increase of trade accounts receivable, net as of 31 December 2018 in comparison with 30 June 2018 and 31 December 2017 is mostly connected with an increase of grain and bulk sunflower oil export at the end of the period.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

9. Inventory

The balances of inventories were as follows:

| | As of 31 December 2018 | As of 30 June 2018 | As of 31 December 2017 |
|-----------------------|---------------------------|-----------------------|---------------------------|
| Raw materials | 327,778 | 81,543 | 326,976 |
| Agricultural products | 194,700 | 22,132 | 161,207 |
| Goods for resale | 168,937 | 37,072 | 58,554 |
| Finished products | 88,909 | 210,687 | 177,244 |
| Work in progress | 38,180 | 1,620 | 33,513 |
| Fuel | 4,041 | 4,411 | 3,172 |
| Packaging materials | 1,403 | 1,634 | 1,392 |
| Other inventories | 6,810 | 9,354 | 6,789 |
| Total | 830,758 | 368,453 | 768,847 |

As of 31 December 2018, goods for resale increased mostly due to purchase of commodities at the end of the period.

As of 31 December 2018, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 67,970 thousand (as of 30 June 2018 and 31 December 2017: USD 193,460 thousand and USD 157,717 thousand, respectively).

As of 31 December 2018, raw materials mostly consisted of sunflower seed stock in the amount of USD 279,274 thousand (as of 30 June 2018 and 31 December 2017: USD 57,603 thousand and USD 298,546 thousand, respectively).

For the six months ended 31 December 2018, write-downs of inventories to net realisable value amounted to USD 2,551 thousand (31 December 2017: USD 4,906 thousand) and were recognised as an expense and included in line "Cost of sales".

As of 31 December 2018, inventory balances in the amounts of USD 409,924 thousand (as of 30 June 2018 and 31 December 2017: USD 200,849 thousand and USD 271,801 thousand, respectively) were pledged as security for short-term borrowings (Note 14).

10. Biological Assets

Current biological assets as of 31 December 2018 consisted of 112,809 hectares of winter crops sowed in the amount of USD 23,483 thousand and 4,877 hectares of not harvested corn in the amount of USD 4,501 thousand (30 June 2018: 520,909 hectares of crops in the amount of USD 286,858 thousand; 31 December 2017: 113,086 hectares of winter crops in the amount of USD 22,324 thousand and 9,445 hectares of not harvested corn in the amount of USD 7,749 thousand and 462 hectares of not harvested soy in the amount of USD 106 thousand) and 5,127 heads of current livestock in the amount of USD 1,871 thousand (30 June 2018: 6,871 heads in the amount of USD 2,578 thousand; 31 December 2017: 7,743 heads of current livestock in the amount of USD 2,494 thousand).

Net change in fair value of biological assets and agricultural produce for the six months ended 31 December 2018 in the amount of USD 35,640 thousand (six months ended 31 December 2017: USD 3,768 thousand) reflects revaluation of crops in fields and agricultural produce balances to its fair value. For the six months ended 31 December 2018, the considerable positive effect of the revaluation of biological assets and agricultural produce introduced in the Interim Condensed Consolidated Interim Statement of Profit or Loss was due to increase yield and quality measures of crops and favorable weather conditions. Decrease of amount of net change in fair value of biological assets and agricultural produce for six months ended 31 December 2017 was caused by decline of crops yields and market prices for crops at the moment of harvest.

| | Capitalized expenditures | Effect of biological transformation | Fair value of biological assets |
|--|-----------------------------|---|---------------------------------------|
| As of 31 December 2017 | 16,815 | 13,364 | 30,179 |
| Decrease due to harvest (2017 harvest) | (4,869) | (1,895) | (6,764) |
| Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2018) | 216,412 | — | 216,412 |
| Gain/(loss) arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2018) | — | 40,787 | 40,787 |
| Exchange difference | 4,919 | 1,325 | 6,244 |
| As of 30 June 2018 | 233,277 | 53,581 | 286,858 |
| Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2018) | 142,436 | — | 142,436 |
| Decrease due to harvest (harvest 2018) | (375,713) | (53,581) | (429,294) |
| Increase due to purchases and subsequent expenditures capitalized in not-harvested biological assets (harvest 2018) | 3,716 | 785 | 4,501 |
| Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2019) | 16,659 | — | 16,659 |
| Gain/(loss) arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2019) | — | 6,574 | 6,574 |
| Exchange difference | 222 | 28 | 250 |
| As of 31 December 2018 | 20,597 | 7,387 | 27,984 |

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

11. Property, Plant and Equipment, net

During the six months ended 31 December 2018, the Group acquired property, plant and equipment in the amount of USD 86,628 thousand (31 December 2017: USD 56,948 thousand). These purchases were related mainly to the acquisition of storage capacities and agricultural vehicles and equipment for silos and farming segments, respectively.

The decrease in property, plant and equipment in the amount of USD 14,247 thousand resulted from the depreciation of the Ukrainian hryvnia during the six months ended 31 December 2018 (31 December 2017: USD increase in the amount 12,873 thousand).

During the six months ended 31 December 2018 depreciation of property, plant and equipment amounted USD 29,726 thousand (as of 31 December 2017: USD 32,935 thousand).

As of 31 December 2018, property, plant and equipment with a carrying amount of USD 556 thousand (as of 31 December 2017: USD 95,609 thousand) were pledged by the Group as collateral against short-term loans (Notes 14).

As of 31 December 2018, property, plant and equipment with a carrying amount of USD 24,818 thousand (as of 30 June 2018 and 31 December 2017: USD 25,742 and USD 26,677 thousand, respectively) were pledged by the Group as guarantee for amount due and payable within the acquisition of Prydniprovskiy OEP.

As of 31 December 2018, 30 June 2018 and 31 December 2017, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 10,176 thousand, USD 15,976 thousand and USD 6,670 thousand, respectively. Additions during the six months ended 31 December 2018 totaled USD 0 thousand (as of 31 December 2017: USD 4,411 thousand).

12. Investments in Joint Ventures

For the six months ended 31 December 2018, the share of gain of joint venture (Taman) equalled USD 536 thousand (for the six months ended 31 December 2017: loss USD 432 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 991 thousand (for the six months ended 31 December 2017: USD 1,066 thousand) and interest expenses in the amount of USD 374 thousand (for the six months ended 31 December 2017: USD 593 thousand).

13. Trade Accounts Payable

As of 31 December 2018, trade accounts payable increased in comparison with 30 June 2018 and 31 December 2017 mostly as a result of activation of Averé trading operations.

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

14. Short-term Borrowings

The balances of short-term borrowings were as follows:

| | As of 31 December 2018 | As of 30 June 2018 | As of 31 December 2017 |
|---|---------------------------|-----------------------|---------------------------|
| Bank credit lines | 469,534 | 182,657 | 274,255 |
| Bank overdrafts (Note 7) | 548 | 41,273 | 53,692 |
| Interest accrued on short-term borrowings | 1,713 | 718 | 1,342 |
| Interest accrued on long-term borrowings | 12 | 125 | 62 |
| Total | 471,807 | 224,773 | 329,351 |

The balances of short-term borrowings as of 31 December 2018 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---------------------------------------|---------------|----------|---------------|----------------|
| European bank | 4.20% | USD | January 2019 | 137,444 |
| European bank | Libor + 4.00% | USD | January 2019 | 99,301 |
| European bank | 3.95% | USD | January 2019 | 63,000 |
| Ukrainian subsidiary of European bank | 4.00% | USD | August 2019 | 25,950 |
| European bank | 3.50% | USD | January 2019 | 19,859 |
| European bank | 3.20% | USD | January 2019 | 19,500 |
| European bank | 3.70% | USD | January 2019 | 18,000 |
| Ukrainian subsidiary of European bank | 4.85% | USD | January 2019 | 17,800 |
| Ukrainian subsidiary of European bank | 20.25% | UAH | February 2019 | 16,014 |
| Ukrainian subsidiary of European bank | 5.00% | USD | January 2019 | 14,976 |
| European bank | 3.75% | USD | January 2019 | 11,000 |
| European bank | 3.50% | USD | January 2019 | 9,000 |
| European bank | 1.50% | USD | January 2019 | 7,693 |
| European bank | Libor+2.50% | USD | January 2019 | 6,000 |
| Ukrainian subsidiary of European bank | 4.10% | USD | January 2019 | 3,998 |
| European bank | Libor + 2.25% | USD | January 2019 | 547 |
| Total bank credit lines | | | | 470,082 |
| Interest accrued on short-term loans | | | | 1,713 |
| Interest accrued on long-term loans | | | | 12 |
| Total | | | | 471,807 |

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

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

14. Short-term Borrowings continued

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

| | Interest rate | Currency | Maturity | Amount due |
|---|---------------|----------|---------------|----------------|
| European bank | Libor + 4.15% | USD | August 2018 | 171,697 |
| European bank | Libor + 3.25% | USD | January 2018 | 53,692 |
| Ukrainian subsidiary of European bank | 2.90% | USD | January 2018 | 30,000 |
| Ukrainian subsidiary of European bank | 4.00% | USD | January 2018 | 22,800 |
| Ukrainian subsidiary of European bank | 13.00% | UAH | January 2018 | 20,095 |
| Ukrainian subsidiary of European bank | 14.00% | UAH | January 2018 | 8,836 |
| Ukrainian subsidiary of European bank | 4.00% | USD | February 2018 | 8,000 |
| Ukrainian subsidiary of European bank | 14.00% | UAH | May 2018 | 7,126 |
| Ukrainian subsidiary of European bank | 14.00% | UAH | February 2018 | 3,563 |
| Ukrainian subsidiary of European bank | 14.25% | UAH | January 2018 | 2,138 |
| Total | | | | 327,947 |
| Interest accrued on short-term borrowings | | | | 1,342 |
| Interest accrued on long-term borrowings | | | | 62 |
| Total | | | | 329,351 |

As of 31 December 2018, undrawn short-term bank credit lines amounted to USD 366,529 thousand (as of 30 June 2018: USD 121,908 thousand and as of 31 December 2017: USD 117,189 thousand).

Short-term borrowings from banks were secured as follows:

| (Assets pledged) | As of 31 December 2018 | As of 30 June 2018 | As of 31 December 2017 |
|---|---------------------------|-----------------------|---------------------------|
| Inventory (Note 9) | 409,924 | 200,849 | 271,801 |
| Other current assets | 3,401 | — | 21,631 |
| Property, plant and equipment (Note 11) | 556 | 540 | 95,609 |
| Future sales receipts | 25,009 | 41,273 | — |
| Total | 438,890 | 242,662 | 389,041 |

15. Long-term Borrowings

The balances of long-term borrowings were as follows:

| | As of 31 December 2018 | As of 30 June 2018 | As of 31 December 2017 |
|---|---------------------------|-----------------------|---------------------------|
| Long-term bank borrowings | 7,570 | 5,623 | 6,983 |
| Current portion of long-term borrowings | (3,993) | (2,811) | (2,794) |
| Total | 3,577 | 2,812 | 4,189 |

The balances of long-term borrowings as of 31 December 2018 were as follows:

| | Interest rate | Currency | Maturity | Amount due |
|---------------------------------------|---------------|----------|-------------|--------------|
| European bank | Libor +1.65% | USD | March 2020 | 4,262 |
| Ukrainian subsidiary of European bank | Libor +4.50% | USD | August 2021 | 3,308 |
| Total | | | | 7,570 |

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 |
| Total | | | | 5,623 |

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

15. Long-term Borrowings *continued*

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

| | Interest rate | Currency | Maturity | Amount due |
|---------------|---------------|----------|------------|--------------|
| European bank | Libor +1,65% | USD | March 2020 | 6,983 |
| Total | | | | 6,983 |

As of 31 December 2018, 30 June 2018 and 31 December 2017, there were no undrawn long-term bank credit lines.

Long-term borrowings from banks were not secured as of 31 December 2018, 30 June 2018 and 31 December 2017.

As of 31 December 2018, 30 June 2018 and 31 December 2017, stakes in Subsidiaries were not pledged to secure long-term borrowings.

16. Bonds issued

In January 2017 the Group issued USD 500,000 thousand unsecured notes ('the Notes'), that will mature on 31 January 2022. The Notes bear interest from 31 January 2017 at the rate of 8.75% per annum payable semi-annually in arrears on 31 January and 31 July each year commencing from 31 July 2017.

As of 31 December 2018 and 2017, accrued interest on bonds issued was USD 17,949 thousand (30 June 2018: USD 17,949 thousand).

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

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

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

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

The Notes were rated in line with the Issuer's IDR by Fitch (B+) and S&P (B).

17. Revenue

The Group's revenue was as follows:

| | 6 months ended 31 December 2018 | 6 months ended 31 December 2017 |
|--|------------------------------------|------------------------------------|
| Revenue from agriculture commodities merchandizing | 1,466,207 | 363,105 |
| Revenue from sunflower oil sold in bulk, sunflower meal and cake | 707,211 | 619,473 |
| Revenue from bottled sunflower oil | 56,122 | 54,629 |
| Revenue from farming | 20,629 | 30,450 |
| Revenue from grain silo services | 4,541 | 4,240 |
| Revenue from transshipment services | 453 | 268 |
| Total | 2,255,163 | 1,072,165 |

For the six months, ended 31 December 2018, revenue from agriculture commodities merchandizing increased mostly as a result of growth of grain export volumes from Ukraine and Avere physical trade operations.

18. Cost of Sales

Cost of sales was as follows:

| | 6 months ended 31 December 2018 | 6 months ended 31 December 2017 |
|---|------------------------------------|------------------------------------|
| Cost of goods for resale and raw materials used | 1,797,637 | 790,954 |
| Shipping and handling costs | 161,774 | 62,013 |
| Rental payments | 36,341 | 40,704 |
| Amortization and depreciation | 34,465 | 41,182 |
| Payroll and payroll related costs | 32,937 | 29,687 |
| Other operating costs | 8,490 | 11,599 |
| Total | 2,071,644 | 976,139 |

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

19. Foreign Exchange Gain, net

For the six months ended 31 December 2018, foreign exchange gain, net amounted to USD 17,217 thousand (31 December 2017: foreign exchange gain, net in the amount of USD 37,294 thousand). The result is mostly connected with devaluation of Ukrainian hryvnia and fluctuation of exchange rates which influenced on revaluation of balances denominated in other than functional currencies, which significantly decreased as of 31 December 2018 in comparison with 31 December 2017, namely trade balances and 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 six months ended 31 December 2018, the Ukrainian hryvnia rate devalued against the US dollar by 5% (devalued by 7% for the six months ended 31 December 2017).

20. Income Tax

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

As of 31 December 2018, the Group prepaid USD 11,655 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (30 June 2018: USD 11,582 thousand and 31 December 2017: USD 14,348 thousand). The changes were mostly connected with ordinary operating activity and devaluation of the Ukrainian hryvnia, related to foreign exchange (losses)/gains recognized.

For the six months ended 31 December 2018, income tax expenses in the amount of USD 3,763 thousand is mostly connected with decrease of tax losses and other deferred tax assets recognized as of 31 December 2018 in comparison with previous period (31 December 2017: income tax benefit USD 7,582 thousand).

21. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

| | Related party balances | Total category as per consolidated statement of financial position | Related party balances | Total category as per consolidated statement of financial position |
|--|---------------------------|---|---------------------------|---|
| | As of 31 December 2018 | | As of 30 June 2018 | |
| Trade accounts receivable, net | 1,657 | 203,391 | — | 92,041 |
| Prepayments to suppliers and other current assets, net | 10,600 | 76,843 | 9,714 | 113,342 |
| Other non-current assets | 20,433 | 146,614 | 13,366 | 134,562 |
| Trade accounts payable | 280 | 97,000 | 73 | 73,629 |
| Advances from customers and other current liabilities | 9,991 | 117,794 | 8,204 | 104,898 |
| Other non-current liabilities | — | 33,724 | 1,058 | 32,506 |

As of 31 December and 30 June 2018, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 4,358 thousand.

As of 31 December 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 2,528 thousand provided to Taman Grain Terminal Holding (30 June 2018: USD 2,484 thousand).

As of 31 December 2018, other non-current assets included a 3-years term loan at rate comparable to the average commercial rate of interest in the amount of USD 8,825 thousand provided to the company under control of the Beneficial Owner (30 June 2018: nil).

As of 31 December 2018, other non-current assets included an interest-free 3-year term financing in the amount of USD 6,221 thousand provided to key management personnel (30 June 2018: USD 6,076 thousand).

As of 31 December 2018, USD 8,179 thousand of dividends payable due to Namsen Limited were included in advances from customers and other current liabilities (30 June 2018: nil).

As of 31 December 2018, advances from customers and other current liabilities included USD 1,069 thousand in bonuses payable to the management (30 June 2018: USD 1,413 thousand).

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

21. Transactions with Related Parties *continued*

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

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

Transactions with related parties were as follows:

| | Amount of operations with related parties | Total category per consolidated income statement | Amount of operations with related parties | Total category per consolidated income statement |
|-------------------------------------|---|--|---|--|
| | 6 months ended 31 December 2018 | | 6 months ended 31 December 2017 | |
| Revenue | 1,120 | 2,255,163 | — | 1,072,165 |
| Cost of sales | (891) | (2,071,644) | — | (976,139) |
| General and administrative expenses | (2,831) | (44,123) | (4,846) | (38,579) |
| Finance costs, net | (1,083) | (42,087) | (344) | (31,923) |
| Other income/(expenses), net | (1,216) | 1,580 | 7 | (2,993) |

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

As of 31 December 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 six months ended 31 December 2018 amounted to USD 250 thousand (31 December 2017: 8 directors, USD 258 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 1,256 thousand for the six months ended 31 December 2018 (31 December 2017: 12 people, USD 1,254 thousand).

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

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for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

22. Commitments and Contingencies

Operating Environment

In 2018 year, the Ukrainian economy proceeded with recovery from the economic and political crisis of previous years and demonstrated sound real GDP growth of around 3.4% (2017: 2.5%), modest annual inflation of 9.8% (2017: 13.7%), and slight devaluation of national currency by around 2.4% to USD and 8.2% to EUR compared to previous year averages.

Also, Ukraine continued to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and a frozen armed conflict with separatists in certain parts of Luhanska and Donetska regions. Amid such events, the Ukrainian economy demonstrated further refocusing on the European Union ("EU") market realizing all potentials of established Deep and Comprehensive Free Trade Area with EU, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia. As a result, the weight of the Russian's export and import substantially fell from 18.2% and 23.3% in 2014 to around 7.7% and 14.2% in 2018, respectively.

In terms of currency regulations, the new currency law was adopted in 2018 and will come into force on 7 February 2019. It purports to enable the NBU to promulgate more liberal currency regulation and soften a number of currency restrictions, such as: requirement to register loans obtained from non-residents with the NBU, a 180-day term for making payments in foreign economic transactions, required 50% share of mandatory sale of foreign currency proceeds, etc.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned reforms, cooperation with the International Monetary Fund ("IMF"), and smooth transition through presidential and parliamentary elections, due in March and October 2019, respectively.

Capital Commitments

As of 31 December 2018, the Group had commitments under contracts with a group of suppliers for a total amount of USD 138,209 thousand, mostly for the construction of an oil-crushing plant (31 December 2017: USD 6,807 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal).

Contractual Commitments on Sales

As of 31 December 2018, the Group had entered into commercial contracts for the export of 1,809,068 tons of grain and 899,868 tons of sunflower oil and meal, corresponding to an amount of USD 348,061 thousand and USD 423,286 thousand, respectively, in contract prices as of the reporting date.

As of 31 December 2017, the Group had entered into commercial contracts for the export of 934,329 tons of grain and 921,824 tons of sunflower oil and meal, corresponding to an amount of USD 172,173 thousand and USD 416,935 thousand, respectively, in contract prices as of the reporting date.

Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire 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 31 December 2018, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfillment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect of the non-fulfillment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts said to be due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case in which the Group asserted its counterclaims and thereafter written statements of evidence and expert reports were also exchanged. The hearing took place in November 2015. The tribunal delivered its award in late February 2018 and the Company received it in early March 2018. That award is subject to challenge in the High Court in London.

As of 31 December 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 31 December 2018 (31 December 2017: nil). No payment has been made to the claimant pending the outcome of the challenge.

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for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

22. Commitments and Contingencies *continued*

Taxation and Legal Issues *continued*

As of 31 December 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 27,766 thousand (30 June 2018: USD 60,604 thousand), from which USD 12,162 related to VAT recoverability (30 June 2018: USD 42,882 thousand), USD 15,529 thousand related to corporate income tax (30 June 2018: 17,382 thousand) and USD 76 thousand related to other tax issues (30 June 2018: 340 thousand).

As of 31 December 2018, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 27,766 thousand (30 June 2018: USD 31,480 thousand), included in the above-mentioned amount. Out of this amount, USD 16,753 thousand relates to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2018: USD 19,159 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

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

Facing the current economic and political issues, the Government has implemented certain reforms in the tax system of Ukraine by adopting significant amendments of the Tax Code of Ukraine which became effective from 1 January 2015, 1 January 2016, 1 January 2017 and 1 January 2018 except for certain provisions, which take effect at a later date.

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

Furthermore, among the other changes applicable from the beginning of 2017, the Ukrainian Ministry of Finance launched a 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 an 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.

A 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.

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23. Fair Value of Financial Instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 'Financial Instruments: Disclosure' and 13 'Fair value measurement'. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

| | As of 31 December 2018 | | As of 30 June 2018 | | As of 31 December 2017 | |
|--------------------------------------|------------------------|------------|--------------------|------------|------------------------|------------|
| Financial liabilities ⁽¹⁾ | Carrying amount | Fair value | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term borrowings (Note 15) | 7,570 | 7,570 | 5,623 | 5,623 | 6,983 | 6,983 |
| Obligations under finance lease | 9,135 | 9,135 | 10,946 | 10,873 | 6,750 | 6,724 |
| Bonds issued (Note 16) | 513,540 | 481,250 | 512,745 | 499,205 | 512,340 | 551,915 |

Note 1 Including accrued interests

For the six months ended 31 December 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 4.65% (31 December 2017: 3.62%) that is within level 2 of the fair value hierarchy.

For the six months ended 31 December 2018, the fair value of obligations under finance lease was estimated by discounting the expected future cash outflows by a market rate of interest for finance lease of 11.77% (31 December 2017: 11.58%) 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.

As of 31 December 2018, other current assets included financial assets classified as at fair value through profit or loss, which are mostly presented by derivative instruments and government bonds in the amount of USD 79,741 thousand (as of 31 December 2017: USD 34,418 thousand).

The following table below represents the fair values of the derivative financial instruments as at 31 December 2018 and 2017:

| | As of 31 December 2018 | | As of 31 December 2017 | |
|---------------------------|------------------------|---------------|------------------------|------------|
| Other current assets | Level 1 | Level 2 | Level 1 | Level 2 |
| Physical Forwards | — | 59,713 | — | — |
| Futures | 2,405 | — | 3,342 | — |
| Options | 3,732 | — | — | — |
| Total | 6,137 | 59,713 | 3,342 | — |
| Other current liabilities | | | | |
| Physical Forwards | — | 22,887 | — | 770 |
| Futures | 2,455 | — | 176 | — |
| Options | — | — | 2,817 | — |
| Total | 2,455 | 22,887 | 2,993 | 770 |

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2018 (in thousands of US dollars, unless otherwise stated)

23. Fair Value of Financial Instruments *continued*

Valuation of the Group's commodity physical forward contracts categorized within level 2 is based on observable quoted prices sourced from exchanges or traded reference indexes 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.

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, other non current assets 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. Other non current assets, trade accounts receivable, 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 31 December 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 six months ended 31 December 2018, the fair value of other non-current liabilities was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 25.82% (31 December 2017: 25.39%).

There were no transfers between levels of fair value hierarchy.

24. Subsequent Events

As of 18 February 2019, the Group acquired 100% interest in Rail Transit Kargo Ukraine LLC (herein "RTK-Ukraine") for total consideration of US\$ 64 million. Adjusted for working capital and net debt, the Group paid US\$ 49 million in cash at completion while the remaining balance shall be released upon the achievement of certain conditions. RTK-Ukraine is the owner of 2,949 grain railcars accounting for nearly 15% of the market and making it the second largest grain hopper wagon fleet operator in the country after the state monopoly Ukrainian Railways. At the moment Management is in process of determination of its accounting treatment.

The Group has recently acquired a 5.85% interest in ViOil Holding - a holding entity controlling two multiseed oil-extraction plants with annual crushing capacity of 1.1 million tons of sunflower seeds and a network of silos in Western Ukraine.

As of 25 February 2019, the Company attracted project financing arranged by the European Bank for Reconstruction and Development ("EBRD"). The financing of up to US\$ 56 million will consist of EBRD loan of US\$ 48 million and a US\$ 8 million loan from the Clean Technology Fund (CTF), with tenor of the loans being 8 years. Financing will be used by the Company to upgrade the existing oilseed processing plants in the Poltava, Odessa, Mykolaiv and Kharkiv regions of Ukraine with biomass co-generation power plants.