

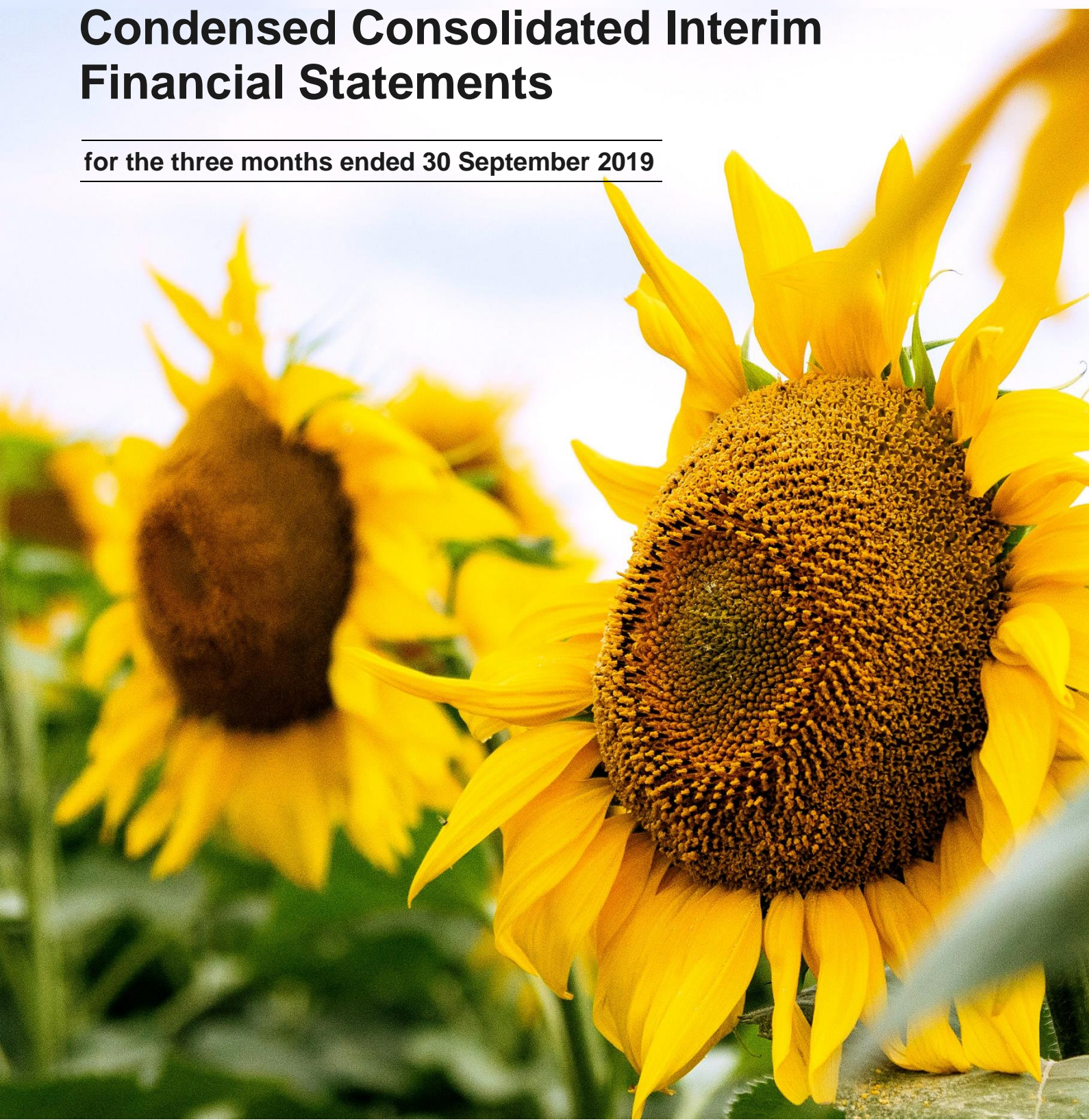
# KERNEL

## **Condensed Consolidated Interim Financial Statements**

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**for the three months ended 30 September 2019**

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# Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019

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# Key Highlights

for the three months ended 30 September 2019

## Financial highlights

- Consolidated **revenue** of Kernel Holding group of companies (*hereinafter "Kernel", the "Company", the "Group"*) in Q1 FY2020 reduced 26% y-o-y to US\$ 846 million, stemming from lower trading volumes reported by our Avere subsidiary.
- Kernel **EBITDA** in July-September 2019 added 6% y-o-y to US\$ 107 million (*or US\$ 99 million if excluding IFRS 16 impact*):
  - Oilseed Processing** segment EBITDA reached US\$ 22 million (up 38% y-o-y) driven by strong margins albeit normalized sales volumes;
  - Infrastructure and Trading** segment generated US\$ 35 million EBITDA, 8% decline y-o-y stemming from weak grain trading margins and lower y-o-y (but positive) Avere earnings. Infrastructure operations, on the contrary, demonstrated solid performance in the reporting period with flat margins, increased volumes and well-performing railcars business;
  - EBITDA of the **Farming** segment stood at US\$ 58 million in Q1 FY2020, up 10% y-o-y (*or US\$ 51 million if excluding IFRS 16 impact*);
  - Unallocated corporate expenses** in the reporting period amounted to US\$ 9 million, up 40% y-o-y.
- Net profit attributable to shareholders** in Q1 FY2020 reduced by US\$ 16 million y-o-y, totaling at US\$ 59 million (*or US\$ 68 million if excluding IFRS 16 impact*).
- Net debt** as of 30 September 2019 reached US\$ 1,144 million, up 65% from 30 June 2019 level, reflecting short-term borrowings increase to finance working capital needs at the beginning of the season as well as US\$ 307 million new lease liabilities added to the balance sheet after implementation of IFRS 16. **Readily marketable**

**inventories** ("RMI") increased by US\$ 275 million over Q1 FY2020, to US\$ 568 million, driven by procurement of grain and sunflower seeds. Consequently, **net debt adjusted for RMI** increased to US\$ 576 million on 30 September 2019 from US\$ 400 million on 30 June 2019, with growth solely arising from IFRS 16 introduction.

- As a result, Kernel **leverage** as of 30 September 2019 increased to 3.3x Net-debt-to-EBITDA and 3.7x EBITDA-to-interest (post IFRS 16).

## Credit highlights

- In September 2019, Company amended and extended its pre-export credit facilities ("PXF's"):
  - For grain PXF**, new US\$ 200 million tranche was added maturing 30 June 2021, and the tenor of existing US\$ 100 million tranche was extended for one year till 30 June 2022;
  - For sunflower oil PXF**, new US\$ 100 million tranche was added maturing 31 August 2021, and tenors of existing US\$ 200 million and US\$ 90 million tranches were extended till 31 August 2022 and 31 August 2020, respectively.
- In September 2019, Fitch upgraded our credit rating to "BB-" (two notches above the Ukrainian sovereign) from "B+" initially with stable outlook. At the same time, S&P affirmed our credit rating at "B" (in line with Ukrainian sovereign), with stable outlook.
- In October 2019, Kernel issued US\$ 300 million aggregate principal amount of 6.5% Notes due 17 October 2024 (the "Notes") with issue price of 99.475%. Proceeds from the Notes will be used to finance working capital and general corporate needs.

US\$ million except ratios and EPS	Q1 FY2019	Q1 FY2020	y-o-y
<b>Income statement highlights</b>			
Revenue	1,140.3	845.8	(26%)
EBITDA <sup>1</sup>	100.5	106.5	6%
Net profit attributable to equity holders of Kernel Holding S.A.	75.5	59.4	(21%)
EBITDA margin	8.8%	12.6%	3.8pp
Net margin	6.6%	7.0%	0.4pp
Earnings per share <sup>2</sup> , US\$	0.92	0.73	(21%)

## Cash flow highlights

Operating profit before working capital changes	54.1	57.6	6%
Change in working capital	(29.9)	(110.3)	+3.7x
Finance costs paid, net	(26.3)	(30.6)	16%
Income tax paid	(1.7)	(2.6)	54%
Net cash used in operating activities	(3.8)	(85.9)	+22.4x
Net cash used in investing activities	(72.2)	(61.3)	(15%)

	30 Sep 2018	30 Jun 2019	30 Sep 2019	q-o-q
<b>Liquidity and credit metrics</b>				
Net debt	686.1	693.5	1,144.5	65%
Readily marketable inventories <sup>3</sup>	415.7	293.4	568.4	94%
Adjusted net debt <sup>4</sup>	270.5	400.1	576.1	44%
Shareholders' equity	1,176.9	1,350.9	1,482.9	10%
Net debt / EBITDA <sup>5</sup>	2.5x	2.0x	3.3x	+1.2x
Adjusted net debt / EBITDA <sup>5</sup>	1.0x	1.2x	1.6x	+0.5x
EBITDA / Interest <sup>6</sup>	4.0x	4.2x	3.7x	-0.5x

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

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

<sup>2</sup> EPS is measured in US Dollars per share based on 81.9 million shares for Q1 FY2020 and 81.9 million for Q1 FY2019.

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

<sup>4</sup> Adjusted net debt is net debt less readily marketable inventories.

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

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

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

# Segment Results and Discussion

for the three months ended 30 September 2019

## Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons <sup>1</sup>			EBITDA margin, US\$/t <sup>2</sup>		
	Q1 FY2019	Q1 FY2020	Y-o-Y	Q1 FY2019	Q1 FY2020	Y-o-Y	Q1 FY2019	Q1 FY2020	Y-o-Y	Q1 FY2019	Q1 FY2020	Y-o-Y
<b>Oilseed Processing</b>	357	<b>296</b>	(17%)	16	<b>22</b>	38%	405	<b>301</b>	(26%)	40	<b>74</b>	85%
<b>Infrastructure and Trading</b>	868	<b>691</b>	(20%)	38	<b>35</b>	(8%)	1,383	<b>1,621</b>	17%	28	<b>22</b>	(21%)
<b>Farming</b>	113	<b>134</b>	19%	53	<b>58</b>	10%						
Unallocated corporate expenses				(7)	<b>(9)</b>	40%						
Reconciliation	(198)	<b>(276)</b>	40%									
<b>Total</b>	<b>1,140</b>	<b>846</b>	<b>(26%)</b>	<b>101</b>	<b>107</b>	<b>6%</b>						

**Note 1** Vegetable oil sales volumes for Oilseed Processing; physical grain volumes exported (ex. Avere) for Infrastructure and Trading.

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

## Oilseed Processing

- **Market environment** enhanced stellar performance of Oilseed Processing segment in Q1 FY2020:
  - Notable 15.2 million tons **FY2019 harvest** of sunflower seeds allowed us to secure strong oilseed processing volumes for Q1 FY2020 operations (629 thousand tons, up 50% y-o-y). Moreover, new **FY2020 sunflower seed** harvest is estimated at even higher 15.9 million tons, a 5% increase y-o-y, strengthening segment profitability. As a result, we envisage close to **full capacity utilization** of our oilseed processing plants in remaining quarters of FY2020, **aiming to process 3.3 million tons** of oilseeds for the full year and accumulating sizable stock to secure solid processing volumes in Q1 FY2021.
  - **Sunflower oil prices** at the first half of the season are better than a year ago, shaping improved profitability of farmers and crushers in Ukraine.
- **Edible oil sales volumes** in Q1 FY2020 normalized to 301 thousand tons from unsustainably high 405 thousand tons in Q1 FY2019.
- **EBITDA margin** in the reporting period increased 85% y-o-y to US\$ 74 per ton of oil sold, driven by favorable market environment.
  - We expect further margin improvement in Q2-Q4 FY2020 to average near US\$ 85 full-year margin level fueled by a robust supply of the seeds on domestic market after the new record FY2020 harvest of sunflower seeds with **crushing capacities** remaining **unchanged**.
- On lower sales volumes but much higher margin, segment **EBITDA** in Q1 FY2020 increased by 38% y-o-y, to US\$ 22 million.

## Infrastructure and Trading

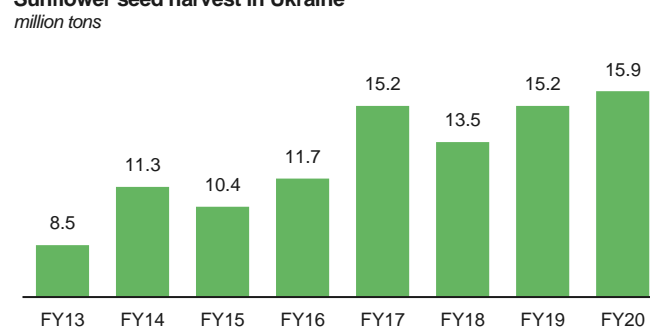
- **Market environment** for infrastructure and trading business is mixed:
  - Ukraine is expected to deliver **second in a row record harvest of grain**. Crop size of three key grains in FY2020 is estimated at 73 million tons, up 8% y-o-y, driven by wheat and barley production growth, with corn harvest remaining unchanged. As a result, we expect high utilization of grain export infrastructure and healthy infrastructure margins.
  - At the same time, **weak grain export prices** keep pure trading margins under pressure at the beginning of the season.
- In Q1 FY2020, we **exported 1.6 million tons of grain from Ukraine**, up 17% y-o-y, comprised mostly from wheat and barley harvested in summer 2019 and leftover stocks of corn from a previous year crop.
  - Strong export volumes also positively impacted utilization of our grain infrastructure network in Q1 FY2020, increasing **silo network in-take volumes** by 26% y-o-y to 2.0 million tons and **export terminal throughput volumes** in Ukraine by 22% y-o-y to 1.2 million tons.
  - For the full FY2020, we reiterate our guidance to export 8 million tons of grain from Ukraine utilizing our own infrastructure at the highest level possible and using also 3<sup>rd</sup>-party facilities.

## Segment volumes

metric tons	Q1 FY2019	Q1 FY2020	y-o-y
Oilseeds processed	418,582	<b>628,726</b>	50%
Sunflower oil sales <sup>1</sup>	404,934	<b>301,465</b>	(26%)
Grain and oilseeds received in inland silos	1,558,290	<b>1,958,971</b>	26%
Export terminal throughput (Ukraine)	982,637	<b>1,195,183</b>	22%
Grain export from Ukraine	1,382,753	<b>1,620,951</b>	17%

**Note 1** Includes 201,528 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.

## Sunflower seed harvest in Ukraine



Source: Kernel estimates

## Sunflower oil price

US\$ per ton of unrefined oil sold in bulk, FOB-Chornomorsk (Ukraine)



Source: Bloomberg

# Segment Results and Discussion

for the three months ended 30 September 2019

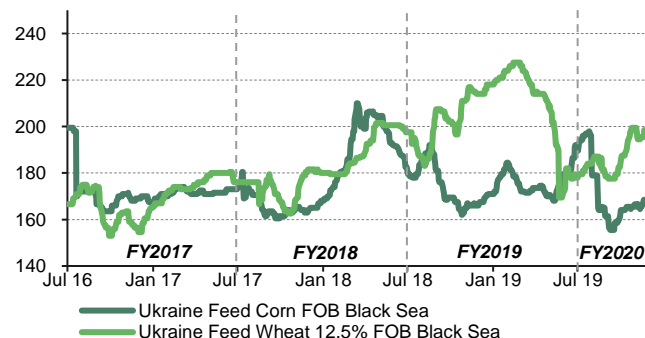
- **Segment's EBITDA** squeezed by 8% y-o-y in Q1 FY2020, to US\$ 35 million. With 1.6 million tons of grain exported from Ukraine, we generated 22 US\$/ton EBITDA margin, a 21% contraction y-o-y due to lower (but positive) Average contribution and weak margins in grain trading business arising from low global grain prices, regardless the astounding performance of infrastructure businesses (silos, export terminals and grain railcars).
- The general **outlook** for the segment's performance in FY2020 remains positive. We expect Infrastructure and Trading business to be the largest contributor to Group's EBITDA in FY2020 owing to:
  - commissioning of new grain export terminal scheduled for January 2020;
  - growing grain export volumes; and
  - strong contribution of grain railcars business.

## Farming

- At the date of this report, we completed this year harvesting campaign on 513 thousand hectares, reaching record ever net yields for wheat (5.9 tons per hectare, up 16% y-o-y) and sunflower (3.5 tons per hectare, up 11% y-o-y), while facing normalization of corn yields to 8.6 tons per hectare (down 13% y-o-y).
- Segment EBITDA in Q1 FY2020 amounted to US\$ 58 million including US\$ 34 million effect from revaluation of biological assets and US\$ 8 million positive effect from implementation of IFRS 16.
- For the whole FY2020, we expect over US\$ 100 million farming EBITDA (net of IAS 41 and IFRS 16 effects), weakened by corn yield decline, lower y-o-y grain prices and growing production costs enhanced by local currency appreciation.

## Ukraine grain export prices

US\$ per ton, FOB-Black Sea



Source: Bloomberg

## Harvest update

	Acreage, thousand hectares			Net yields <sup>1</sup> , tons / hectare			Harvest size, thousand tons		
	FY2019	FY2020	y-o-y	FY2019	FY2020	y-o-y	FY2019	FY2020	y-o-y
Corn	224.2	231.4	3%	9.9	8.6	(13%)	2,227	1,990	(11%)
Sunflower	134.5	136.6	2%	3.2	3.5	11%	426	478	12%
Wheat	100.0	97.1	(3%)	5.1	5.9	16%	509	573	13%
Soybean	36.3	24.3	(33%)	3.0	2.6	(12%)	108	63	(41%)
Other <sup>2</sup>	34.1	23.4	(32%)						
<b>Total</b>	<b>529.1</b>	<b>512.7</b>	<b>(3%)</b>				<b>3,269</b>	<b>3,104</b>	<b>(5%)</b>

**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 rapeseed, barley, rye, oats, forage crops and other minor crops, as well as fallow land.

Differences are possible due to rounding.

# Financial Highlights

for the three months ended 30 September 2019

## Income statement highlights

- Kernel **revenue** in Q1 FY2020 amounted to US\$ 846 million, down 26% y-o-y due to lower Avere physical trading volumes. As a matter of fact, Avere physical trade normally has limited impact on profitability, as it is used mostly to support Avere proprietary trade operations.
- **Net gain from revaluation of biological assets** totaled at US\$ 34 million in Q1 FY2020, down from US\$ 41 million a year ago.
- **Cost of sales** in Q1 FY2020 reduced in line with sales, to US\$ 784 million, or 28% y-o-y.
- Consequently, **gross profit** in the reporting period increased by 11% y-o-y, to US\$ 95 million.
- **Other operating income** in July-September 2019 amounted to US\$ 13 million, a 23% decline from a high Q1 FY2019 base caused by sizable Avere contribution a year ago, as well as reflecting losses on hard currency sale and elimination of VAT benefits in the reporting period.
- **General and administrative expenses** increased by 25% y-o-y, to US\$ 26 million.
- As a result, Kernel generated **operating profit** of US\$ 82 million in Q1 FY2020, unchanged as compared to the same period of the previous year.
- Fueled by the implementation of IFRS 16, **net finance costs** in Q1 FY2020 increased by 71% y-o-y, to US\$ 33 million.
- **FX gain** in the reporting period comprised US\$ 5 million, owing to the revaluation of intra-group balances denominated in other than functional currencies.
- US\$ 2.8 million **other income** in the reporting period comprised mostly proceeds from sales of subsidiaries.
- Accounting also for US\$ 2 million income tax expenses and share of profit of joint ventures, **net profit** of the Company in Q1 FY2020 declined 24% y-o-y to US\$ 59.6 million, of which US\$ 59.4 million attributable to shareholders of Kernel Holding S.A.

- US\$ 309 million increase in inventories following the US\$ 207 million reduction in biological assets after progressing on the harvesting campaign; and
- US\$ 59 million increase in prepaid taxes (VAT) following the growth in procurements and exported volumes.
- **Net cash used in investing activities** totaled at US\$ 61 million, including US\$ 66 million cash spent on purchase of property, plant and equipment.

## Credit metrics highlights

- Kernel **debt liabilities** reached US\$ 1,225 million as of 30 September 2019, up from US\$ 770 million as of 30 June 2019, driven by:
  - Short-term debt growth to finance working capital accumulation at the beginning of the season;
  - Introduction of IFRS 16 with subsequent recognition of lease liabilities mostly related to lease of farmland.
- As a result, **Net debt** of the Group added 65% q-o-q, to US\$ 1,144 million as of 30 September 2019.
- **Readily marketable inventories** ("RMI") doubled over Q1 FY2020 to US\$ 568 million, much exceeding the growth in short-term debt:
  - Naturally, at the beginning of the season we increased stock of sunflower seeds and grain, totaling at US\$ 500 million as of 30 September 2019, a US\$ 331 million growth over Q1 FY2020.
  - Sunflower oil and meal stock seasonally reduced to US\$ 69 million as of 30 September 2019;
- Consequently, **Net debt adjusted for RMI** reached US\$ 576 million, adding US\$ 176 million over Q1 FY2020 solely due to the introduction of IFRS 16.
- **Net-debt-to-EBITDA** ratio as of 30 September 2019 (measured on 12 months trailing basis) increased to 3.3x, as compared to 2.0x as of 30 June 2019, due to financing of seasonal working capital accumulation and introduction of IFRS 16. **Interest coverage** reduced to 3.7x EBITDA-to-Interest over the same period.

## Cash flow highlights

- **Operating profit before working capital changes** in Q1 FY2020 amounted to US\$ 58 million, adding 6% y-o-y.
- **Working capital** in the reporting period increased by US\$ 110 million, mostly impacted by:

### Credit metrics

US\$ million, except ratios	30 Sep 2018	30 Jun 2019	30 Sep 2019	q-o-q	y-o-y
Short-term interest-bearing debt	288	203	349	72%	21%
Long-term interest-bearing debt	4	64	71	12%	18.5x
Lease liabilities	10	8	307	39.9x	29.3x
Eurobond	495	496	496	0%	0%
<b>Debt liabilities</b>	<b>798</b>	<b>770</b>	<b>1,225</b>	<b>59%</b>	<b>53%</b>
Cash and cash equivalents	112	77	80	4%	(28%)
<b>Net debt</b>	<b>686</b>	<b>694</b>	<b>1,144</b>	<b>65%</b>	<b>67%</b>
Readily marketable inventories	416	293	568	94%	37%
of which sunflower oil and meal	65	125	69	(45%)	6%
Sunflower seeds	212	104	296	2.9x	1.4x
Grains and other RMIs	139	65	203	3.1x	46%
<b>Adjusted net debt</b>	<b>270</b>	<b>400</b>	<b>576</b>	<b>44%</b>	<b>2.1x</b>
Shareholders' equity <sup>1</sup>	1,177	1,351	1,483	10%	26%
Net debt / EBITDA <sup>2</sup>	2.5x	2.0x	3.3x	1.2x	0.8x
Adjusted net debt / EBITDA <sup>2</sup>	1.0x	1.2x	1.6x	0.5x	0.7x
EBITDA / Interest <sup>3</sup>	4.0x	4.2x	3.7x	(0.5x)	(0.4x)

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

**Note 2** Calculated based on 12-month trailing EBITDA.

**Note 3** Calculated based on 12-month trailing EBITDA and net finance costs. Differences are possible due to rounding.

# Financial Highlights

for the three months ended 30 September 2019

## Effect of IFRS 16 introduction on Group's Q1 FY2020 financial statements<sup>1</sup>

Starting from Q1 FY2020, Kernel introduced IFRS 16 Leases with application of retrospective approach and did not restate comparatives, as permitted under the transitional provisions of the standard. Given that company leases all the farmlands under operations, introduction of IFRS 16 will have significant impact on Company's financials. As a result of IFRS 16 implementation:

- Company recognized US\$ 355 million right-of-use assets (of which US\$ 346 million rights to lease land) and US\$ 307 million corresponding lease liabilities as of 30 September 2019.
- Rental payments will eventually disappear and be replaced by amortization of right-of-use assets and interests expenses attached to lease liabilities. This effect will not be fully observable during first quarters after IFRS 16 implementation, as company will be expensing rental payments which have occurred before IFRS 16 introduction.

### Effect on Statement of Profit or Loss

In US\$ million	Q1 FY2019	Q1 FY2020		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Revenues	1,140.3	845.8	-	845.8
Revaluation of biological assets	41.5	30.1	3.8	33.9
Cost of sales	(1,095.9)	(786.0)	1.5	(784.4)
of which depreciation & amortization	(17.5)	(22.9)	(2.4)	(25.3)
Rental payments	(17.4)	(16.7)	4.0	(12.8)
<b>Gross profit</b>	<b>85.9</b>	<b>90.0</b>	<b>5.3</b>	<b>95.3</b>
Other operating income	17.1	13.2	-	13.2
General and administrative expenses	(20.9)	(25.9)	(0.1)	(26.0)
<b>Operating profit</b>	<b>82.1</b>	<b>77.3</b>	<b>5.2</b>	<b>82.5</b>
Finance costs	(19.6)	(20.2)	(13.3)	(33.4)
Other non-operating items	12.8	12.5	0.1	12.6
<b>Profit before income tax</b>	<b>75.3</b>	<b>69.6</b>	<b>(7.9)</b>	<b>61.7</b>
Income tax	3.2	(2.1)	-	(2.1)
<b>Net profit</b>	<b>78.4</b>	<b>67.5</b>	<b>(7.9)</b>	<b>59.6</b>
Net profit attributable to shareholders	75.5	67.5	(7.9)	59.4
Depreciation and amortization	(18.4)	(21.5)	(2.6)	(24.0)
<b>EBITDA</b>	<b>100.5</b>	<b>98.8</b>	<b>7.8</b>	<b>106.5</b>

### Effect on Statement of Financial Position

In US\$ million	30 June 2019	30 Sep 2019		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Current assets	1,256	1,512	(24)	1,488
Non-current assets	1,207	1,289	320	1,609
of which right-of-use assets	-	-	355	355
other non-current assets	1,207	1,289	(34)	1,255
<b>Total assets</b>	<b>2,464</b>	<b>2,801</b>	<b>296</b>	<b>3,097</b>
Current liabilities	480	666	15	681
of which current portion of lease liabilities	-	-	17	17
other current liabilities	480	666	(2)	664
Non-current liabilities	638	649	285	934
of which lease liabilities	-	-	290	290
other non-current liabilities	638	649	(5)	644
Equity	1,346	1,485	(4)	1,481
<b>Total liabilities and equity</b>	<b>2,464</b>	<b>2,801</b>	<b>296</b>	<b>3,097</b>

**Note 1** Based on management accounts, subject to auditors' review and approval



# Alternative Performance Measures

To comply with ESMA Directive on Alternative Performance Measures ("APMs"), Kernel Holding S.A. (hereinafter "the Group") presents this additional disclosure, which enhances the comparability, reliability and comprehension of its financial information.

The Group presents its results in accordance with generally accepted accounting principles (IFRS), but nonetheless, management considers that certain supplemental non-IFRS measures, such as

- **EBITDA;**
  - **EBITDA margin;**
  - **Segment EBITDA;**
  - **Segment EBITDA margin;**
  - **Investing Cash Flows net of Fixed Assets Investments;**
  - **Net Fixed Assets Investments;**
  - **Operating Cash Flows before Working Capital Changes;**
  - **Free Cash Flows to the Firm;**
  - **Debt Liabilities;**
  - **Net Debt;**
  - **Readily Marketable Inventories;**
  - **Adjusted Net Debt;** and
  - **Adjusted Working Capital;**
- (together, the 'Alternative Performance Measures') provide investors with a supplemental tool to assist in evaluating current business performance.

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

Before FY2019, the Group used to report such APMs as **Funds from Operations** and **Free Cash Flows**, but since FY2019 the Group consider these metrics as not relevant anymore, being distortive going forward. The first APM included purchases of property, plant and equipment distorting the operating cash generation capacity of the Group given the current heavy CapEx cycle for the Group. The second APM included dividends paid, thus distorting the cash flow available to repay debt

and distribute dividends to shareholders. Instead, two additional APM's were introduced (as defined below): **Operating Cash Flows before Working Capital Changes** and **Free Cash Flows to the Firm**.

## EBITDA and EBITDA margin

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

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

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

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

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

the impact of depreciation and amortization on the Group's performance. The assets of the Group, which are being depreciated and/or amortized, will need to be replaced in the future and such depreciation and amortization expense may approximate the cost of replacing these assets in the future. By excluding this expense from **EBITDA** and **EBITDA margin**, such measures do not reflect the Group's future cash requirements for these replacements;

- **EBITDA** and **EBITDA margin** do not reflect the impact of share of income / loss of joint ventures, which are accounted under equity method;
- **EBITDA** and **EBITDA margin** do not reflect the impact of foreign exchange gain/(loss), which the Group does not consider to be part of its core operating performance because the main difference arise on transactions between entities of the Group with different functional currencies;
- **EBITDA** and **EBITDA margin** do not reflect the impact of other expenses; as such expenses are not a part of Group's core operations.

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

<i>in thousand US\$ except the margin</i>	Q1 FY2019	Q1 FY2020
<b>Profit from operating activities</b>	<b>82,091</b>	<b>82,490</b>
<i>add back:</i>		
Amortization and depreciation	18,440	24,049
<b>EBITDA</b>	<b>100,531</b>	<b>106,539</b>
<b>Revenue</b>	<b>1,140,304</b>	<b>845,838</b>
<b>EBITDA margin</b>	<b>8.8%</b>	<b>12.6%</b>

<sup>1</sup> In other documents (e.g. listing particulars) the Group could use the term Adjusted EBITDA, which is calculated as profit before income tax adding

back net finance costs, net foreign exchange gain, net other expenses, share of income/(loss) of joint

ventures, and amortization and depreciation, and coming to the same result as EBITDA



## Alternative Performance Measures continued

### Segment EBITDA and Segment EBITDA margin

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

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

Calculation of Segment EBITDA and Segment EBITDA margin:

<i>in thousand US\$</i>	Q1 FY2019	Q1 FY2020
<b>Oilseed Processing</b>		
Profit from operating activities	12,017	18,384
plus Amortization and depreciation	4,142	3,907
<b>Segment EBITDA</b>	<b>16,159</b>	<b>22,291</b>
Segment revenue	356,905	296,148
<b>Segment EBITDA margin</b>	<b>5%</b>	<b>8%</b>
<b>Trading and Infrastructure</b>		
Profit from operating activities	36,136	30,202
plus Amortization and depreciation	2,172	5,144
<b>Segment EBITDA</b>	<b>38,308</b>	<b>35,346</b>
Segment revenue	867,527	690,865
<b>Segment EBITDA margin</b>	<b>4%</b>	<b>5%</b>
<b>Farming</b>		
Profit from operating activities	41,117	43,800
plus Amortization and depreciation	11,695	14,537
<b>Segment EBITDA</b>	<b>52,812</b>	<b>58,337</b>
Segment revenue	113,427	134,417
<b>Segment EBITDA margin</b>	<b>47%</b>	<b>43%</b>
<b>Other</b>		
Loss from operating activities	(7,179)	(9,896)
plus Amortization and depreciation	431	461
<b>Segment EBITDA</b>	<b>(6,748)</b>	<b>(9,435)</b>

### Investing Cash Flows net of Fixed Assets Investments

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

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

### Net Fixed Assets Investments

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

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

<i>in thousand US\$</i>	Q1 FY2019	Q1 FY2020
<b>Net cash used in investing activities</b>	<b>(72,242)</b>	<b>(61,313)</b>
<i>Adding back:</i>		
Purchase of property, plant and equipment	(47,039)	(66,267)
Proceeds from disposal of property, plant and equipment	2,500	1,907
<b>Investing Cash Flows net of Fixed Assets Investments</b>	<b>(27,703)</b>	<b>3,047</b>

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

<i>in thousand US\$</i>	Q1 FY2019	Q1 FY2020
<b>Net cash used in investing activities</b>	<b>(72,242)</b>	<b>(61,313)</b>
<i>less:</i>		
Investing Cash Flows less Net Fixed Assets Investments	(27,703)	3,047
<b>Net Fixed Assets Investments</b>	<b>(44,539)</b>	<b>(64,360)</b>

### Operating Cash Flows before Working Capital Changes

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

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

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

<i>in thousand US\$</i>	Q1 FY2019	Q1 FY2020
<b>Net cash generated by operating activities</b>	<b>(3,834)</b>	<b>(85,934)</b>
<i>Less:</i>		
Changes in working capital, including:	(29,945)	(110,337)
Change in trade and other accounts receivable	(138,683)	2,306
Change in prepayments and other current assets	(11,362)	17,437
Change in restricted cash balance	25	(152)
Change in taxes recoverable and prepaid	(3,527)	(58,964)
Change in biological assets	147,702	207,310
Change in inventories	(117,441)	(308,728)
Change in trade accounts payable	83,389	20,136
Change in advances from customers and other current liabilities	9,952	10,318
<b>Operating Cash Flows before Working Capital Changes</b>	<b>26,111</b>	<b>24,403</b>

## Alternative Performance Measures continued

### Free Cash Flows to the Firm

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

### Readily Marketable Inventories

The Group uses **Readily Marketable Inventories** (hereinafter 'RMI'), as an additional measure of its liquidity, which the Group uses to provide a supplemental tool to assist management and investors in evaluating current business performance and in calculating credit ratios under certain of the Group's financing arrangements. The Group defines **RMI** as agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil, which the Group treats as readily convertible into cash because of their commodity characteristics and widely available markets and international pricing mechanisms, carried at cost.

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

### Debt Liabilities

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

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

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

### Adjusted Working Capital

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

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

<i>in thousand US\$</i>	Q1 FY2019	Q1 FY2020
Net cash used in operating activities	(3,834)	(85,934)
Net cash used in investing activities	(72,242)	(61,313)
<b>Free Cash Flows to the Firm</b>	<b>(76,076)</b>	<b>(147,247)</b>

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:

<i>in thousand US\$</i>	As of 30 September 2018	As of 30 September 2019
Sunflower oil & meal	64,957	68,679
Sunflower seed	211,824	296,232
Grains	138,882	202,054
Other	85,925	107,560
<b>Total</b>	<b>501,588</b>	<b>674,526</b>
<i>of which: Readily Marketable Inventories</i>	415,663	568,368

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

<i>in thousand US\$</i>	As of 30 September 2018	As of 30 September 2019
Bonds issued	495,072	496,355
Interest on bonds issued	7,131	7,131
Long-term borrowings	3,854	71,465
Current portion of long-term borrowings	3,625	1,233
Short-term borrowings	277,700	340,940
Obligations under finance lease	7,086	-
Lease liabilities	-	290,105
Current portion of obligations under finance lease	3,404	-
Current portion of lease liabilities	-	17,366
<b>Debt Liabilities</b>	<b>797,872</b>	<b>1,224,595</b>
less: cash and cash equivalents	111,742	80,134
<b>Net Debt</b>	<b>686,130</b>	<b>1,144,461</b>
less: readily marketable inventories	415,663	568,368
<b>Adjusted Net Debt</b>	<b>270,467</b>	<b>576,093</b>

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

<i>in thousand US\$</i>	As of 30 September 2018	As of 30 September 2019
<b>total current assets</b>	<b>1,324,332</b>	<b>1,487,525</b>
less:		
Cash and cash equivalents	111,742	80,134
Assets classified as held for sale	-	521
Total current liabilities	603,410	681,286
<b>add back:</b>		
Short-term borrowings	277,700	340,940
Current portion of long-term borrowings	3,625	1,233
Current portion of obligations under finance lease	3,404	-
Current portion of lease liabilities	-	17,366
Interest on bonds issued	7,131	7,131
<b>Adjusted Working Capital</b>	<b>901,040</b>	<b>1,092,254</b>

## Alternative Performance Measures *continued*

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

APM	Calculation	Why APM is the most important for management
<b>EBITDA</b>	Profit from operating activities adding back amortization and depreciation.	<b>EBITDA</b> is the main metric used by management of the Group to measure operating performance. It is also widely used by investors when evaluating businesses, and by rating agencies and creditors to evaluate the leverage.
<b>EBITDA margin</b>	<b>EBITDA</b> divided by revenue during the reporting period.	<b>EBITDA margin</b> is a metric widely used to measure profitability of Group's operations.
<b>Segment EBITDA</b>	Segment profit from operating activities adding back amortization and depreciation.	<b>EBITDA</b> is the main metric used by management of the Group to measure segment operating performance.
<b>Segment EBITDA margin</b>	<b>Segment EBITDA</b> divided by segment revenue during the reporting period.	<b>Segment EBITDA margin</b> is a metric widely used to measure profitability of Group's segment operations.
<b>Investing Cash Flows net of Fixed Assets Investments</b>	Net cash used in investing activities adding back purchase of property, plant and equipment, and proceeds from disposal of property, plant and equipment.	As the Group grew and developed through acquisitions, this APM helps to monitor the M&A and other investing activities of the Group.
<b>Net Fixed Assets Investments</b>	Net cash used in investing activities less <b>Investing Cash Flows net of Fixed Assets Investments</b> .	The Group is executing a solid investment program as a part of Strategy 2021, and fixed assets investment is an important measure to monitor capital expenditure as a part of the execution of investment program.
<b>Operating Cash Flows before Working Capital Changes</b>	Net cash generated by operating activities less changes in working capital activities, including: <ul style="list-style-type: none"> <li>change in trade and other accounts receivable;</li> <li>change in prepayments and other current assets;</li> <li>change in restricted cash balance;</li> <li>change in taxes recoverable and prepaid;</li> <li>change in biological assets;</li> <li>change in inventories;</li> <li>change in trade accounts payable; and</li> <li>change in advances from customers and other current liabilities.</li> </ul>	The Group uses this APM as a pre-working capital measure that reflects Group's ability to generate cash for investment, debt servicing and distributions to shareholders.
<b>Free Cash Flows to the Firm</b>	Sum of net cash generated by operating activities and net cash used in investing activities.	The Group uses this APM as it reflects the cash generating capability of the Group to repay debt and distribute dividends to shareholders.
<b>Readily Marketable Inventories</b>	Agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil.	The Group uses this APM as an additional measure of its liquidity, which the Group uses to provide a supplemental tool to assist management and investors in evaluating current business performance and in calculating credit ratios under certain of the Group's financing arrangements.
<b>Debt Liabilities</b>	Sum of bonds issued, interest on bonds issued, long-term borrowings, current portion of long-term borrowings, short-term borrowings; and lease liabilities and obligations under finance lease.	The Group uses this APM, as it is a useful measure of the leverage of the Group, which is widely used by credit investors and rating agencies.
<b>Net Debt</b>	<b>Debt Liabilities</b> less cash and cash equivalents.	The Group uses this APM, as it is a useful measure of the leverage of the Group, which is widely used by credit and equity investors and rating agencies.
<b>Adjusted Net Debt</b>	<b>Net Debt</b> less readily marketable inventories.	The Group uses this APM as a supplemental measure of the Group's liquidity, which shows the amount of Debt Liabilities not covered by cash and readily marketable inventories (highly liquid inventories).
<b>Adjusted Working Capital</b>	Current assets (excluding cash and cash equivalents, and assets classified as held for sale) less current liabilities (excluding short-term borrowings, current portion of long-term borrowings, current portion of lease liabilities, current portion of obligations under finance lease, and Interest on bonds issued).	The indicator of working capital is important for the Group, as the Group is involved in trading and processing activities and hold large volumes of inventories on the balance. The Group also invests in business expansion, which needs working capital investments to increase efficiency. It is useful for users and investors because measure of both a company's efficiency and its short-term financial health. It also helps management to keep a business operating smoothly and meet all its financial obligation within the coming year.



# Selected Financial Data

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

		USD <sup>1</sup>		PLN		EUR	
		30 September 2019	30 September 2018	30 September 2019	30 September 2018	30 September 2019	30 September 2018
I.	Revenue	845,838	1,140,304	3,285,742	4,223,442	760,747	980,910
II.	Profit from operating activities	82,490	82,091	320,441	304,047	74,192	70,616
III.	Profit before income tax	61,685	75,277	239,622	278,810	55,479	64,755
IV.	Profit for the period from continuing operations	59,608	78,429	231,553	290,484	53,611	67,466
V.	Net cash used in operating activities	(85,934)	(3,834)	(333,820)	(14,200)	(77,289)	(3,298)
VI.	Net cash used in investing activities	(61,313)	(72,242)	(238,176)	(267,569)	(55,145)	(62,144)
VII.	Net cash generated by financing activities	150,539	81,093	584,784	300,351	135,395	69,758
VIII.	Total net cash flow	3,292	5,017	12,788	18,582	2,961	4,316
IX.	Total assets	3,096,952	2,345,469	12,387,808	8,620,537	2,832,472	2,018,199
X.	Current liabilities	681,286	603,410	2,725,144	2,217,773	623,104	519,215
XI.	Non-current liabilities	934,232	555,946	3,736,928	2,043,324	854,449	478,373
XII.	Issued capital	2,164	2,164	8,656	7,954	1,979	1,862
XIII.	Total equity	1,481,434	1,186,113	5,925,736	4,359,440	1,354,919	1,020,611
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)	0.73	0.92	2.82	3.41	0.65	0.79
XVI.	Diluted number of shares	82,741,022	82,799,192	82,741,022	82,799,192	82,741,022	82,799,192
XVII.	Diluted profit per ordinary share (in USD/PLN/EUR)	0.72	0.91	2.79	3.38	0.65	0.78
XVIII.	Book value per share (in USD/PLN/EUR)	18.10	14.36	72.40	52.78	16.55	12.36
XIX.	Diluted book value per share (in USD/PLN/EUR)	17.92	14.21	71.68	52.23	16.39	12.23

<sup>1</sup> Please see Note 3 for the exchange rates used for conversion

# Condensed Consolidated Interim Statement of Financial Position

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	7	80,134	76,801	111,742
Trade accounts receivable, net	20	194,898	183,196	227,521
Prepayments to suppliers and other current assets, net	20	110,106	129,822	125,813
Corporate income tax prepaid		9,165	8,484	7,397
Taxes recoverable and prepaid, net	8	190,363	118,575	112,474
Inventory	9	674,526	357,610	501,588
Biological assets	10	165,084	309,030	153,762
Other financial assets		62,728	70,835	84,035
Assets classified as held for sale	11	521	2,079	—
<b>Total current assets</b>		<b>1,487,525</b>	<b>1,256,432</b>	<b>1,324,332</b>
<b>Non-current assets</b>				
Property, plant and equipment, net	12	864,766	764,686	599,001
Right-of-use assets	3	354,720	—	—
Intangible assets, net		91,714	114,942	104,776
Goodwill		109,793	107,735	102,219
Investments in joint ventures		55,913	51,252	52,610
Deferred tax assets		6,372	8,447	20,239
Corporate income tax prepaid		4,992	4,374	3,623
Other non-current assets	20	121,157	155,732	138,669
<b>Total non-current assets</b>		<b>1,609,427</b>	<b>1,207,168</b>	<b>1,021,137</b>
<b>Total assets</b>		<b>3,096,952</b>	<b>2,463,600</b>	<b>2,345,469</b>
<b>Liabilities and equity</b>				
<b>Current liabilities</b>				
Trade accounts payable		162,944	136,043	155,582
Advances from customers and other current liabilities	20	122,551	104,976	104,253
Short-term borrowings	14	340,940	183,692	277,700
Current portion of long-term borrowings	15	1,233	1,233	3,625
Current portion of lease liabilities	3	17,366	—	—
Interest on bonds issued	16	7,131	17,949	7,131
Other financial liabilities		29,121	35,867	55,119
<b>Total current liabilities</b>		<b>681,286</b>	<b>479,760</b>	<b>603,410</b>
<b>Non-current liabilities</b>				
Long-term borrowings	15	71,465	63,680	3,854
Bonds issued	16	496,355	496,051	495,072
Lease liabilities	3	290,105	—	—
Obligations under finance leases		—	5,230	7,086
Deferred tax liabilities		27,294	29,010	18,355
Other non-current liabilities		49,013	43,843	31,579
<b>Total non-current liabilities</b>		<b>934,232</b>	<b>637,814</b>	<b>555,946</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>				
Issued capital		2,164	2,164	2,164
Share premium reserve		481,878	481,878	481,878
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve	2	9,391	9,111	8,378
Revaluation reserve		62,249	62,249	42,189
Translation reserve		(659,551)	(734,396)	(791,413)
Retained earnings		1,546,808	1,489,996	1,393,742
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>1,482,883</b>	<b>1,350,946</b>	<b>1,176,882</b>
Non-controlling interests		(1,449)	(4,920)	9,231
<b>Total equity</b>		<b>1,481,434</b>	<b>1,346,026</b>	<b>1,186,113</b>
<b>Total liabilities and equity</b>		<b>3,096,952</b>	<b>2,463,600</b>	<b>2,345,469</b>
Book value		1,482,883	1,350,946	1,176,882
Number of shares	2	81,941,230	81,941,230	81,941,230
Book value per share (in USD)		18.10	16.49	14.36
Diluted number of shares		82,741,022	82,820,378	82,799,192
Diluted book value per share (in USD)		17.92	16.31	14.21

On behalf of the Board of Directors  
**Andrii Verevskyi**  
Chairman of the Board of Directors

**Anastasiia Usachova**  
Director, Chief Financial Officer

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

# Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2019	3 months ended 30 September 2018
<b>Revenue</b>	17, 20	845,838	1,140,304
Net change in fair value of biological assets and agricultural produce		33,948	41,466
Cost of sales	18, 20	(784,448)	(1,095,912)
<b>Gross profit</b>		<b>95,338</b>	<b>85,858</b>
Other operating income, net		13,171	17,127
General and administrative expenses		(26,019)	(20,894)
<b>Profit from operating activities</b>		<b>82,490</b>	<b>82,091</b>
Finance costs, net		(33,409)	(19,579)
Foreign exchange gain, net	19	5,175	11,942
Other income, net		2,768	431
Share of income of joint ventures	13	4,661	392
<b>Profit before income tax</b>		<b>61,685</b>	<b>75,277</b>
Income tax (expenses)/benefit		(2,077)	3,152
<b>Profit for the period from continuing operations</b>		<b>59,608</b>	<b>78,429</b>
<b>Profit for the period</b>		<b>59,608</b>	<b>78,429</b>
<b>Profit for the period attributable to:</b>			
<b>Equity holders of Kernel Holding S.A.</b>		<b>59,443</b>	<b>75,493</b>
Non-controlling interests		165	2,936
<b>Earnings per share</b>			
From continuing operations			
Weighted average number of shares		81,941,230	81,941,230
Profit per ordinary share (in USD)		0.73	0.92
Diluted number of shares		82,741,022	82,799,192
Diluted profit per ordinary share (in USD)		0.72	0.91

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer



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

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

	3 months ended 30 September 2019	3 months ended 30 September 2018
<b>Profit for the period</b>	<b>59,608</b>	<b>78,429</b>
<b>Other comprehensive income/ (loss)</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange differences on translating foreign operations	75,520	(67,741)
<b>Other comprehensive income/(loss), net</b>	<b>75,520</b>	<b>(67,741)</b>
<b>Total comprehensive income for the period</b>	<b>135,128</b>	<b>10,688</b>
<b>Total comprehensive income attributable to:</b>		
Equity holders of Kernel Holding S.A.	134,288	8,134
Non-controlling interests	840	2,554

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer

# Condensed Consolidated Interim Statement of Changes in Equity

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

Attributable to Kernel Holding S.A. shareholders										
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
<b>Balance as of 30 June 2018 (as previously reported)</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,114</b>	<b>43,815</b>	<b>(724,054)</b>	<b>1,318,872</b>	<b>1,170,733</b>	<b>6,871</b>	<b>1,177,604</b>
Effect of IFRS 9 implementation	—	—	—	—	—	—	(314)	(314)	—	(314)
<b>Balance as of 1 July 2018 (restated)</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,114</b>	<b>43,815</b>	<b>(724,054)</b>	<b>1,318,558</b>	<b>1,170,419</b>	<b>6,871</b>	<b>1,177,290</b>
Profit for the period	—	—	—	—	—	—	75,493	75,493	2,936	78,429
Other comprehensive loss	—	—	—	—	—	(67,359)	—	(67,359)	(382)	(67,741)
<b>Total comprehensive (loss)/ income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(67,359)</b>	<b>75,493</b>	<b>8,134</b>	<b>2,554</b>	<b>10,688</b>
Disposal of subsidiaries	—	—	—	—	(1,626)	—	—	(1,626)	—	(1,626)
Effect of changes on minority interest	—	—	—	—	—	—	(309)	(309)	(194)	(503)
Recognition of share-based payments	—	—	—	264	—	—	—	264	—	264
<b>Balance as of 30 September 2018</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,378</b>	<b>42,189</b>	<b>(791,413)</b>	<b>1,393,742</b>	<b>1,176,882</b>	<b>9,231</b>	<b>1,186,113</b>
Profit/(Loss) for the period	—	—	—	—	—	—	88,506	88,506	(74)	88,432
Other comprehensive income	—	—	—	—	—	6,892	—	6,892	107	6,999
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>6,892</b>	<b>88,506</b>	<b>95,398</b>	<b>33</b>	<b>95,431</b>
Distribution of dividends	—	—	—	—	—	—	(20,969)	(20,969)	—	(20,969)
Disposal of subsidiaries	—	—	—	—	—	—	1,626	1,626	—	1,626
Effect of changes on minority interest	—	—	—	—	—	—	503	503	—	503
Recognition of share-based payments	—	—	—	247	—	—	—	247	—	247
<b>Balance as of 31 December 2018</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,625</b>	<b>42,189</b>	<b>(784,521)</b>	<b>1,463,408</b>	<b>1,253,687</b>	<b>9,264</b>	<b>1,262,951</b>
Profit/(Loss) for the period	—	—	—	—	—	—	25,891	25,891	(9,956)	15,935
Other comprehensive income/(loss)	—	—	—	—	—	16,471	—	16,471	(342)	16,129
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>16,471</b>	<b>25,891</b>	<b>42,362</b>	<b>(10,298)</b>	<b>32,064</b>
Recognition of share-based payments	—	—	—	241	—	—	—	241	—	241
<b>Balance as of 31 March 2019</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,866</b>	<b>42,189</b>	<b>(768,050)</b>	<b>1,489,299</b>	<b>1,296,290</b>	<b>(1,034)</b>	<b>1,295,256</b>
Loss for the period	—	—	—	—	—	—	(426)	(426)	(3,866)	(4,292)
Other comprehensive income/(loss)	—	—	—	—	21,183	33,654	—	54,837	(20)	54,817
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>21,183</b>	<b>33,654</b>	<b>(426)</b>	<b>54,411</b>	<b>(3,886)</b>	<b>50,525</b>
Distribution of dividends	—	—	—	—	—	—	484	484	—	484
Effect of changes on minority interest	—	—	—	—	—	—	(484)	(484)	—	(484)
Recognition of share-based payments	—	—	—	245	—	—	—	245	—	245
Transfer of revaluation reserve	—	—	—	—	(1,123)	—	1,123	—	—	—
<b>Balance as of 30 June 2019</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>9,111</b>	<b>62,249</b>	<b>(734,396)</b>	<b>1,489,996</b>	<b>1,350,946</b>	<b>(4,920)</b>	<b>1,346,026</b>
Profit for the period	—	—	—	—	—	—	59,443	59,443	165	59,608
Other comprehensive income	—	—	—	—	—	74,845	—	74,845	675	75,520
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>74,845</b>	<b>59,443</b>	<b>134,288</b>	<b>840</b>	<b>135,128</b>
Effect of changes on minority interest	—	—	—	—	—	—	(2,631)	(2,631)	2,631	—
Recognition of share-based payments	—	—	—	280	—	—	—	280	—	280
<b>Balance as of 30 September 2019</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>9,391</b>	<b>62,249</b>	<b>(659,551)</b>	<b>1,546,808</b>	<b>1,482,883</b>	<b>(1,449)</b>	<b>1,481,434</b>

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer

# Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

Notes	3 months ended 30 September 2019	3 months ended 30 September 2018
<b>Operating activities:</b>		
<b>Profit before income tax</b>	<b>61,685</b>	<b>75,277</b>
<b>Adjustments for:</b>		
Amortization and depreciation	24,049	18,440
Finance costs, net	33,409	19,579
Movement in allowance for doubtful receivables	2,178	79
Other accruals	475	(274)
Gain on disposal of property, plant and equipment	(128)	(891)
Net foreign exchange gain	(7,145)	(20,802)
Net change in fair value of biological assets and agricultural produce	(33,948)	(41,466)
Share of income of joint ventures	(4,661)	(392)
Gain on sales of subsidiaries	(2,845)	(830)
Net (gain)/loss arising on financial assets classified as at fair value through profit or loss	(15,450)	5,401
<b>Operating profit before working capital changes</b>	<b>57,619</b>	<b>54,121</b>
<b>Changes in working capital:</b>		
Change in trade and other accounts receivable <sup>1</sup>	2,306	(138,683)
Change in prepayments and other current assets	17,437	(11,362)
Change in restricted cash balance	(152)	25
Change in taxes recoverable and prepaid	(58,964)	(3,527)
Change in biological assets	207,310	147,702
Change in inventories	(308,728)	(117,441)
Change in trade accounts payable	20,136	83,389
Change in advances from customers and other current liabilities	10,318	9,952
<b>Cash (used in)/generated from operations</b>	<b>(52,718)</b>	<b>24,176</b>
Interest paid	(31,893)	(26,539)
Interest received	1,246	202
Income tax paid	(2,569)	(1,673)
<b>Net cash used in operating activities</b>	<b>(85,934)</b>	<b>(3,834)</b>
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(66,267)	(47,039)
Proceeds from disposal of property, plant and equipment	1,907	2,500
Purchase of intangible and other non-current assets	(104)	(9,679)
Disposal of subsidiaries	1,879	5,405
Amount advanced for subsidiaries	546	—
Amount advanced to related parties	—	(10,000)
Proceeds from disposal of financial assets	726	—
Payment to acquire financial assets	—	(13,429)
<b>Net cash used in investing activities</b>	<b>(61,313)</b>	<b>(72,242)</b>
<b>Financing activities:</b>		
Proceeds from borrowings	213,534	133,227
Repayment of borrowings	(52,100)	(50,503)
Repayment of lease liabilities	(11,947)	—
<b>Net cash generated by financing activities</b>	<b>149,487</b>	<b>82,724</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies	1,052	(1,631)
<b>Net increase in cash and cash equivalents</b>	<b>3,292</b>	<b>5,017</b>
Cash and cash equivalents, at the beginning of the period	76,417	90,069
Cash and cash equivalents, at the end of the period	79,709	95,086

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer

<sup>1</sup> Includes movement in other financial assets



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

## 1. Corporate Information

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

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

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

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

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

As of 30 September 2019, 30 June 2019 and 30 September 2018, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest and voting rights as of		
			30 September 2019	30 June 2019	30 September 2018
Jerste S.a.r.l.	Holding companies.	Luxembourg	100.0%	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%
Avere Commodities SA		Switzerland	72.5%	60.0%	60.0%
Poltava OEP PJSC	Oilseed crushing plants.	Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC	Production of sunflower oil and meal.	Ukraine	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%	100.0%
Kropyvnytskyi OEP PJSC <sup>1</sup>		Ukraine	99.2%	99.2%	99.2%
BSI LLC		Ukraine	100.0%	100.0%	100.0%
Prydniprovskyi OEP LLC		Ukraine	100.0%	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0%	100.0%	100.0%
Bilovodskyi KHP PJSC		Ukraine	91.12%	91.12%	91.12%
Unigrain-Agro (Semenivka) LLC <sup>2</sup>	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	0.0%	0.0%	100.0%
Agrofirma Arshytsya LLC <sup>3</sup>		Ukraine	0.0%	0.0%	100.0%
Hliborob LLC		Ukraine	100.0%	100.0%	100.0%
Vyshneve Agro ALLC <sup>2</sup>		Ukraine	0.0%	0.0%	100.0%
Prydniprovskyi 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%
Agro Invest Ukraine LLC <sup>4</sup>		Ukraine	0.0%	0.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%	100.0%
AF Semerenky LLC		Ukraine	100.0%	100.0%	100.0%
Hovtva ALLC		Ukraine	100.0%	100.0%	100.0%
Buymerske PE <sup>5</sup>		Ukraine	0.0%	0.0%	100.0%

These condensed consolidated interim financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 21 November 2019.

<sup>1</sup> The company was renamed from Kirovogradoliya PJSC

<sup>2</sup> The company merged with Prydniprovskyi Kray ALLC

<sup>3</sup> The company merged with Hovtva ALLC

<sup>4</sup> The company merged with Hliborob LLC

<sup>5</sup> The company merged with AF Semerenky LLC

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

## 2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg). The issued capital of the Holding as of 30 September 2019 and 2018, consisted of 81,941,230 ordinary electronic shares without indication of the nominal value (30 June 2019: 81,941,230). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 September 2019		As of 30 September 2018	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
<b>Equity holders</b>				
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%
<b>Total</b>	<b>81,941,230</b>	<b>100.00%</b>	<b>81,941,230</b>	<b>100.00%</b>

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

As of and during the three months ended 30 September 2019, the fair value of the share-based options granted to the management was USD 9,391 thousand and USD 280 thousand was recognized as an expense (part of payroll and payroll related expenses), with a corresponding increase in equity over the vesting period (as of and during the three months ended 30 September 2018: USD 8,378 thousand and USD 264 thousand, respectively).

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 216 thousand as of 30 September 2019 and 2018, may not be distributed as dividends.

## 3. Summary of Significant Accounting Policies

### Basis of Preparation and Accounting

The condensed consolidated interim financial statements of the Group for the three months ended 30 September 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) 34 Interim Financial Reporting and do not include all the information and disclosures required in the annual consolidated financial statements.

The accounting policies adopted are consistent with those of the previous financial year, except the adoption of new and amended standards as set out below effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### Adoption of New and Revised Standards

The Group has adopted IFRS 16 Leases with application of retrospective approach and did not restate comparatives, as permitted under the transitional provisions of the standard. The classifications of existing contracts and the adjustments were recognized as the cumulative effect of initially applying this standard at the date of initial application.

The standard establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 provides a comprehensive model for identification of lease arrangements and their treatment (on-balance sheet) in the financial statements of both lessees and lessors.

The Group has chosen to apply the next practical expedients available under the standard:

- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Leases with the lease term ending within 12 months of the date of initial application will remain accounted for as operating expenditures;
- An entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the entity is permitted to apply this Standard to contracts that were previously identified as leases applying IAS 17 Leases and IFRIC 4 determining whether an arrangement contains a lease.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use assets and the lease liabilities are accounted for applying IFRS 16 from 1 July 2019.

### The Group as a lessee

The Group assesses whether a contract is, or contains, a lease at the inception of the contract. The Group recognizes right-of-use assets and corresponding lease liabilities with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less).

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

The lease liabilities are presented as a separate line in the consolidated statement of financial position.

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities as of 1 July 2019 was 18.7%.

For the three months ended 30 September 2019 interest expense on lease liabilities in the amount of USD 13,259 thousand was recognized within the line "Finance costs, net" in the statement of profit or loss.

The reconciliation between the operating lease commitments as at 30 June 2019 and the opening balance for the lease liabilities as at 1 July 2019 is as follows:

	Amount
Operating lease commitments at 30 June 2019	591,547
Short-term lease	(2,738)
Effect of discounting	(322,357)
<b>Total additional lease liabilities recognized on adoption of IFRS 16</b>	<b>266,452</b>
Existing finance lease obligations at 30 June 2019	7,714
<b>Total lease liabilities at 1 July 2019</b>	<b>274,166</b>
Of which	
Current portion of lease liabilities	10,577
<b>Lease liabilities</b>	<b>263,589</b>

The right-of-use assets for land leases rights were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 01 July 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of the initial application.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The recognized right-of-use assets relate to the following types of assets:

	As of 30 September 2019	As of 01 July 2019
Land	346,380	316,362
Property, plant and equipment	8,340	9,167
<b>Total right-of-use assets</b>	<b>354,720</b>	<b>325,529</b>

The right-of-use assets are measured at cost at the commencement date and comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct cost.

Increase in right-of-use assets as of 30 September 2019 in comparison with 1 July 2019 resulted mostly from the revaluation of the Ukrainian hryvnia during the three months ended 30 September 2019.

Payments related to short-term leases are recognized on a straight-line basis as an expense in line "Cost of sales" in the statement of profit or loss in the amount of USD 199 thousand for the three months ended 30 September 2019.

The amount of depreciation charge on right-of-use assets of USD 3,799 thousand for the three months ended 30 September 2019 was recognized as an expense within the line "Cost of sales" in the statement of profit or loss.

## The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

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

## Functional and Presentation Currency

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

## Foreign Currencies

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the reporting date. Income and

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



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

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 Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income and accumulated in 'Translation reserve'.

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

Currency	Closing rate as of 30 September 2019	Average rate for the three months ended 30 September 2019	Closing rate as of 30 September 2018	Average rate for the three months ended 30 September 2018
USD/UAH	24.0828	25.2613	28.2983	27.3490
USD/EUR	0.9146	0.8994	0.8605	0.8602
USD/PLN	4.0000	3.8846	3.6754	3.7038

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

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

## Reclassifications

Certain reclassifications have been made to the condensed consolidated interim financial statements as of 30 September 2018 and for the period then ended to conform to the current period's presentation.

## 4. Operating Segments

The Group 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 the historical 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 about 5% to the Company's EBITDA. Kernel's oilseed crushing business is managed jointly and thus split into segments is not justifiable.

In Infrastructure and Trading segment, the Group combines what was previously presented in Export Terminals, Silo Services, and Grain segments. These parts of the business form an integrated supply chain which is managed jointly. The management's decision-making has evolved compared with previous years to account for a throughput margin while making a decision on whether to buy or not a specific volume of grain. Under current framework, the management considers export terminals and grain storage facilities as production assets which serve grain merchandizing business and consequently uses a combined throughput margin to evaluate performance of Infrastructure and Trading business. In FY2019, 99% of the Group's export terminals capacity and majority of grain storage capacity were used for the Group's own export volumes. The results of the Infrastructure and Trading segment incorporate savings achieved by acquiring and employing the Company's own railcar park. Also, the Infrastructure and Trading segment includes the results of the Avere Commodities S.A. and its subsidiaries (hereinafter, Avere).

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

## Seasonality of operations

The Oilseeds Processing segment normally has seasonally lower sales in the first quarter of the financial year, which corresponds to the end of the crushing season and lower production levels. The operations of the Farming segment reflect seasonality in the context of seeding and harvesting campaigns, which are conducted mainly in November-May and June-November, respectively. The Infrastructure and Trading segment usually experiences somewhat higher volumes in the several months after the commencement of the harvesting campaign (July for early grains and September for crops harvested in autumn). In addition, the Farming segment usually reflects a higher effect from the IAS 41 valuation of biological assets in the last quarter of the financial year when more acreage is revalued to fair value less costs to sell and a higher effect from the IAS 41 valuation of agricultural produce in the first half of the financial year due to the completion of the harvesting campaign.

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## 5. Key Data by Operating Segments

Key data by operating segments for the three months ended 30 September 2019:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	154,955	683,402	7,481	—	—	845,838
Intersegment sales	141,193	7,463	126,936	—	(275,592)	—
<b>Total revenue</b>	<b>296,148</b>	<b>690,865</b>	<b>134,417</b>	<b>—</b>	<b>(275,592)</b>	<b>845,838</b>
Net change in fair value of biological assets and agricultural produce	—	—	33,948	—	—	33,948
Other operating income, net	43	1,884	10,737	—	507	13,171
<b>Profit/(Loss) from operating activities</b>	<b>18,384</b>	<b>30,202</b>	<b>43,800</b>	<b>(9,896)</b>	<b>—</b>	<b>82,490</b>
Finance costs, net						(33,409)
Foreign exchange gain, net						5,175
Other income, net						2,768
Share of income of joint ventures						4,661
Income tax expenses						(2,077)
Profit for the period from continuing operations						59,608
<b>Total assets</b>	<b>1,111,922</b>	<b>911,770</b>	<b>1,015,743</b>	<b>57,517</b>	<b>—</b>	<b>3,096,952</b>
Capital expenditures	53,408	26,757	23,286	948	—	104,399
Amortization and depreciation	3,907	5,144	14,537	461	—	24,049
Liabilities	106,697	124,349	402,312	982,160	—	1,615,518

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

	Oilseeds Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	274,713	857,399	8,192	—	—	1,140,304
Intersegment sales	82,192	10,128	105,235	—	(197,555)	—
<b>Total revenue</b>	<b>356,905</b>	<b>867,527</b>	<b>113,427</b>	<b>—</b>	<b>(197,555)</b>	<b>1,140,304</b>
Net change in fair value of biological assets and agricultural produce	—	—	41,466	—	—	41,466
Other operating (expenses)/income, net	(341)	13,517	3,951	—	—	17,127
<b>Profit/(Loss) from operating activities</b>	<b>12,017</b>	<b>36,136</b>	<b>41,117</b>	<b>(7,179)</b>	<b>—</b>	<b>82,091</b>
Finance costs, net						(19,579)
Foreign exchange gain, net						11,942
Other income, net						431
Share of income of joint ventures						392
Income tax benefit						3,152
Profit for the period from continuing operations						78,429
<b>Total assets</b>	<b>822,379</b>	<b>730,550</b>	<b>692,144</b>	<b>100,396</b>	<b>—</b>	<b>2,345,469</b>
Capital expenditures	6,901	10,593	40,692	727	—	58,913
Amortization and depreciation	4,142	2,172	11,695	431	—	18,440
Liabilities	81,340	181,472	74,671	821,873	—	1,159,356

Allocated revenue of promised goods and services by operating segments for the three months ended 30 September under requirements IFRS 15 was as follows:

	For the three months ended 30 September 2019				For the three months ended 30 September 2018			
	Oilseeds Processing	Infrastructure and Trading	Farming	Continuing operations	Oilseeds Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	148,034	667,505	7,481	823,020	269,926	820,049	8,192	1,098,167
Freight and other services	6,921	15,897	—	22,818	4,787	37,350	—	42,137
<b>Total external revenue from contracts with customers</b>	<b>154,955</b>	<b>683,402</b>	<b>7,481</b>	<b>845,838</b>	<b>274,713</b>	<b>857,399</b>	<b>8,192</b>	<b>1,140,304</b>

During the three months ended 30 September 2019, revenues of approximately USD 74,882 thousand (the three months ended 30 September 2018: USD 106,312 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 95.7% of total external sales (the three months ended 30 September 2018: 96.0%).

During the three months ended 30 September 2019, revenue from the Group's top five customers accounted for approximately 30.4% of total revenue (30 September 2018, revenue from the top five customers accounted for 31.8% of total revenue).

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

# Notes to the Condensed Consolidated Interim Financial Statements

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Among other, 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.

The Group's revenue from external customers (based on the location where sale occurred) and information about its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by geographical location are detailed below:

	As of and for the three months ended 30 September 2019		As of and for the three months ended 30 September 2018	
	Revenue from external customers	Non-current assets	Revenue from external customers	Non-current assets
Ukraine	483,131	1,543,843	561,828	945,730
Europe	290,955	2,503	152,423	2,222
North America	71,752	275	426,053	317
Other locations	—	56,434	—	52,629
<b>Total</b>	<b>845,838</b>	<b>1,603,055</b>	<b>1,140,304</b>	<b>1,000,898</b>

None of the other locations represented more than 10% of total revenue or non-current assets individually. Revenue from external customers allocated based on the location, where the sale occurred.

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

Gain/loss from Avere operations with financial derivatives are presented within Infrastructure and Trading segment.

## 6. Acquisition and Disposal of Subsidiaries

No entities were acquired during the three months ended 30 September 2019 and 2018.

During the three months ended 30 September 2019, according to management's plan, the Group disposed one of its export terminals, previously classified as assets held for sale, located in Mykolaiv region. The net assets as of the date of disposal amounted to USD 1,073 thousand. The cash consideration received was USD 3,918 thousand (out of which USD 1,879 thousand was received during this reporting period).

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

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

## 7. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
Cash in banks in USD	63,996	64,109	96,275
Cash in banks in UAH	14,177	4,448	9,336
Cash in banks in other currencies	1,955	8,237	6,127
Cash on hand	6	7	4
<b>Total</b>	<b>80,134</b>	<b>76,801</b>	<b>111,742</b>
Less restricted and blocked cash on security bank accounts	(290)	(138)	(651)
Less bank overdrafts (Note 14)	(135)	(246)	(16,005)
<b>Cash for the purposes of cash flow statement</b>	<b>79,709</b>	<b>76,417</b>	<b>95,086</b>

## 8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid increased to USD 190,363 thousand as of 30 September 2019 from USD 118,575 thousand as of 30 June 2019 (30 September 2018: USD 112,474 thousand) mostly due to increase of commodities purchases, input VAT on which is a subject to refund by state.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

## 9. Inventory

The balances of inventories were as follows:

	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
Raw materials	357,553	148,205	242,470
Agricultural products	120,087	38,560	72,779
Goods for resale	92,973	47,355	86,599
Finished products	64,306	105,569	65,842
Work in progress	23,975	1,478	21,473
Fuel	5,820	7,075	4,816
Packaging materials	1,878	1,620	1,186
Other inventories	7,934	7,748	6,423
<b>Total</b>	<b>674,526</b>	<b>357,610</b>	<b>501,588</b>

As of 30 September 2019, raw materials mostly consisted of sunflower seed stock in the amount of USD 296,353 thousand (as of 30 June 2019 and 30 September 2018: USD 103,661 thousand and USD 195,666 thousand, respectively).

As of 30 September 2019, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 44,060 thousand (as of 30 June 2019 and 30 September 2018: USD 75,518 thousand and USD 43,934 thousand, respectively).

For the three months ended 30 September 2019, write-downs of inventories to net realizable value amounted to USD 3,136 thousand (30 September 2018: USD 1,440 thousand) and were recognized as an expense and included in line "Cost of sales".

As of 30 September 2019, inventory balances in the amounts of USD 212,439 thousand (as of 30 June 2019 and 31 September 2018: USD 166,245 thousand and USD 166,405 thousand, respectively) were pledged as security for short-term borrowings (Note 14).

## 10. Biological Assets

Changes in the amount of biological assets for the three months ended 30 September 2019 and 2018 were caused by the crops harvesting and revaluation adjustment in accordance with IAS 41.

Net change in the fair value of biological assets and agricultural produce reflects the revaluation of crops in fields and agricultural produce balances to its fair value as of 30 September 2019 and 2018.

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

As of 30 September 2019, according to management's plan to dispose one of its silos, net assets of which predominantly consisted of property, plant and equipment in the amount of USD 437 thousand, were classified as assets held for sale. As of 30 September 2019, advances for sale of the subsidiaries in the amount of USD 290 thousand has been received (remained unchanged from the beginning of the period) and represented within the line 'Advances from Customers and Other Current Liabilities'. Its operations weren't presented as discontinued operations as they do not meet the criteria of recognition since the entity doesn't represent a separate major line of business or geographical area of operations.

## 12. Property, Plant and Equipment, net

During the three months ended 30 September 2019, the Group acquired property, plant and equipment in the amount of USD 98,875 thousand (30 September 2018: USD 48,688 thousand). These purchases were related mainly to the construction of an oil-crushing plant and a port terminal. (30 September 2018: acquisition of agricultural vehicles and equipment for silos and farming segments).

The increase in property, plant and equipment in the amount of USD 28,501 thousand resulted from the revaluation of the Ukrainian hryvnia during the three months ended 30 September 2019 (30 September 2018: decrease USD 20,361 thousand as a result of depreciation of the Ukrainian hryvnia).

During the three months ended 30 September 2019, depreciation of property, plant and equipment amounted USD 17,176 thousand (as of 30 September 2018: USD 15,006 thousand).

As of 30 September 2019, the Group had CIP and uninstalled equipment amounted to USD 203,198 thousand, which is mostly related to the construction of an oil-crushing plant and a port terminal (30 September 2018: USD 44,758 thousand, mostly related to the agricultural equipment and construction of a port terminal).

As of 30 September 2019, property, plant and equipment with a carrying amount of USD 190,209 thousand (as of 30 June 2019 and 30 September 2018: USD 104,053 and USD 514 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 14, 15).

As of 30 September 2019, property, plant and equipment with a carrying amount of USD 29,264 thousand (30 June 2019 and 30 September 2018: USD 29,228 thousand and USD 25,277 thousand, respectively) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016.

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

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for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

## 13. Investments in Joint Ventures

For the three months ended 30 September 2019, the share of gain of joint venture (Taman) equaled USD 4,661 thousand (for the three months ended 30 September 2018: gain USD 392 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 486 thousand (for the three months ended 30 September 2018: USD 529 thousand) and interest expenses in the amount of USD 136 thousand (for the three months ended 30 September 2018: USD 202 thousand).

## 14. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
Bank credit lines	339,224	182,160	260,692
Interest accrued on short-term borrowings	1,467	759	987
Bank overdrafts (Note 7)	135	246	16,005
Interest accrued on long-term borrowings	114	527	16
<b>Total</b>	<b>340,940</b>	<b>183,692</b>	<b>277,700</b>

The balances of short-term borrowings as of 30 September 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.00%	USD	October 2019	94,495
Ukrainian subsidiary of European bank	4.00%	USD	October 2019	71,534
European bank	Libor + 3.95%	USD	October 2019	53,315
European bank	Libor + 4.20%	USD	October 2019	28,000
European bank	Libor + 4.10%	USD	October 2019	25,000
European bank	Libor + 2.50%	USD	September 2020	18,469
Ukrainian subsidiary of European bank	17.50%	UAH	October 2019	14,035
Ukrainian subsidiary of European bank	17.75%	UAH	October 2019	11,502
Ukrainian bank	4.00%	USD	February 2020	9,735
European bank	Libor + 1.50%	USD	September 2019	3,379
European bank	Libor + 4.00%	USD	January 2020	2,837
European bank	Libor + 2.25%	USD	January 2020	2,103
Ukrainian subsidiary of European bank	16.50%	UAH	October 2019	1,869
European bank	Libor + 1.65%	USD	March 2020	1,586
Ukrainian subsidiary of European bank	4.00%	USD	November 2019	1,500
<b>Total bank credit lines</b>				<b>339,359</b>
Interest accrued on short-term loans				1,467
Interest accrued on long-term loans				114
<b>Total</b>				<b>340,940</b>

The balances of short-term borrowings as of 30 June 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
Ukrainian subsidiary of European bank	4.00%	USD	July 2019	48,700
European bank	Libor + 2.25%	USD	July 2019	43,447
European bank	Libor + 3.95%	USD	July 2019	32,860
European bank	Libor + 4.00%	USD	July 2019	15,032
Ukrainian subsidiary of European bank	18.00%	UAH	July 2019	10,261
Ukrainian subsidiary of European bank	18.50%	UAH	July 2019	8,102
Ukrainian subsidiary of European bank	4.30%	USD	July 2019	7,300
European bank	Libor + 1.50%	USD	July 2019	6,992
Ukrainian subsidiary of European bank	19.00%	UAH	July 2019	3,803
European bank	Libor + 1.65%	USD	March 2020	2,903
Ukrainian subsidiary of European bank	18.25%	UAH	July 2019	2,484
European bank	Libor + 2.45%	USD	July 2019	522
<b>Total bank credit lines</b>				<b>182,406</b>
Interest accrued on short-term loans				759
Interest accrued on long-term loans				527
<b>Total</b>				<b>183,692</b>



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

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

As of 30 September 2019, undrawn short-term bank credit lines amounted to USD 636,454 thousand (as of 30 June 2019 and 30 September 2018: USD 708,866 thousand and USD 162,113 thousand).

Short-term borrowings from banks were secured as follows:

	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
<b>Assets pledged</b>			
Inventory (Note 9)	212,439	166,245	166,405
Future sales receipts	130,281	85,365	16,005
Property, plant and equipment (Note 12)	682	626	514
Other financial assets	—	—	11,234
<b>Total</b>	<b>343,402</b>	<b>252,236</b>	<b>194,158</b>

## 15. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
Long-term bank borrowings	72,698	64,913	7,479
Current portion of long-term borrowings	(1,233)	(1,233)	(3,625)
<b>Total</b>	<b>71,465</b>	<b>63,680</b>	<b>3,854</b>

The balances of long-term borrowings as of 30 September 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 2.78%	USD	February 2029	50,000
European bank	Libor + 2.77%	USD	April 2029	12,140
European bank	Libor + 2.84%	USD	September 2029	8,093
Ukrainian subsidiary of European bank	Libor + 4.50%	USD	August 2021	2,465
<b>Total</b>				<b>72,698</b>

The balances of long-term borrowings as of 30 June 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 2.78%	USD	February 2029	50,000
European bank	Libor + 2.77%	USD	April 2029	12,140
Ukrainian subsidiary of European bank	Libor + 4.50%	USD	August 2021	2,773
<b>Total</b>				<b>64,913</b>

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

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

As of 30 September 2019, undrawn long-term borrowings amounted to USD 235,767 thousand (as of 30 June 2019 and 30 September 2018: USD 243,860 thousand and nil, respectively).

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

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Long-term bank borrowings from banks were secured as follows:

	As of 30 September 2019	As of 30 June 2019	As of 30 September 2018
Assets pledged			
Property, plant and equipment (Note 12)	189,527	103,427	—
<b>Total</b>	<b>189,527</b>	<b>103,427</b>	<b>—</b>

## 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 30 September 2019 and 2018, accrued interest on bonds issued was USD 7,131 thousand (30 June 2019: USD 17,949 thousand).

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

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

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

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

The Notes were rated in line with the Issuer's IDR by Fitch (B+) and S&P (B), which is two notches and one notch above the sovereign at the issue date, respectively.

## 17. Revenue

The Group's revenue was as follows:

	3 months ended 30 September 2019	3 months ended 30 September 2018
Revenue from agriculture commodities merchandizing	504,180	782,925
Revenue from edible oils sold in bulk, meal and cake	305,777	319,553
Revenue from bottled sunflower oil	25,382	27,659
Revenue from farming	7,250	8,192
Revenue from grain silo services	1,722	1,874
Revenue from transshipment services	1,527	101
<b>Total</b>	<b>845,838</b>	<b>1,140,304</b>

Revenue for the period is comprised of the following:

	3 months ended 30 September 2019	3 months ended 30 September 2018
Sale of commodities	823,020	1,098,167
Freight, storage and other services	22,818	42,137
<b>Total</b>	<b>845,838</b>	<b>1,140,304</b>

Revenue is obtained principally from the sale of commodities, recognized once the control of the goods has transferred from the Company to the customer. Revenue derived from freight, storage and other services is recognized over time as the service is rendered. Disaggregated revenue for each reportable segment is presented in the Note 5.

## 18. Cost of Sales

Cost of sales was as follows:

	3 months ended 30 September 2019	3 months ended 30 September 2018
Cost of goods for resale and raw materials used	665,337	976,677
Shipping and handling costs	61,021	64,655
Amortization and depreciation	23,072	17,534
Payroll and payroll related costs	17,799	16,059
Rental payments	12,776	17,353
Other operating costs	4,443	3,634
<b>Total</b>	<b>784,448</b>	<b>1,095,912</b>

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

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## 19. Foreign Exchange Gain/(Loss), net

As of 30 September 2019, the Ukrainian hryvnia revalued against major foreign currencies. During the three months ended 30 September 2019, the Ukrainian hryvnia rate revalued against the US dollar by 9% (devalued by 7% for the three months ended 30 September 2018).

For the three months ended 30 September 2019, net foreign exchange gain amounted to USD 5,175 thousand (30 September 2018: net foreign exchange gain amounted to USD 11,942 thousand). The result is mostly connected with revaluation of Ukrainian hryvnia and fluctuation of exchange rates within indicated periods which influenced on revaluation of balances denominated in other than functional currencies, namely trade balances, VAT and income tax prepaid, borrowings (including intra-group balances: the Company's subsidiaries operate with different functional currencies and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's subsidiaries if they had different functional currencies).

## 20. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances as of 30 September 2019	Total category as per consolidated balance sheet as of 30 September 2019	Related party balances as of 30 June 2019	Total category as per consolidated balance sheet as of 30 June 2019	Related party balances as of 30 September 2018	Total category as per consolidated balance sheet as of 30 September 2018
Trade accounts receivable, net	900	194,898	785	183,196	—	227,521
Prepayments to suppliers and other current assets, net	9,427	110,106	9,675	129,822	6,382	125,813
Other non-current assets	17,150	121,157	19,769	155,732	22,478	138,669
Advances from customers and other current liabilities	4,670	122,551	4,462	104,976	8,086	104,253

As of 30 June 2019, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 3,574 thousand, which was repaid as of 30 September 2019 in full amount (30 September 2018: USD 4,358 thousand).

As of 30 September 2019, prepayments to suppliers and other current assets and other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,597 thousand provided to Taman Grain Terminal Holding (30 June 2019 and 30 September 2018: USD 2,575 thousand and USD 2,484 thousand, respectively).

As of 30 September 2019, other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 10,585 thousand provided to the company under control of the Beneficial Owner (30 June 2019 and 30 September 2018: USD 10,459 thousand and USD 8,637 thousand, respectively).

As of 30 September 2019, prepayments to suppliers and other current assets and other non-current assets included an interest-free 3-year term financing in the amount of USD 5,565 thousand and a loan at a rate comparable to the market rate in the amount of USD 1,000 thousand provided to key management personnel (30 June 2019: USD 5,493 thousand and USD 1,000 thousand, respectively; 30 September 2018: USD 5,092 thousand and USD 1,000 thousand, respectively).

As of 30 September and 30 June 2019, advances from customers and other current liabilities included USD 3,099 thousand in bonuses payable to the management (30 September 2018: USD 1,337 thousand).

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

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

Transactions with related parties were as follows:

	3 months ended 30 September 2019		3 months ended 30 September 2018	
	Amount of operations with related parties,	Total category as per consolidated statement of financial position	Amount of operations with related parties,	Total category as per consolidated statement of financial position
Revenue (Note 17)	243	845,838	26	1,140,304
Cost of sales (Note 18)	(484)	(784,448)	—	(1,095,912)
General and administrative expenses	(1,072)	(26,019)	(1,012)	(20,894)
Finance income/(costs), net	244	(33,409)	(1,347)	(19,579)
Other income/(expenses), net	592	2,768	(607)	431

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

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

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As of 30 September 2019 and 2018, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the three months ended 30 September 2019 amounted to USD 125 thousand (30 September 2018: 8 directors, USD 125 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 599 thousand the three months ended 30 September 2019 (30 September 2018: 12 people, USD 628 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).

## 21. Commitments and Contingencies

### Operating Environment

In the recent years, Ukraine has been in a political and economic turmoil. Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. In 2018-2019, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions. These events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease of GDP, illiquidity, and volatility of financial markets.

During the year ended 30 June 2019, annual inflation rate amounted to 9% (2018: 10%). The Ukrainian economy proceeded recovery from the economic and political crisis of previous years that resulted in GDP smooth growth for the year ended 30 June 2019 for 3% (2018: 3%) and stabilization of national currency. From trading perspective, the economy continued to demonstrate refocusing on the European Union ("EU") market, in such a way effectively reacting to mutual trading restrictions imposed between Ukraine and Russia.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (NBU) lifts the surrender requirement of a share of foreign currency proceeds. The requirement that obliged entrepreneurs to sell certain share of their foreign currency proceeds was abolished starting from 20 June 2019.

In line with the currency liberalization the National Bank of Ukraine ("NBU") streamlined currency supervision of compliance with settlement deadlines for export and import transactions in foreign currency from 120 to 365 days and cancelled all limits on repatriation of dividends since July 2019 (from March 2018, companies were allowed to pay dividends to foreign investors in foreign currency at the amount under USD 7 million per month regardless of the period, when such dividends were accrued).

Further stabilization of the economic and political situation depends, to a large extent, upon success of the Ukrainian government's efforts and cooperation with the International Monetary Fund ("IMF"), yet further economic and political developments are currently difficult to predict.

### Capital Commitments

As of 30 September 2019, the Group had commitments under contracts with a group of suppliers for a total amount of USD 108,616 thousand, mostly for the construction of an oil-crushing plant and port terminal (30 June 2019: USD 152,851 thousand, mostly for the construction of an oil-crushing plant).

### Contractual Commitments on Sales

As of 30 September 2019, the Group had entered into commercial contracts for the export of 1,144,416 tons of grain and 982,757 tons of sunflower oil and meal, corresponding to an amount of USD 206,751 thousand and USD 453,023 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2019, the Group had entered into commercial contracts for the export of 802,375 tons of grain and 546,117 tons of sunflower oil and meal, corresponding to an amount of USD 156,194 thousand and USD 227,450 thousand, respectively, in contract prices as of the reporting date.

### Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire Stiomi Holding, a farming company located in the Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 30 September 2019, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfilment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect of the non-fulfillment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts said to be due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case in which the Group asserted its counterclaims and thereafter written statements of evidence and expert reports were also exchanged. The hearing took place in November 2015. The tribunal delivered its award in late February 2018. That award was in part subject to challenge by the Group in the High Court in London. In March 2019 the High Court remitted the award to the tribunal for reconsideration in certain respects and a further hearing took place before the tribunal at the end of September 2019. The tribunal's revised award is awaited and is due by no later than 21 December 2019.

As of 30 September 2019 and 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

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

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for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

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 32,419 thousand as of 30 September 2019 (30 June 2019: USD 31,872 thousand), and related expenses in the amount of USD 547 thousand were recognized within the three months ended 30 September 2019 (30 June 2019: USD 2,901 thousand) and included within the line "Other expenses, net". No payment has been made to the claimant pending the outcome of the award on the remitted issues.

The Group performed certain sale and acquisition transactions and other concentrations which could have required the obtaining of the prior approval of the Antimonopoly Committee of Ukraine ("AMC"). In February 2019, the Group acquired RTK-Ukraine LLC (the "Acquisition"). In July 2019, the AMC initiated investigation in respect of the Acquisition claiming that the Group had to obtain the AMC approval for the concentration prior to acquisition of RTK Ukraine. The Group believes that the AMC approval for the concentration was not required as the Acquisition falls under the exemption allowing not to obtain the AMC approval for the concentration. The investigation is currently pending. Exact amount of potential fines and penalties could be defined after investigation finalized. Management believes that based on the past history, it is unlikely that any material settlement will arise and no respective provision is required in the Group's financial statements as of the reporting date.

As of 30 September 2019, the Group's management assessed its maximum exposure to tax risks related to VAT refunds claimed by the Group, the deductibility of certain expenses for corporate income tax purposes and other tax issues for total amount of USD 23,353 thousand (30 June 2019: USD 21,493 thousand), from which USD 8,472 related to VAT recoverability (30 June 2019: USD 7,797 thousand), USD 11,508 thousand related to corporate income tax (30 June 2019: USD 10,592 thousand) and USD 3,373 thousand related to other tax issues (30 June 2019: 3,104 thousand).

As of 30 September 2019, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 22,242 thousand (30 June 2019: USD 20,471 thousand), included in the abovementioned amount. Out of this amount, USD 8,272 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 2019: USD 7,613 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.

## 22. 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:

	30 September 2019		30 June 2019		30 September 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities <sup>1</sup>						
Long-term borrowings (Note 15)	72,698	71,130	64,913	65,066	7,479	7,479
Obligations under finance lease	—	—	7,714	7,709	9,936	9,939
Bonds issued (Note 16)	503,486	532,170	514,000	527,330	502,203	509,490

For the three months ended 30 September 2019, the fair value of bank long-term borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5.53% (for the three months ended 30 September 2018: 3.64%) 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.

<sup>1</sup> Including accrued interests

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



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2019 (in thousands of US dollars, unless otherwise stated)

The following table below represents the fair values of the derivative financial instruments including trade related financial and physical forward purchase:

	30 September 2019			30 June 2019			30 September 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Other financial assets</b>									
Physical forwards	—	14,498	14,498	—	21,591	21,591	—	69,175	69,175
Futures	2,526	—	2,526	318	—	318	1,715	—	1,715
Options	855	—	855	393	—	393	—	—	—
<b>Total</b>	<b>3,381</b>	<b>14,498</b>	<b>17,879</b>	<b>711</b>	<b>21,591</b>	<b>22,302</b>	<b>1,715</b>	<b>69,175</b>	<b>70,890</b>
<b>Other financial liabilities</b>									
Physical forwards	—	21,261	21,261	—	26,397	26,397	—	51,936	51,936
Futures	5,907	—	5,907	9,470	—	9,470	1,152	—	1,152
Options	1,953	—	1,953	—	—	—	2,031	—	2,031
<b>Total</b>	<b>7,860</b>	<b>21,261</b>	<b>29,121</b>	<b>9,470</b>	<b>26,397</b>	<b>35,867</b>	<b>3,183</b>	<b>51,936</b>	<b>55,119</b>

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

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

Major part of other financial liabilities has contractual maturity due within 6 months.

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

For the three months ended 30 September 2019, the fair value of other non-current assets recognized at FVTPL was estimated by market comparable approach that is within level 2 in the fair value hierarchy.

For the three months ended 30 September 2019, fair value of other non-current assets and liabilities does not differ materially from it carrying amount and are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk. For the three months ended 30 September 2019, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

For the three months ended 30 September 2019 and 2018, the fair value of other non-current liabilities was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 24.92% and 25.82%, respectively.

There were no transfers between levels of fair value hierarchy.

## 23. Subsequent Events

On 18 October 2019 the Company has announced that it has issued USD 300,000,000 aggregate principal amount of 6.5% Notes due 17 October 2024 (the "Notes") with issue price of 99.475%. The Notes are rated BB- by Fitch, and B by S&P, two notches above and in line with Ukrainian sovereign respectively.