

KERNEL

# Kernel Holding S.A.

Q1 FY2020 results and company presentation

November 2019



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Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

“LTM” and “Last twelve months” throughout this presentation means the period of October 2018 – September 2019, inclusively.



## Content

**1. Q1 FY2020 results and outlook**

2. Kernel today

3. Balanced growth strategy

4. Financials

Appendices



# 1.1 Q1 FY2020 highlights

- **Revenue** down 26% y-o-y to US\$ 846m:
  - Lower Avere trading volumes (limited impact on Group profitability)
- **EBITDA** ↑ 6% y-o-y to US\$ 107m (or US\$ 99m ex IFRS16)
  - **Oilseed Processing** EBITDA of US\$ 22m (↑ 38% y-o-y): strong margins albeit normalized sales volumes;
  - **Infrastructure and Trading** EBITDA of US\$ 35m (↓ 8% y-o-y):
    - weak grain trading margins;
    - lower y-o-y (but positive) Avere earnings;
    - Solid infrastructure performance (silos, railcars, export terminal);
  - **Farming** EBITDA of US\$ 58m, ↑ 10% y-o-y (or US\$ 51m ex IFRS16)
- **Net profit attributable to shareholders** of US\$ 59m, ↓ 21% y-o-y (or US\$ 71m ex IFRS16)
- **Net debt** of US\$ 1,144m (↑ 65% from 30 June 2019):
  - short-term borrowings growth to finance W/C needs at the beginning of the season;
  - US\$ 307m lease liabilities added to the balance sheet post IFRS 16.
- **Readily marketable inventories** (“RMI”) of US\$ 568m, ↑ 94% from 30 June 2019 driven by procurement of grain and sunflower seeds at the beginning of the season.
- **Net debt adjusted for RMI** of US\$ 576m on 30 September 2019 from US\$ 400m 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 IFRS16).

US\$ m except EPS	Q1 FY2019	Q1 FY2020	y-o-y
<b>Income statement highlights</b>			
Revenue	1,140	846	(26%)
EBITDA <sup>1</sup>	101	107	6%
Net profit attributable to equity holders	75	59	(21%)
EBITDA margin	8.8%	12.6%	3.8pp
Net margin	6.6%	7.0%	0.4pp
EPS <sup>2</sup> , US\$	0.92	0.73	(21%)

## Cash flow highlights

Operating profit before working capital changes	54	58	6%
Change in working capital	(30)	(110)	+3.7x
Finance costs paid, net	(26)	(31)	16%
Income tax paid	(2)	(3)	54%
Net cash generated by operating activities	(4)	(86)	+22.4x
Net cash used in investing activities	(72)	(61)	(15%)

Financial year ends 30 June

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

**Note 2** EPS is measured in US Dollars per share based on 81.9 million shares for FY2019 and FY2018.

## Credit metrics

US\$ m, except ratios	30 Sep 2018	30 Jun 2019	30 Sep 2019	q-o-q	y-o-y
Short-term debt	288	203	349	72%	21%
Long-term debt	4	64	71	12%	19x
Lease liabilities	10	8	307	40x	29x
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 <sup>3</sup>	416	293	568	94%	37%
of which edible 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	1,177	1,351	1,483	10%	26%
Net debt / EBITDA <sup>4</sup>	2.5x	2.0x	3.3x	1.2x	0.8x
Adjusted net debt / EBITDA <sup>4</sup>	1.0x	1.2x	1.6x	0.5x	0.7x
EBITDA / Interest <sup>5</sup>	4.0x	4.2x	3.7x	(0.5x)	(0.4x)

**Note 3** Commodity-type inventories that could easily be converted into cash.

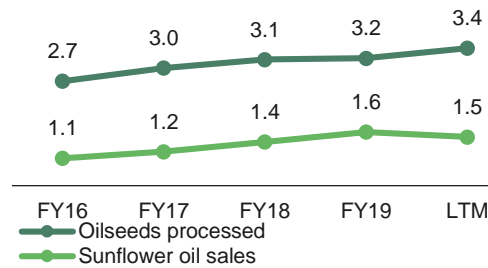
**Note 4** Calculated based on 12-month trailing EBITDA.

**Note 5** Calculated based on 12-month trailing EBITDA and net finance costs.

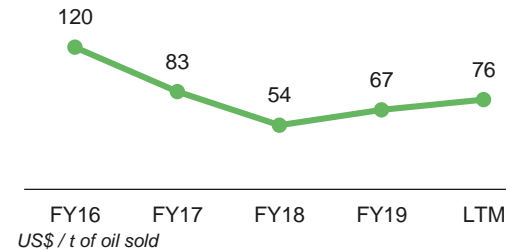
## 1.2 Segment results

Segment volumes, m tons

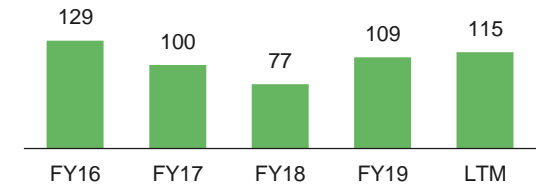
### Oilseed Processing



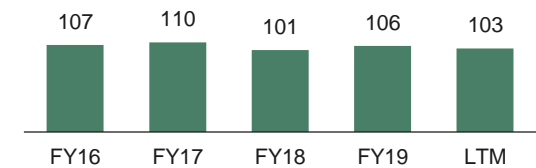
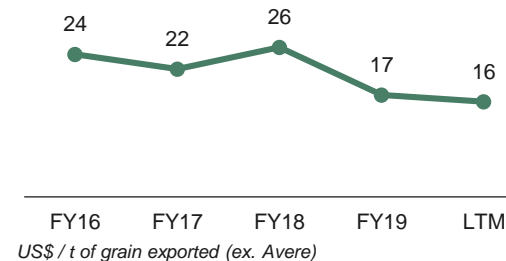
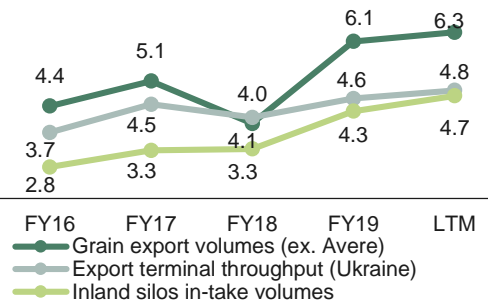
EBITDA margin



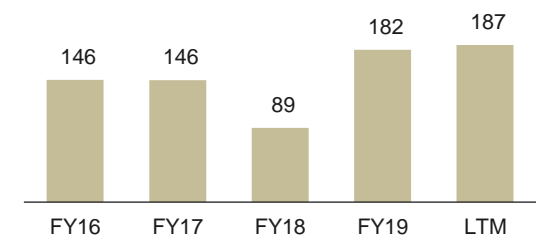
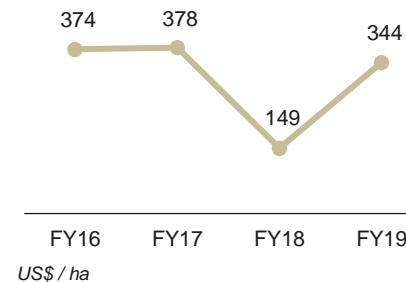
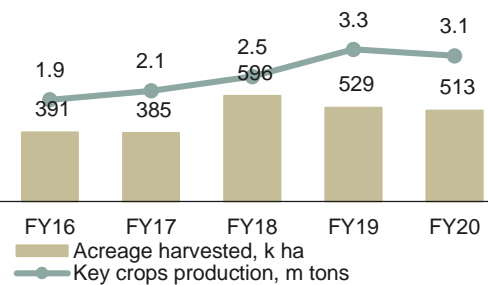
EBITDA, US\$ m



### Infrastructure & Trading



### Farming



## 1.3 Segments results and harvest update

### Segments results

	Revenue, US\$ m			EBITDA, US\$ m			Volume, k t <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	296	(17%)	16	22	38%	405	301	(26%)	40	74	85%
<b>Infrastructure and Trading</b>	868	691	(20%)	38	35	(8%)	1,383	1,621	17%	28	22	(21%)
<b>Farming</b>	113	134	19%	53	58	10%						
Unallocated corporate expenses				(7)	(9)	1.4x						
Reconciliation	(198)	(276)	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 Physical grain volumes exported from Ukraine for Infrastructure and Trading

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

### Segments volumes

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

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

### Harvest update

	Acreage thousand hectares			Net yield tons / ha <sup>1</sup>			Harvest size thousand tons		
	Q1 FY2019	Q1 FY2020	y-o-y	Q1 FY2019	Q1 FY2020	y-o-y	Q1 FY2019	Q1 FY2020	y-o-y
Corn	224	231	3%	9.9	8.6	(13%)	2,227	1,990	(11%)
Sunflower	135	137	2%	3.2	3.5	11%	426	478	12%
Wheat	100	97	(3%)	5.1	5.9	16%	509	573	13%
Soybean	36	24	(33%)	3.0	2.6	(12%)	108	63	(41%)
Other <sup>2</sup>	34	23	(32%)						
<b>Total</b>	<b>529</b>	<b>513</b>	<b>(3%)</b>				<b>3,269</b>	<b>3,104</b>	<b>(5%)</b>

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

Note 2 Includes pea, rapeseed, barley, forage crops and other minor crops, as well as land left fallow for crop rotation purposes.

Differences are possible due to rounding

### Oilseed Processing segment

- **EBITDA margin** ↑ 85% y-o-y to US\$ 74 per ton of oil sold, driven by favorable market environment.
- On normalized sales volumes but much higher margin, segment **EBITDA** in Q1 FY2020 ↑ 38% y-o-y, to US\$ 22m.

### Infrastructure and Trading segment

- **EBITDA** ↓ 8% y-o-y, to US\$ 35m (22 US\$/ton EBITDA margin)
  - weak margins in grain trading business arising from low global grain prices;
  - lower (but positive) Avere contribution;
  - Strong performance of infrastructure businesses (silos, export terminals and grain railcars).

### Farming segment

- **EBITDA** amounted to US\$ 58m (including US\$ 8m positive effect from implementation of IFRS 16).

### Harvest update

- Harvesting campaign completed on 513k ha
- Record ever net yields for wheat (5.9 t/ha, ↑ 16% y-o-y) and sunflower (3.5 t/ha, ↑ 11% y-o-y)
- Normalization of corn yields to 8.6 t/ha (↓ 13% y-o-y).

## 1.4 IFRS 16 impact <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\$ 355m right-of-use assets (of which US\$ 346m rights to lease land) and US\$ 307m 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
<i>Depreciation and amortization</i>	(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

## 1.5 Outlook for FY2020

### Oilseed Processing



- Full-year **EBITDA margin** to average near **US\$ 85 per ton of oil sold**
  - Strong supply of seeds on the market: we expect **15.9 million tons harvest of sunflower seeds** in the current season, ↑ 5% y-o-y;
  - Supportive global sunflower oil pricing environment;
- We envisage close to full capacity utilization of our oilseed processing plants in 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.

### Infrastructure & Trading



- **8m t grain export from Ukraine** in FY2020, **7m t export terminals throughput volumes**
  - Another record grain harvest in Ukraine in FY2020 (73m t crop size of three key grains, ↑ 8% y-o-y) → good utilization of grain export infrastructure and healthy infrastructure margins.
- Weak grain export prices may keep pure trading margins under pressure.
- Segment is expected to be the largest contributor to Group's EBITDA in FY2020 on the back of:
  - commissioning of new export terminal scheduled for January 2020;
  - growing grain export volumes; and
  - strong contribution from grain railcars business.

### Farming



- Expected full-year **EBITDA** above US\$ 100m (net of IFRS 16 effect and assuming zero IAS 41 impact)
  - **Softer corn yield** (from 9.9 t/ha in FY2019 to 8.6 t/ha in FY2020)
  - **Lower grain prices**
  - **Growing production costs** further inflated by local currency appreciation
- We remain **naturally long** now for large part of crop size → both upside and downside risk to our Farming segment earnings potential this season.



A vertical green banner with the word "KERNEL" written in large, white, serif capital letters, oriented vertically from bottom to top.

KERNEL

KERNEL

## Content

1. Q1 FY2020 results and outlook

**2. Kernel today**

3. Balanced growth strategy

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Appendices

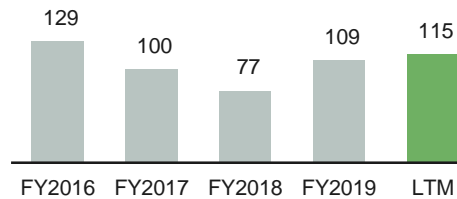
## 2.1 Kernel today

### Oilseed Processing segment

- **#1** sunflower oil producer (8% of global production) and exporter (15% of global export) in the world
- **Leading** bottled sunflower oil producer and marketer in Ukraine
- **8 oilseed processing plants** located across the sunflower seed belt in Ukraine
- **3.5 million tons** annual sunflower seed processing capacity
- Export-oriented business model with limited reliance on local economy



#### EBITDA <sup>1</sup>, US\$ million



Key financials		FY2016	FY2017	FY2018	FY2019	LTM
Revenue	US\$ m	1,989	2,169	2,403	3,992	3,698
EBITDA	US\$ m	346	319	223	346	352
Net profit <sup>1</sup>	US\$ m	225	176	52	189	173
EBITDA margin	%	17.4%	14.7%	9.3%	8.7%	9.5%
Net margin	%	11.3%	8.1%	2.2%	4.7%	4.7%
EPS	US\$	2.83	2.19	0.64	2.31	3.05

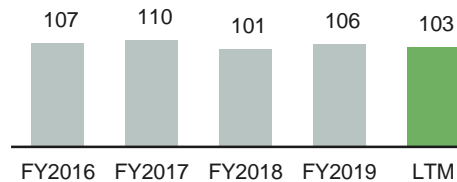
1. Net profit attributable to equity holders of Kernel Holding S.A.

### Infrastructure and Trading segment

- **#1** grain exporter from Ukraine with 12% of country's total grain exports in FY2019
- Export terminal in Ukraine with 4.8 million tons annual grain transshipment capacity
  - Similar facility in Russia (50/50 JV with Glencore)
- **#1** private inland grain silo network in Ukraine with **2.5** million tons of storage capacity
- **#1** private grain railcars fleet in Ukraine (3.4k hoppers)



#### EBITDA, US\$ million

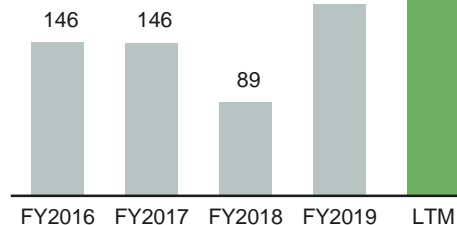


### Farming segment

- **#1** crop producer in Ukraine operating 530 thousand hectares of leasehold farmland
- Modern large-scale operations, sustainable agronomic practices, cluster management system and export-oriented crop mix
- Nearly 100% of sales volumes flows through our grain and infrastructure and oilseed processing segments, earning incremental profits



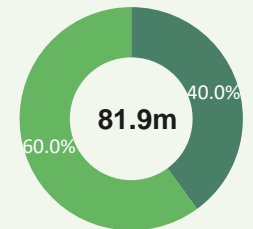
#### EBITDA, US\$ million



### Stock information

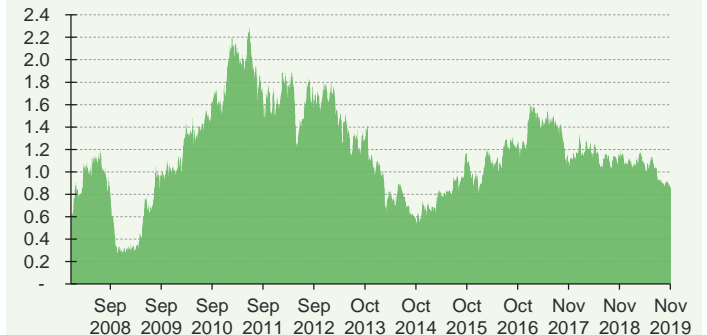
Exchange	Warsaw Stock Exchange
Stock quote currency	PLN
Issued shares	81,941,230
Bloomberg ticker	KER PW
Reuters ticker	KERN.WA
ISIN code	LU0327357389

### Shareholder structure



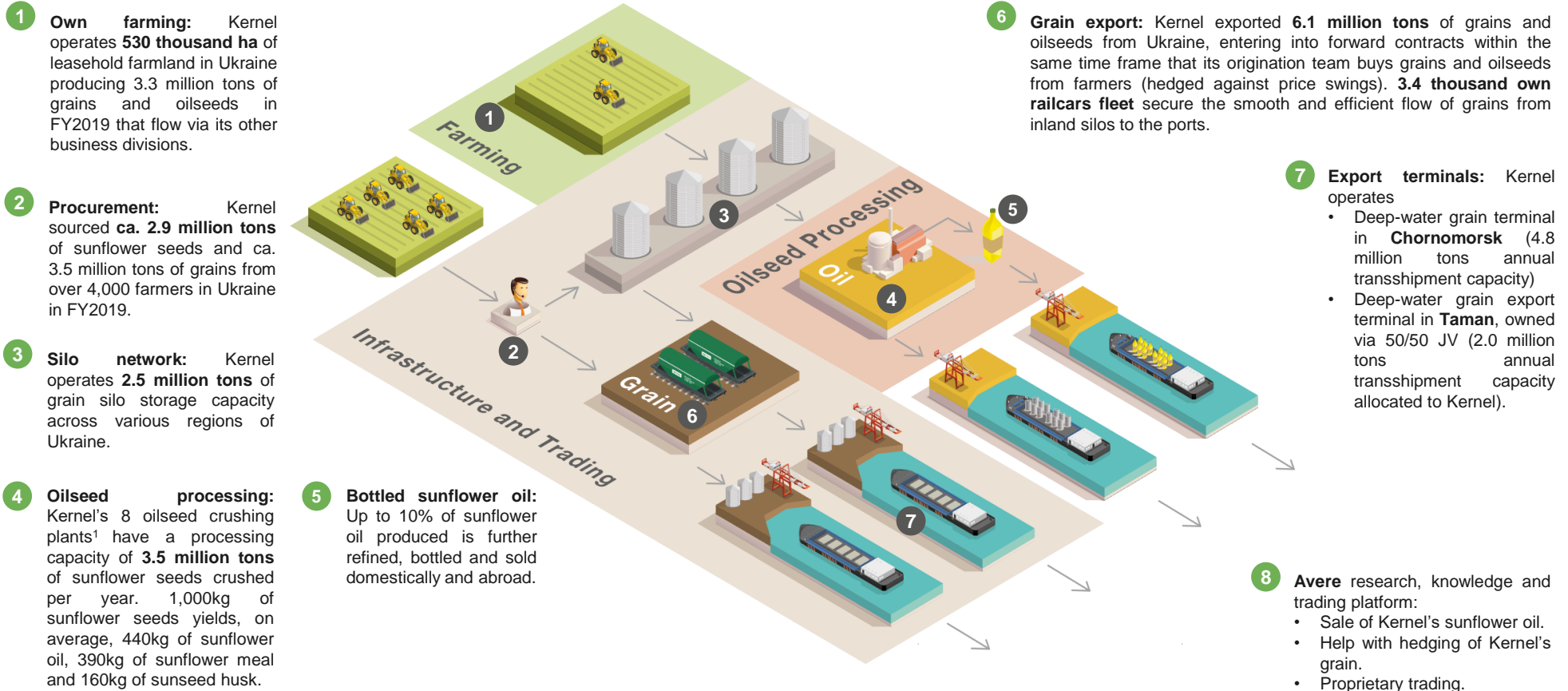
■ Namsen LTD / Andrii Verevskyi  
■ Other

### Market capitalization, US\$ bn



Note 1 Hereinafter, segment EBITDA is presented prior to certain unallocated G&A costs and net of discontinued operations and assets held for sale

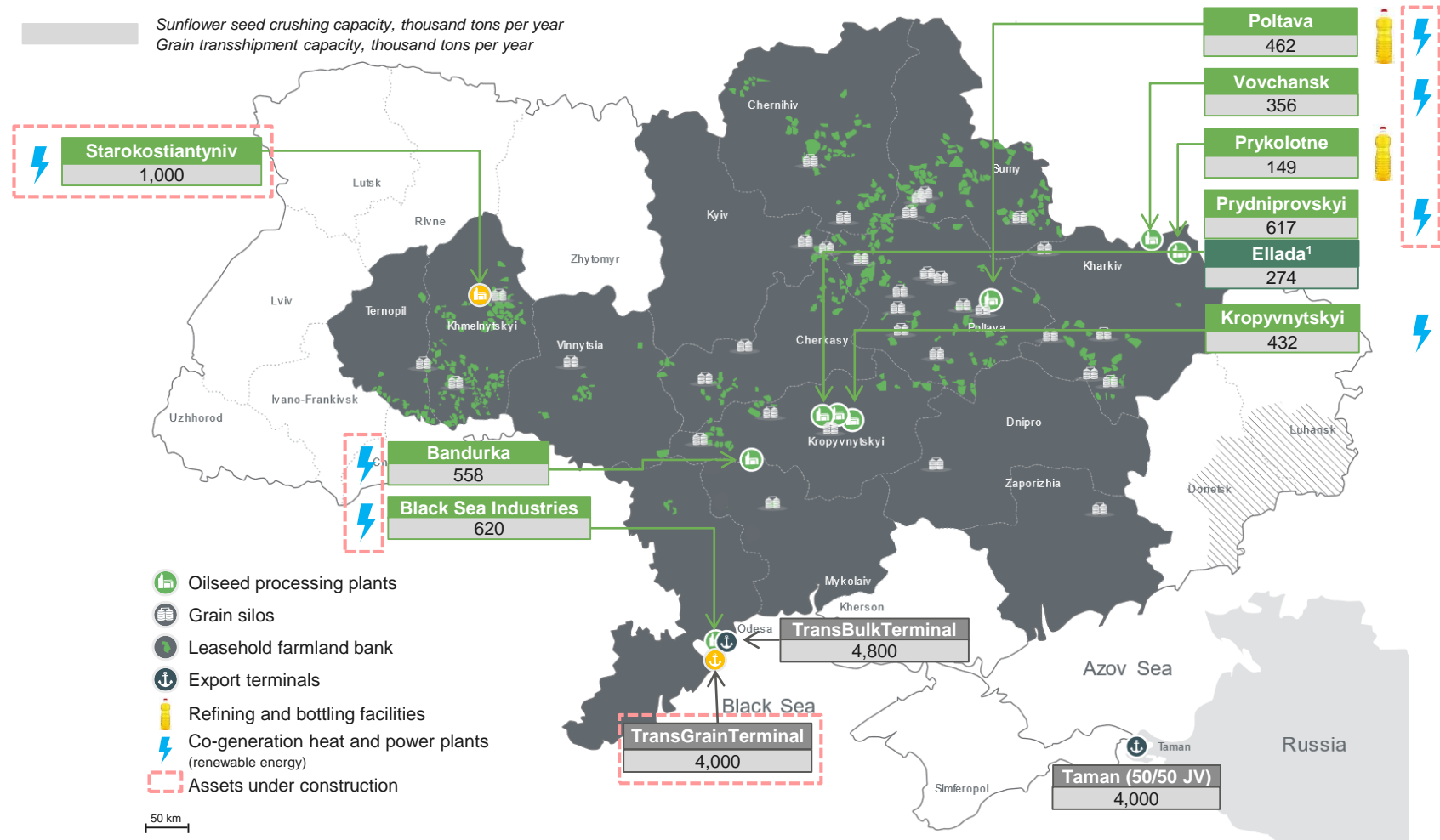
## 2.2 What we do



**Kernel bridges Ukrainian farmers with the global marketplace using its efficient, scalable and integrated resources and processes**

Note 1 Including one plant operated under tolling agreement (274 thousand tons of sunflower seed annual crushing capacity).

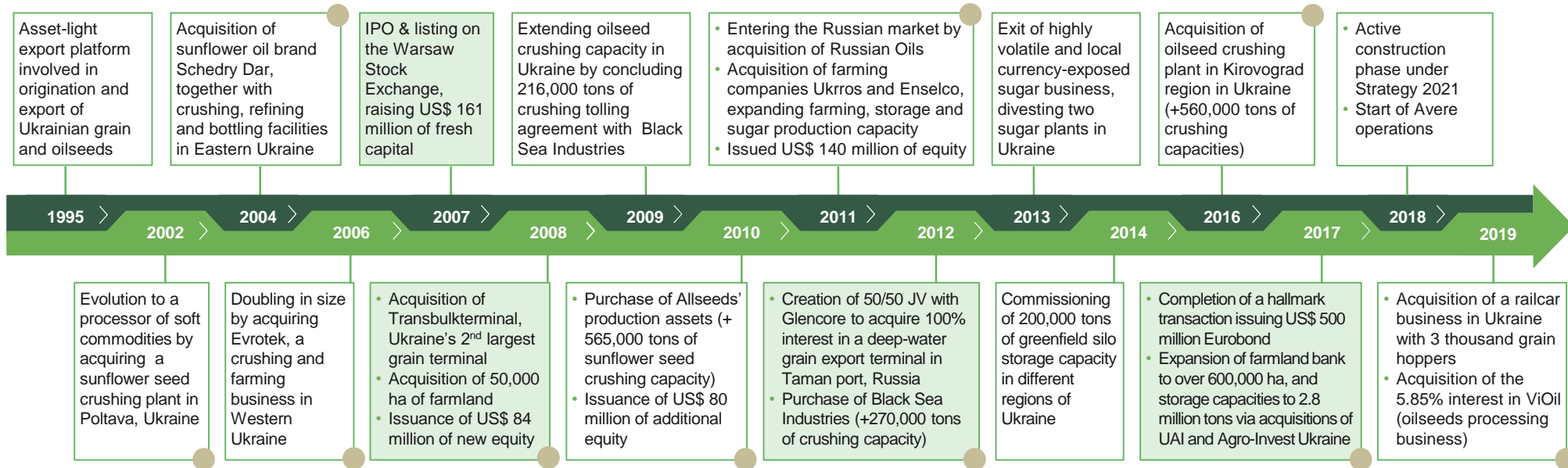
## 2.3 Efficient and well-invested asset base



**Diversified and strategically located world-class asset base provides significant competitive advantages**

Note 1 Operated under tolling agreement

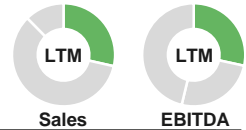
## 2.4 Kernel's key milestones



Unparalleled track record of continuous development

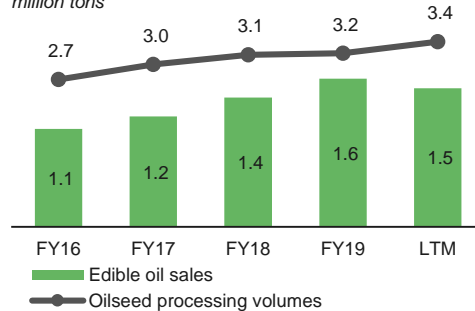


## 2.5 Oilseed Processing segment



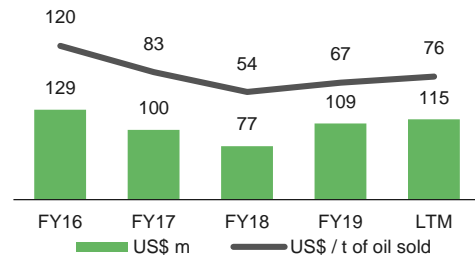
### Segment performance

#### Segment volumes million tons



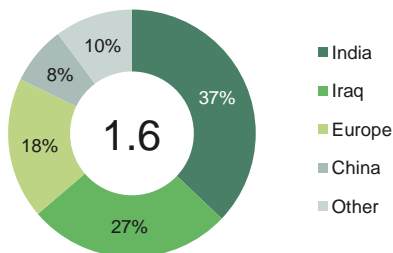
- Record oilseed processing volumes: 3.4m t on the LTM basis (vs 3.5m t oilseed processing capacities) → 96% capacity utilization level;

#### EBITDA and EBITDA margin



- EBITDA margin demonstrates recovery from the lowest ever US\$ 54 per ton of oil in FY2018

#### Sunflower oil sales markets in FY2019 million tons



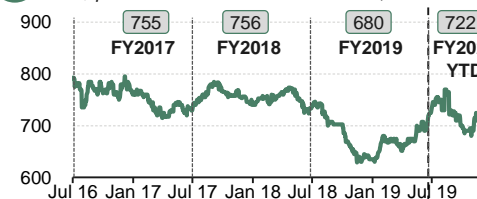
- Asia and Middle-East are key sunflower oil sales markets.

Note 1 Operated under tolling agreement

### Profitability drivers and FY2020 outlook

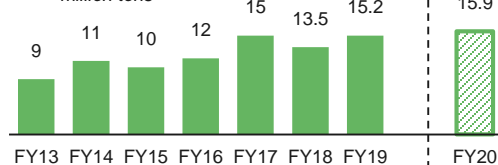
#### 1 Sunflower oil price

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



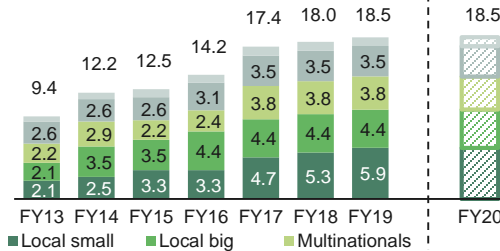
- Average sunflower oil prices at the first half FY2020 are 6% higher y-o-y.

#### 2 Ukraine sunflower seed harvest million tons



- New record sunflower seed harvest (↑ 5% y-o-y) to improve crushing margins and secure strong crushing volumes in FY2020

#### 3 Industrial crushing capacities million tons



- Crushing capacities remain unchanged.

Source: Bloomberg, USDA, Kernel's estimates

#### 4 Sales volumes marginally flat

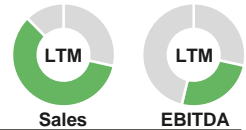
#### 5 Contribution from new business (renewable energy)

FY2020 margin growth to US\$ 85 per ton of oil sold

Expected FY2020 EBITDA of US\$ 5m

FY2020 EBITDA contribution + ~20% y-o-y

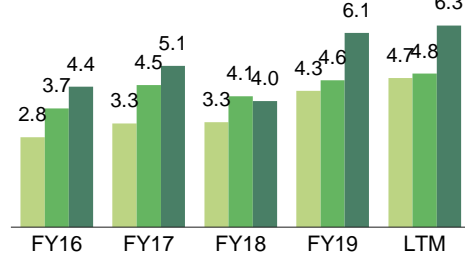
## 2.6 Infrastructure and Trading segment



### Segment performance

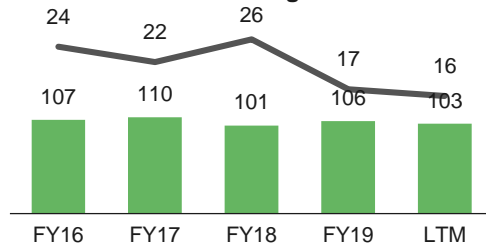
#### Segments volumes

million tons



- Highest ever 6.3m t of grain exported from Ukraine on the LTM basis
- Highest ever grain infrastructure handling volumes on the LTM basis

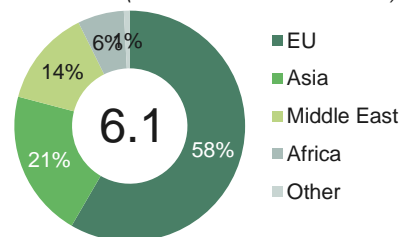
#### EBITDA and EBITDA margin



- **Segment's EBITDA** on the LTM basis undermined by Avere losses
- Segment is expected 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.

#### Key export markets in FY2019

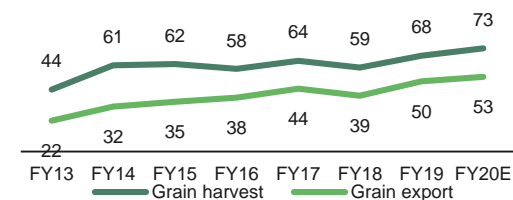
million tons (excl. Avere traded volumes)



### Profitability drivers and FY2020 outlook

#### 1 Grain supply in Ukraine

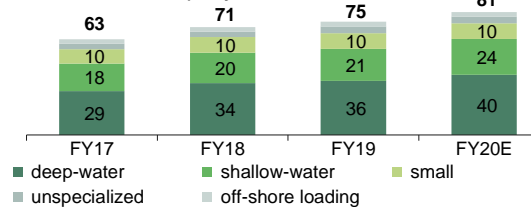
million tons of corn + wheat + barley



- Record supply of key grains (corn, wheat and barley) in Ukraine in FY2020 → we plan to export the highest ever grain volumes

#### 2 Demand: grain export terminals transshipment capacity

million tons per year



- Export terminal capacities increase in FY2020 mostly driven by Kernel's new export terminal launch in the port of Chornomorsk

#### 3 Grain logistics improvement in Ukraine

# of grain railcars

Thousand units

2014 2016 2018 Sep-19

12 11 15

State monopoly Private

Source: USDA, Ports.ua, Zertech, Kernel

Pace of grain export

million tons, cumulative

2014 2016 2018 Sep-19

12 11 15

State monopoly Private

Source: USDA, Ports.ua, Zertech, Kernel

- Improved logistics enhances speed of grain export from Ukraine.

Margin-wise

Volume-wise

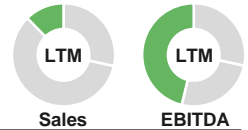
Flat FY2020 margins

#### 4 Growing volumes

#### 5 New business added (grain railcars)

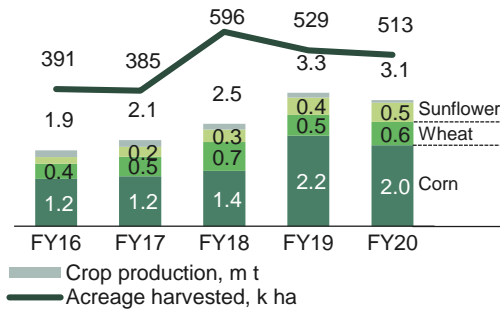
FY2020 EBITDA contribution + ~60% y-o-y

## 2.7 Farming segment



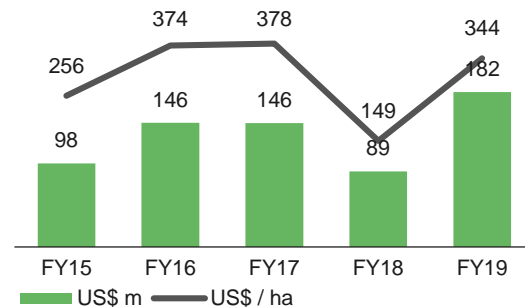
### Segment performance

#### Kernel's key crop production



- We completed FY2020 harvesting campaign on 513k ha, reaching record ever net yields for wheat (5.9t per ha, up 16% y-o-y) and sunflower (3.5t per ha, up 11% y-o-y), while facing normalization of corn yields to 8.6t per ha (down 13% y-o-y).

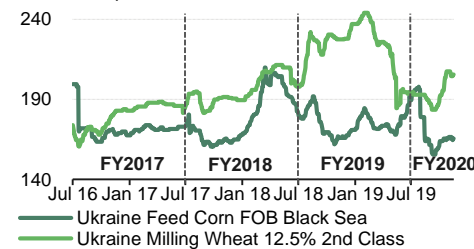
#### EBITDA and EBITDA margin



- Segment **EBITDA** in Q1 FY2020 amounted to US\$ 58m including US\$ 34m effect from revaluation of biological assets and US\$ 4m positive effect from implementation of IFRS 16.

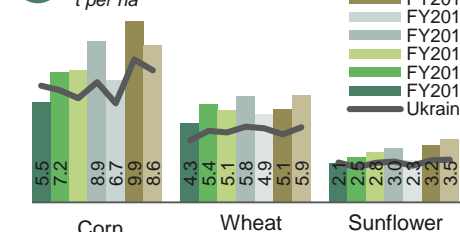
### Profitability drivers and FY2020 outlook

#### 1 Ukraine corn and wheat prices, US\$ per ton, FOB-Black Sea



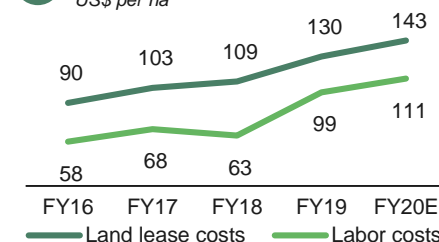
- Subdued global corn and wheat prices keep profitability under pressure

#### 2 Crop yields t per ha



- Negative impact of normalization of corn yields in FY2020 outweigh positive effect from record ever wheat and sunflower yields

#### 3 Farming costs US\$ per ha




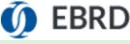
- Growing production costs further inflated by local currency appreciation

**Negative FY2020 outlook on profitability**

**FY2020 EBITDA contribution down ~45% y-o-y (net of IFRS 16)**

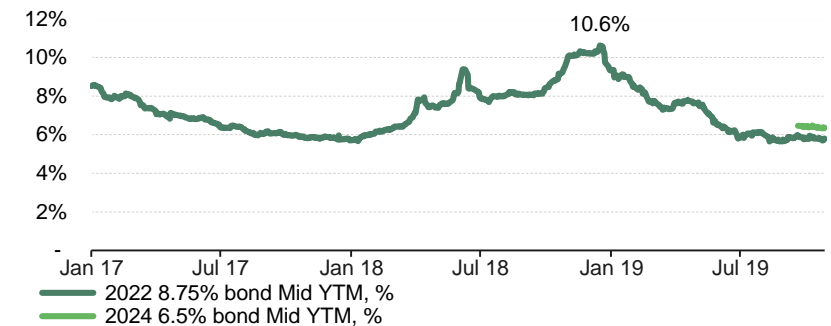
## 2.8 Credit highlights

### Credit portfolio as of 30 September 2019, US\$ m



	Amount outstanding as of 30 September 2019	Interest rate	Maturity
Eurobond 2022	496.4	8.75%	Jan 2022
 European Investment Bank	62.1 / 250 limit	Libor + 1.44% + CoF	Dec 2028
 EBRD / CTF	- / 56 limit	Libor + 4.5% / 1%	Feb 2027
Oil PXF	106.3 / 390 limit	Libor + 4.2% Libor + 4.1% Libor + 3.95%	Aug 2022
Grain PXF	97.3 / 300 limit	Libor + 4% Libor + 3.9%	June 2022
Lease liabilities	307.5		
Other bank debt and accrued interest	155.0		Mostly short-term debt
<b>Total</b>	<b>1,224.6</b>		

In October 2019, Kernel issued US\$ 300 million aggregate principal amount of 6.5% Notes due 17 October 2024 with issue price of 99.475%.

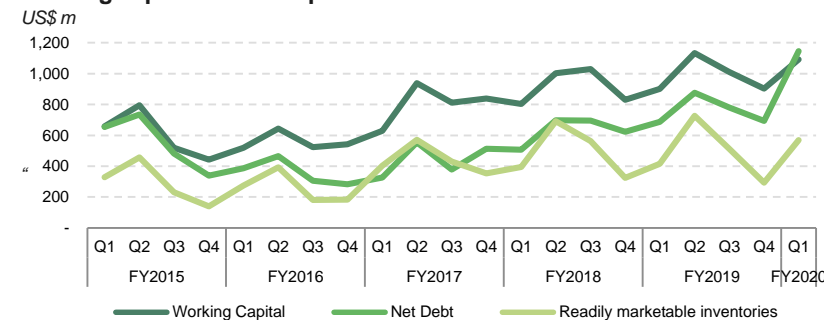
### Kernel Eurobonds mid-YTM



### Credit ratings

	Rating / Outlook	Date
	BB- / Stable (+2 above)	30 Sep 2019
	B+ / Stable	12 Oct 2018
	B+ / Stable	12 Feb 2017
	B / Stable	30 Sep 2019
	B / Stable	31 Oct 2018
	B / Stable	20 Feb 2017

### Working capital<sup>1</sup> and debt position



**Note 1** Defined as current assets (excluding cash and cash equivalents, and assets classified as held for sale) less current liabilities (excluding short-term borrowings, current portion of long-term borrowings, current portion of obligations under finance lease and interest on bonds issued)



## Content

1. Q1 FY2020 results and outlook

2. Kernel today

**3. Balanced growth strategy**

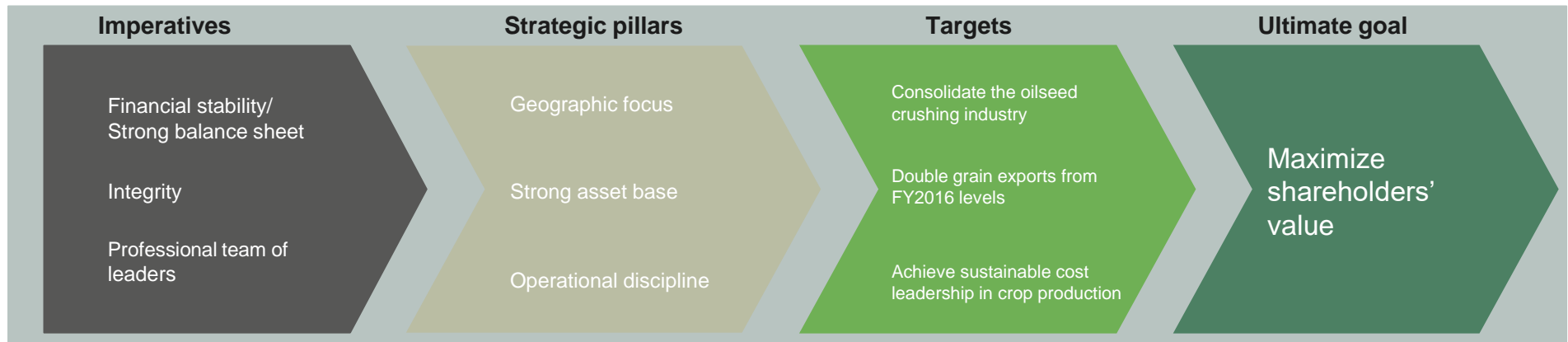
4. Financials

Appendices



## 3.1 Kernel's mid-term strategy

We aim to profitably double export volumes by FY2021, providing comprehensive solutions to our clients (customers and suppliers), with balanced development of our businesses by the efficient use of our asset base, investment in technology and innovation, strategic acquisitions, continuous development of our employees and strengthening of our operations.



### Sunflower oil

#### Mid-term targets in detail

- Construction of 1-million-ton per year greenfield crushing plant in western Ukraine
- Substantial upgrade of the remaining crushing plants to drive efficiency

#### Key deliverables in FY2019

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



### Grain and infrastructure

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

- Commissioned 1<sup>st</sup> stage (grain intake and storage capacities) of our new TransGrainTerminal, a 4-million-ton deep-water grain transshipment facility in Chornomorsk port
- Commissioned two silos and upgraded two other silos
- Became #1 private grain railcar fleet in Ukraine following the acquisition of RTK-Ukraine LLC, investing US\$ 65m and reducing risks for Strategy 2021 execution
- Became #1 grain exporter from Ukraine with the record 6.1m t shipped in FY2019 (+58% y-o-y)






### Farming

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

- Generated the record EBITDA
- Kernel sets the standard for highly productive crop growing operations in Ukraine

## 3.2 Strategy 2021 serves as a solid basis for future growth across all business segments

### Strategy 2021 investments pipeline overview:

US\$ million		FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	Total	Status (as of Sep 2019)	Segment
I	Leasehold farmland bank expansion (+ 200k ha)	152	47	-	-	-	-	198	✓	Farming
II	Construction of greenfield <b>oilseed processing plant</b> in Western Ukraine with co-generation heat and power unit	-	52	10	66	52	-	180		Oilseed Processing
	■ Annual sunflower seed processing capacity: 1 million tons ■ Expected commissioning date: January-March 2021									
III	Construction of <b>co-generation heat and power units (renewable energy)</b> on 6 our plants throughout (FY2019-2020)	0	12	30	90	18	-	150		Oilseed Processing
IV	Construction of <b>new grain export terminal</b> in the port of Chornomorsk	1	3	46	58	19	-	127		Infrastructure and Trading
	■ Annual throughput capacity: 4 million tons of grain ■ Commissioning in FY2020									
V	<b>Grain railcars investments</b> (500 brand-new + 2,949 used)	-	16	65	9	-	-	90	✓	Infrastructure and Trading
VI	<b>Construction and upgrade of silo facilities (FY2019-2020)</b>	-	19	36	10	-	-	65	✓	Infrastructure and Trading
<b>Total key expansion investments</b>		<b>153</b>	<b>149</b>	<b>187</b>	<b>232</b>	<b>89</b>	<b>-</b>	<b>810</b>		
Maintenance and other CapEx		35	62	65	68	64	65			
<b>Total investments</b>		<b>188</b>	<b>211</b>	<b>251</b>	<b>300</b>	<b>153</b>	<b>65</b>			

- The major portion of FY2020-FY2021 investments will be financed by debt attracted from international financial institutions (European Investment Bank and EBRD)

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1. Q1 FY2020 results and outlook

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Appendices



## 4.1 Consolidated statement of profit or loss

<i>US\$ million, except ratios and EPS</i>	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	LTM
<b>Revenue</b>	<b>215</b>	<b>350</b>	<b>663</b>	<b>1,047</b>	<b>1,020</b>	<b>1,899</b>	<b>2,072</b>	<b>2,797</b>	<b>2,393</b>	<b>2,330</b>	<b>1,989</b>	<b>2,169</b>	<b>2,403</b>	<b>3,992</b>	<b>3,698</b>
Net IAS 41 gain / (loss)	-	-	-	-	-	-	-	15	(17)	(7)	20	(3)	19	9	2
Cost of sales	(194)	(306)	(557)	(874)	(844)	(1,610)	(1,814)	(2,599)	(2,231)	(2,009)	(1,707)	(1,882)	(2,261)	(3,654)	(3,342)
<b>Gross profit</b>	<b>21</b>	<b>44</b>	<b>106</b>	<b>174</b>	<b>177</b>	<b>289</b>	<b>258</b>	<b>213</b>	<b>145</b>	<b>314</b>	<b>302</b>	<b>284</b>	<b>160</b>	<b>348</b>	<b>357</b>
Other operating income	1	8	25	17	18	26	66	67	60	83	45	41	59	28	24
G&A expenses	(11)	(13)	(20)	(24)	(27)	(38)	(67)	(78)	(77)	(68)	(59)	(60)	(80)	(107)	(112)
<b>Profit from operating activities</b>	<b>12</b>	<b>39</b>	<b>112</b>	<b>167</b>	<b>167</b>	<b>277</b>	<b>257</b>	<b>201</b>	<b>129</b>	<b>328</b>	<b>287</b>	<b>265</b>	<b>140</b>	<b>269</b>	<b>270</b>
Financial costs, net	(9)	(19)	(28)	(32)	(23)	(42)	(63)	(75)	(72)	(69)	(57)	(62)	(65)	(82)	(96)
FX gain(loss), net	(1)	(1)	3	(3)	11	2	5	3	(99)	(153)	30	(3)	5	13	6
Other non-operating items	(2)	(2)	5	(4)	(4)	(28)	(3)	(8)	(48)	(5)	(13)	(3)	(30)	(10)	(3)
Income tax	0	2	(9)	5	0	18	9	(6)	(11)	(0)	(4)	(19)	6	(12)	(17)
<b>Net profit from continuing operations</b>	<b>0</b>	<b>19</b>	<b>82</b>	<b>132</b>	<b>152</b>	<b>226</b>	<b>206</b>	<b>115</b>	<b>(102)</b>	<b>101</b>	<b>244</b>	<b>179</b>	<b>56</b>	<b>178</b>	<b>160</b>
Profit / (loss) from discontinued operations	-	-	-	-	-	-	5	(10)	(6)	(5)	(17)	-	-	-	-
<b>Net profit</b>	<b>0</b>	<b>19</b>	<b>82</b>	<b>132</b>	<b>152</b>	<b>226</b>	<b>211</b>	<b>105</b>	<b>(107)</b>	<b>96</b>	<b>227</b>	<b>179</b>	<b>56</b>	<b>178</b>	<b>160</b>
Net profit/(loss) attributable to shareholders	1	20	83	136	152	226	207	112	(98)	107	225	176	52	189	173
<i>EPS, US\$</i>		-	2.1	2.0	2.2	3.0	2.6	1.4	(1.2)	1.3	2.8	2.2	0.6	2.3	2.1
<i>ROE<sup>1</sup></i>		37%	36%	36%	32%	29%	19%	9%	(8%)	11%	24%	16%	5%	16%	13%
<i>ROIC<sup>2</sup></i>		21%	25%	26%	22%	23%	17%	9%	(1%)	11%	21%	15%	10%	13%	12%
<i>Net Income / Invested Capital</i>		14%	36%	21%	23%	24%	15%	6%	(5%)	6%	17%	13%	4%	9%	8%
<b>EBITDA, incl.</b>	<b>17</b>	<b>46</b>	<b>123</b>	<b>190</b>	<b>190</b>	<b>310</b>	<b>319</b>	<b>288</b>	<b>223</b>	<b>397</b>	<b>346</b>	<b>319</b>	<b>223</b>	<b>346</b>	<b>352</b>
Oilseeds Processing	-	-	81	89	101	202	198	199	178	213	129	100	77	109	115
Infrastructure and Trading	-	-	40	112	80	94	59	59	126	114	107	110	101	106	103
Farming	-	-	20	7	23	32	74	67	(44)	98	146	146	89	182	187
Unallocated expenses and other	-	-	(18)	(18)	(14)	(18)	(12)	(38)	(36)	(29)	(36)	(36)	(44)	(51)	(54)
<i>Gross margin</i>	<i>10%</i>	<i>13%</i>	<i>16%</i>	<i>17%</i>	<i>17%</i>	<i>15%</i>	<i>12%</i>	<i>8%</i>	<i>6%</i>	<i>13%</i>	<i>15%</i>	<i>13%</i>	<i>7%</i>	<i>9%</i>	<i>10%</i>
<i>EBITDA margin</i>	<i>8%</i>	<i>13%</i>	<i>19%</i>	<i>18%</i>	<i>19%</i>	<i>16%</i>	<i>15%</i>	<i>10%</i>	<i>9%</i>	<i>17%</i>	<i>17%</i>	<i>15%</i>	<i>9%</i>	<i>9%</i>	<i>10%</i>
<i>Net margin</i>	<i>1%</i>	<i>6%</i>	<i>13%</i>	<i>13%</i>	<i>15%</i>	<i>12%</i>	<i>10%</i>	<i>4%</i>	<i>(4%)</i>	<i>5%</i>	<i>11%</i>	<i>8%</i>	<i>2%</i>	<i>5%</i>	<i>5%</i>

**Note 1** Net profit attributable to shareholders divided by average equity attributable to shareholders over the period

**Note 2** Sum of net profit attributable to shareholders and financial costs, divided by average over the period sum of the debt and equity

## 4.2 Balance sheet

### Balance sheet highlights

US\$ million	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	30 Sep 19
Cash & cash equivalents	6	25	89	129	59	116	83	79	65	129	60	143	132	77	80
Net trade accounts receivable	9	10	49	32	65	112	146	151	100	56	75	87	92	183	195
Prepayments to suppliers & other current assets	7	9	30	26	94	81	90	110	57	61	53	83	113	130	110
Prepaid taxes	9	22	23	73	206	221	236	210	156	105	138	143	122	127	200
Inventory	32	40	145	99	148	184	410	270	300	159	200	387	368	358	675
<i>of which: readily marketable inventories</i>	29	38	139	91	143	141	336	157	243	140	184	354	325	293	568
Biological assets	3	10	42	19	26	96	153	247	183	147	190	256	289	309	165
Other current assets	-	-	-	-	-	-	-	23	12	2	4	21	87	73	63
Intangible assets and goodwill	10	28	103	81	118	152	228	321	233	172.0	159	219	208	223	202
Net property, plant & equipment	72	128	232	222	379	503	728	763	643	535	539	570	588	765	865
Other non-current assets	5	3	43	19	29	109	41	187	170	99.9	91	100	210	220	543
<b>Total assets</b>	<b>156</b>	<b>275</b>	<b>756</b>	<b>700</b>	<b>1,125</b>	<b>1,573</b>	<b>2,116</b>	<b>2,362</b>	<b>1,919</b>	<b>1,466</b>	<b>1,509</b>	<b>2,009</b>	<b>2,211</b>	<b>2,464</b>	<b>3,097</b>
Trade accounts payable	1	6	6	8	11	27	25	47	33	27	42	53	74	136	163
Advances from customers & other current liabilities	5	9	22	26	131	102	155	202	80	63	77	89	105	105	123
<b>Interest-bearing debt</b>	<b>93</b>	<b>157</b>	<b>256</b>	<b>295</b>	<b>345</b>	<b>422</b>	<b>693</b>	<b>725</b>	<b>743</b>	<b>463</b>	<b>339</b>	<b>655</b>	<b>751</b>	<b>768</b>	<b>1,225</b>
Short-term debt	29	44	127	160	210	266	266	450	483	367	254	152	246	203	367
Long-term debt	54	102	98	133	135	156	427	276	260	95	84	8	11	69	362
Corporate bonds issued	10	10	31	2	-	-	-	-	-	-	-	494	495	496	496
Other liabilities	9	18	32	14	32	24	33	35	32	21	55	56	104	109	105
<b>Total liabilities</b>	<b>108</b>	<b>190</b>	<b>315</b>	<b>342</b>	<b>520</b>	<b>575</b>	<b>906</b>	<b>1,009</b>	<b>888</b>	<b>575</b>	<b>512</b>	<b>851</b>	<b>1,033</b>	<b>1,118</b>	<b>1,616</b>
<b>Total equity</b>	<b>48</b>	<b>85</b>	<b>440</b>	<b>357</b>	<b>605</b>	<b>997</b>	<b>1,211</b>	<b>1,352</b>	<b>1,031</b>	<b>891</b>	<b>997</b>	<b>1,158</b>	<b>1,178</b>	<b>1,346</b>	<b>1,481</b>
<i>Debt / equity ratio</i>	2.0x	1.8x	0.6x	0.8x	0.6x	0.4x	0.6x	0.5x	0.7x	0.5x	0.3x	0.6x	0.6x	0.6x	0.8x
<i>Debt / assets ratio</i>	60%	57%	34%	42%	31%	27%	33%	31%	39%	32%	22%	33%	34%	31%	40%

### Liquidity position and credit metrics

Debt liabilities	94	158	259	300	350	428	698	734	749	469	343	657	754	770	1,225
Cash	6	25	89	129	59	116	83	79	65	129	60	143	132	77	80
<b>Net debt</b>	<b>88</b>	<b>133</b>	<b>170</b>	<b>170</b>	<b>291</b>	<b>312</b>	<b>616</b>	<b>655</b>	<b>684</b>	<b>339</b>	<b>283</b>	<b>514</b>	<b>622</b>	<b>694</b>	<b>1,144</b>
Readily marketable inventories	29	38	139	91	143	141	336	157	243	140	184	354	325	293	568
<b>Adjusted net debt</b>	<b>58</b>	<b>95</b>	<b>32</b>	<b>79</b>	<b>148</b>	<b>170</b>	<b>280</b>	<b>498</b>	<b>441</b>	<b>199</b>	<b>99</b>	<b>160</b>	<b>297</b>	<b>400</b>	<b>576</b>
Net debt / EBITDA	5.2x	2.9x	1.4x	0.9x	1.5x	1.0x	1.9x	2.3x	3.1x	0.9x	0.8x	1.6x	2.8x	2.0x	3.3x
Adjusted net debt / EBITDA	3.4x	2.0x	0.3x	0.4x	0.8x	0.5x	0.9x	1.7x	2.0x	0.5x	0.3x	0.5x	1.3x	1.2x	1.6x
EBITDA / Interest	1.8x	2.5x	4.4x	5.9x	8.3x	7.3x	5.1x	3.8x	3.1x	5.8x	6.1x	5.1x	3.4x	4.2x	3.7x

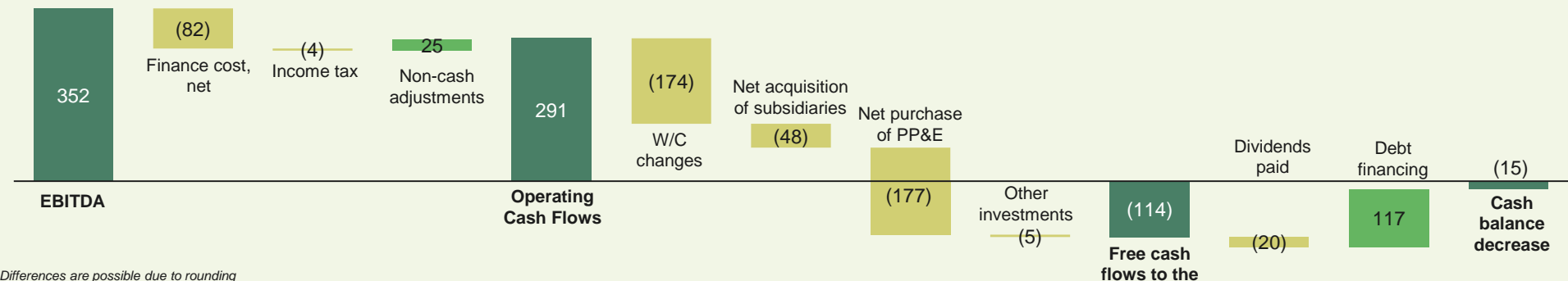
Note: financial year ends 30 June.



## 4.3 Cash flow statement

US\$ million	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	LTM
EBITDA	17	46	123	190	190	310	319	288	223	397	346	319	223	346	352
Finance cost paid	(9)	(18)	(28)	(32)	(23)	(36)	(67)	(76)	(72)	(68)	(58)	(35)	(64)	(72)	(82)
Income tax paid	(0)	(1)	(3)	(2)	(1)	(3)	(7)	(43)	(40)	(13)	(3)	(6)	(5)	(3)	(4)
Non-cash adjustments and non-operating items	(0)	(1)	7	(32)	12	(36)	(27)	1	(41)	(70)	(18)	5	(40)	23	25
<b>Operating Cash Flow before Working Capital changes</b>	<b>7</b>	<b>26</b>	<b>99</b>	<b>124</b>	<b>179</b>	<b>235</b>	<b>218</b>	<b>169</b>	<b>70</b>	<b>245</b>	<b>268</b>	<b>283</b>	<b>113</b>	<b>293</b>	<b>291</b>
Change in working capital	(36)	(15)	(210)	(25)	(97)	(180)	(242)	135	(1)	147	(136)	(206)	(31)	(94)	(174)
Acquisition of subsidiaries and JVs, net	-	(60)	(97)	(5)	(70)	(11)	(136)	(152)	(41)	2	(30)	(141)	(24)	(41)	(44)
Net purchase of PP&E	(6)	2	(24)	(89)	(56)	(48)	(93)	(91)	(42)	(23)	(30)	(40)	(140)	(157)	(177)
Other investments	1	0	(49)	(1)	1	(66)	(0)	(23)	(1)	(4)	(1)	(42)	8	(43)	(9)
<b>Free cash flow to the Firm</b>	<b>(34)</b>	<b>(46)</b>	<b>(281)</b>	<b>4</b>	<b>(44)</b>	<b>(71)</b>	<b>(253)</b>	<b>38</b>	<b>(14)</b>	<b>369</b>	<b>71</b>	<b>(146)</b>	<b>(74)</b>	<b>(43)</b>	<b>(114)</b>
Debt financing	32	62	81	36	(77)	(18)	220	(45)	7	(289)	(115)	178	98	50	117
Equity financing	(1)	3	235	-	81	141	5	(2)	-	(1)	-	15	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(20)	(20)	(20)	(20)	(20)	(20)
<b>Financing cash flow</b>	<b>31</b>	<b>64</b>	<b>315</b>	<b>36</b>	<b>4</b>	<b>124</b>	<b>225</b>	<b>(48)</b>	<b>7</b>	<b>(310)</b>	<b>(134)</b>	<b>173</b>	<b>77</b>	<b>30</b>	<b>96</b>
Cash at the year end	6	25	59	98	58	110	83	73	65	124	60	87	90	76	80
<b>Cash conversion cycle</b>	n/a	<b>66</b>	<b>86</b>	<b>79</b>	<b>117</b>	<b>91</b>	<b>117</b>	<b>90</b>	<b>85</b>	<b>67</b>	<b>63</b>	<b>84</b>	<b>83</b>	<b>49</b>	<b>47</b>
Payment period, days	n/a	(4)	(4)	(3)	(4)	(4)	(5)	(5)	(7)	(6)	(7)	(9)	(10)	(10)	(9)
Inventories processing, days	n/a	43	61	51	53	38	60	48	47	42	38	57	61	36	37
Receivables collection, days	n/a	10	16	14	18	17	23	19	19	12	12	14	14	13	10
VAT receivables, days	n/a	17	13	17	50	41	40	28	26	18	20	22	19	11	9

Sources and uses of cash in Oct'18-Sep'19 (LTM), US\$ million



# IR contact and investor calendar

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## **Investor calendar**

- |  |                         |
|--|-------------------------|
| ▪ Annual general shareholders' meeting | <b>10 December 2019</b> |
| ▪ Q2 FY2020 Operations Update          | <b>21 January 2020</b>  |
| ▪ H1 FY2020 Financial Report           | <b>28 February 2020</b> |
| ▪ Q3 FY2020 Operations Update          | <b>20 April 2020</b>    |
| ▪ Q3 FY2020 Financial Report           | <b>29 May 2020</b>      |
| ▪ Q4 FY2020 Operations Update          | <b>20 July 2020</b>     |
| ▪ FY2020 Financial Report              | <b>30 October 2020</b>  |

## Content

1. Q1 FY2020 results and outlook

2. Kernel today

3. Balanced growth strategy

4. Financials

**Appendices**

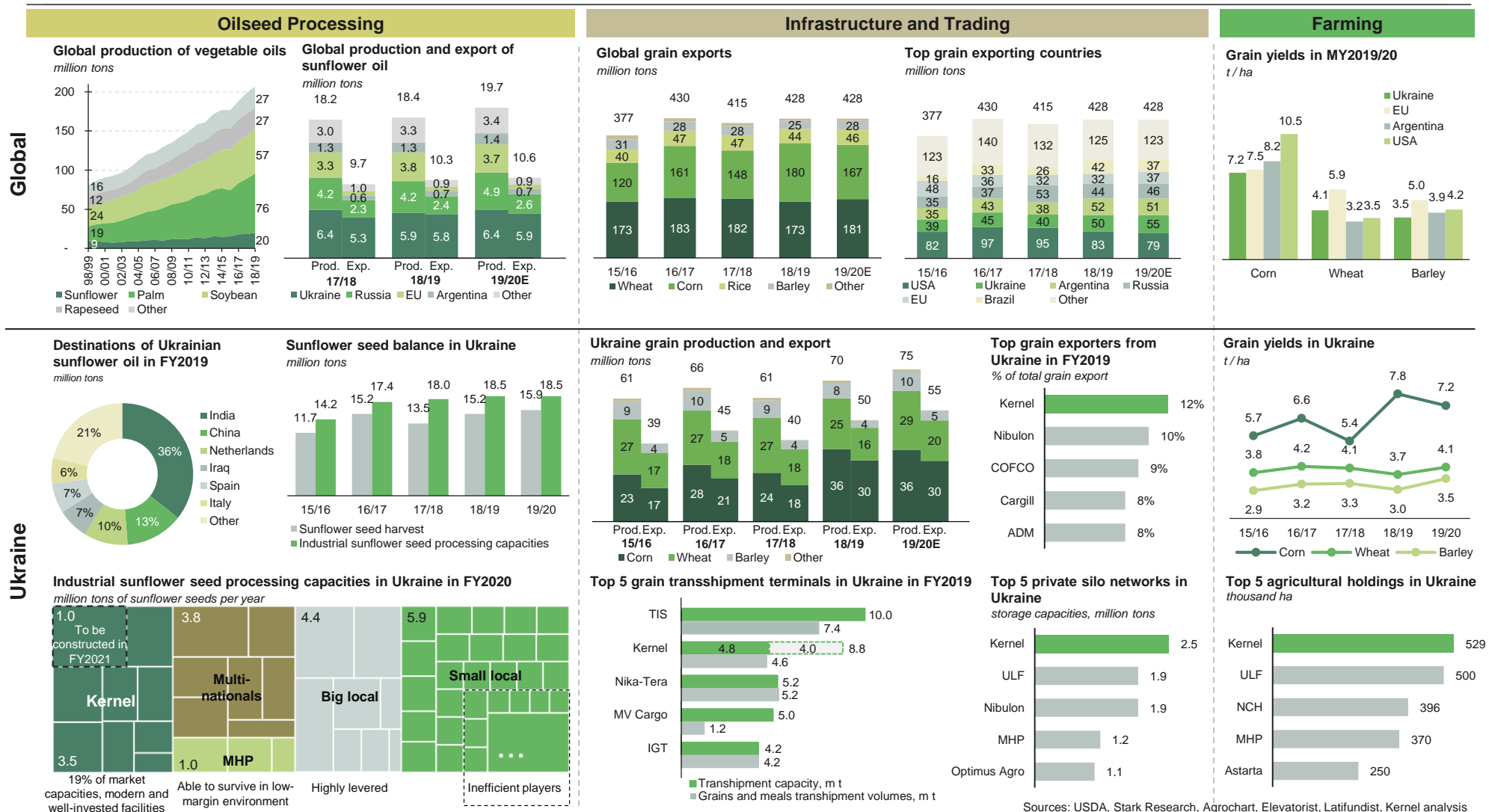


# A1. Key highlights

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- Kernel operates in globally competitive growing Ukrainian agri sector
- Integrated, resilient and simple business model built around scale & global reach
- Leader across all market segments supported by unparalleled world-class asset base with high barriers to entry
- Top standard of ESG
- Solid financial performance and position
- Clear Strategy 2021 reinforced with unmatched track record
- Reversion of low commodity price cycle and forthcoming farmland market reform in Ukraine are free options imbedded into Kernel's business model

# A2. Markets and business environment



Sources: USDA, Stark Research, Agrochart, Elevatorist, Latifundist, Kernel analysis

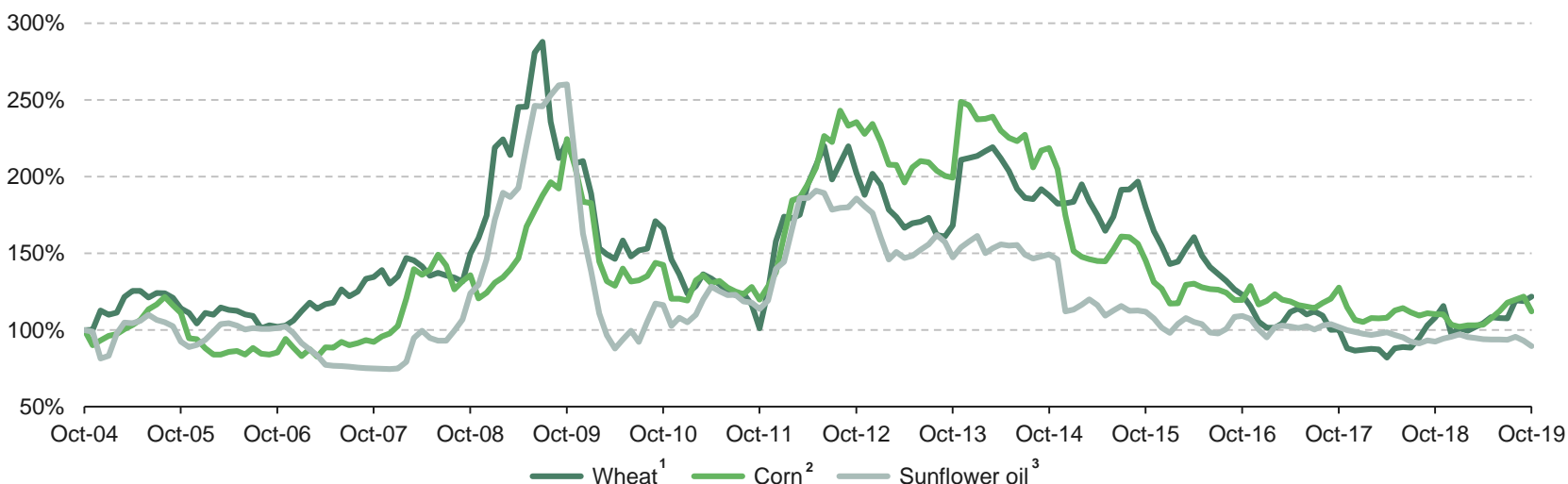


## A3. Markets and business environment

### Low cycle of soft commodity prices

#### Index of soft commodity prices, US\$-inflation adjusted

30 June 2004 = 100%



#### Note

1. **Wheat:** No.1 Hard Red Winter, ordinary protein, FOB Gulf of Mexico, US\$ per metric ton
2. **Corn:** U.S. No. 2 Yellow, FOB Gulf of Mexico, U.S. price, US\$ per metric ton
3. **Sunflower oil:** crude, bid, FOB Black Sea, Ukraine, US\$ per metric ton

Source: USDA, APK-inform

- Soft commodity **prices** (inflation adjusted) continue to be **depressed** for the **5<sup>th</sup> consecutive year**

**Kernel, with substantial portion of its EBITDA being generated by the farming (upstream) business, is best positioned to benefit from the global recovery of soft commodity prices**

## A4. Recent transactions highlights

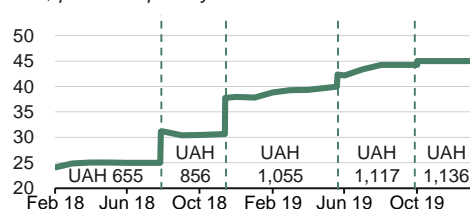


### Acquisitions

#### Acquisition of 100% interest in RTK-Ukraine (Feb 2019)

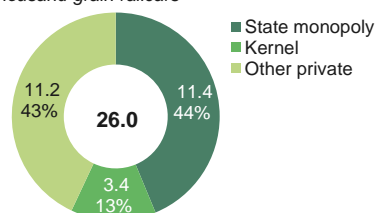
- **Assets acquired:** 2,949 grain railcars (#1 private fleet of grain hopper wagons in Ukraine).
- **Consideration:** US\$ 65m
  - US\$ 49m paid at completion, the remaining to be paid upon the achievement of certain conditions.
- **Rationale:**
  - Estimated EBITDA contribution of up to US\$ 35m in FY2020;
  - Natural hedge against ever rising logistic costs;
  - Assurance for smooth and efficient flow of grains from inland silos to the ports as Company's export volumes increase following the commissioning of TransGrainTerminal in the port of Chornomorsk.
- 13% Kernel market share (2,949 acquired and 500 own new grain railcars).

**State monopoly grain railcars rental rates**  
US\$ per railcar per day



Source Ukrainian Railways, Kernel calculation.

**Grain railcars market structure**  
thousand grain railcars



Source Ukrainian Railways, September 2019.



#### Acquisition of 5.85% interest in ViOil (Feb 2019)

- Kernel acquired 5.85% interest in ViOil Holding Ltd and entered into a customary shareholder agreement in relation to ViOil with other shareholders of ViOil.
- **ViOil assets:** two multi-seed oil-extraction plants with annual crushing capacity of 1.1 million tons of sunflower seeds and a network of silos in Western Ukraine.
- **Rationale:** initial step towards a possible future consolidation of major Western Ukraine competitor in crushing business.

### Debt raising



**US\$ 250 million**

#### Loan from European Investment Bank (Dec 2018)

- **US\$ 250m** project financing from the EIB
- The funds will be used to finance the construction of:
  - Greenfield oil-extraction plant in Western Ukraine;
  - Co-generation heat and power plants;
  - Inland grain storage facilities;
  - Grain export terminal in the port of Chornomorsk;
- Flexibility to draw tranches in line with the CapEx needs.
- 10-year maturity with a 2 year grace period



**US\$ 56 million**

#### Financing arranged by EBRD (Feb 2019)

- **US\$ 56m** financing facility (US\$ 48m loan from EBRD and US\$ 8m loan from Clean Technology Fund);
- The funds will be used to finance the construction of biomass co-generation heat and power plants integrated into existing crushing facilities of Kernel ;
- 8-year maturity with 2-year grace period.

**The start of long-term cooperation with reputable international financial institutions demonstrates Kernel transparency and high standards of corporate governance.**

# A5. Environmental, social and corporate governance (ESG)

Kernel's global goal in the field of sustainable development and social responsibility is the development of society through the voluntary contribution of business to the social, economic and environmental spheres related to the activities and achievement of the company's strategic goals.

