



KERNEL

H1
FY2020

Condensed
Consolidated
Interim Financial
Statements

for the six months ended
31 December 2019

Condensed Consolidated Interim Financial Statements

for the three and the six months ended 31 December 2019

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Key Highlights

for the three and the six months ended 31 December 2019

Financial highlights

- Consolidated **revenue** of Kernel Holding group of companies (hereinafter "Kernel", the "Company", the "Group") in Q2 FY2020 decreased 9% y-o-y to US\$ 1,016 million, mainly due to lower physical sales volumes reported by our Avere subsidiary.
- Kernel **EBITDA** in October-December 2019 decreased 15% y-o-y to US\$ 109 million (or US\$ 96 million if excluding IFRS 16 impact):
 - Oilseed Processing** segment EBITDA reached US\$ 39 million (flat y-o-y), with lower sales volumes compensated by higher crushing margin;
 - Infrastructure and Trading** segment generated US\$ 61 million EBITDA in Q2 FY2020, a 50% growth y-o-y. Infrastructure business demonstrated solid performance in the reporting period with healthy margins, increased volumes and substantial savings on own railcars fleet. Trading operations resulted in positive contributions both from grain origination in Ukraine and from Avere activities;
 - EBITDA of the **Farming** segment stood at US\$ 19 million in Q2 FY2020, down 70% y-o-y (or US\$ 5 million if excluding IFRS 16 impact);
 - Unallocated corporate expenses** in the reporting period amounted to US\$ 9 million, down 24% y-o-y.
- Net profit attributable to shareholders** in Q2 FY2020 settled at US\$ 41 million, down 54% y-o-y (or US\$ 49 million if excluding IFRS 16 impact).
- Net debt** as of 31 December 2019 reached US\$ 1,644 million, up 44% from 30 September 2019 level, reflecting new Eurobond-2024 placement and short-term borrowings increase mostly to cover seasonal working capital accumulation needs, but also to finance our CapEx program. **Readily marketable inventories** ("RMI") increased

by US\$ 372 million over Q2 FY2020, to US\$ 940 million as of 31 December 2019, reflecting purchases of grain and sunflower seeds during the peak season. As a result, **net debt adjusted for RMI** added US\$ 128 million between 30 September 2019 and 31 December 2019.

- Consequently, Kernel **leverage** as of 31 December 2019 increased to 5.0x Net-debt-to-EBITDA and 3.0x EBITDA-to-interest (post IFRS 16 impact). We are not in breach of any covenants: our Net-debt-to-EBITDA is tested as of 30 June each year, and our Eurobond 3.0x EBITDA-to-interest covenant is tested while excluding IFRS 16 impact.

M&A and corporate highlights

- In December 2019, one of Kernel Holding S.A. subsidiaries has completed an acquisition of assets of Ellada oilseed processing plant, which the Company operated since 2016 under tolling agreement. The plant is located in Kropyvnytskyi in Central Ukraine and has a processing capacity of 274 thousand tons of sunflower seeds per year.
- In December 2019, Kernel Holding S.A. increased share capital by an amount of US\$ 55,189, issuing 2,090,000 new Ordinary Shares without indication of a nominal value. The newly issued shares were subscribed by holders of stock options issued in connection with the Company's management incentive plan adopted in December 2014.
- On 10 December 2019, the annual General Meeting of Shareholders approved a dividend payout of US\$ 0.25 per share for the year ended 30 June 2019. The Board of Directors set record and payment dates for the dividend 23 April 2020 and 30 April 2020, respectively.

US\$ million except ratios and EPS	Q2 FY2019	Q1 FY2020	Q2 FY2020	y-o-y	q-o-q	H1 FY2019	H1 FY2020	y-o-y
Income statement highlights								
Revenue	1,114.9	845.8	1,016.5	(9%)	20%	2,255.2	1,862.3	(17%)
EBITDA ¹	129.3	106.5	109.3	(15%)	3%	229.9	215.8	(6%)
Net profit attributable to equity holders of Kernel Holding S.A.	88.5	59.4	41.0	(54%)	(31%)	164.0	100.4	(39%)
EBITDA margin	11.6%	12.6%	10.8%	(0.8pp)	(1.8pp)	10.2%	11.6%	1.4pp
Net margin	7.9%	7.0%	4.0%	(3.9pp)	(3.0pp)	7.3%	5.4%	(1.9pp)
Earnings per share ² , US\$	1.08	0.73	0.50	(54%)	(31%)	2.00	1.23	(39%)
Cash flow highlights								
Operating profit before working capital changes	115.6	57.6	88.9	(23%)	54%	169.7	146.5	(14%)
Change in working capital	(240.0)	(110.3)	(426.1)	+1.8x	+3.9x	(269.9)	(536.5)	+2.0x
Finance costs paid, net	(14.5)	(30.6)	(14.3)	(1%)	(53%)	(40.8)	(45.0)	10%
Income tax paid	(0.6)	(2.6)	(2.7)	+4.5x	5%	(2.3)	(5.3)	+2.3x
Net cash used in operating activities	(139.4)	(85.9)	(354.3)	+2.5x	+4.1x	(143.2)	(440.2)	+3.1x
Net cash used in investing activities	(50.0)	(61.3)	(121.4)	+2.4x	+2.0x	(122.2)	(182.7)	50%
Liquidity and credit metrics								
Net debt	875.3	1,144.5	1,644.0	88%	44%			
Readily marketable inventories ³	726.7	568.4	939.9	29%	65%			
Adjusted net debt ⁴	148.7	576.1	704.1	+4.7x	22%			
Shareholders' equity	1,253.7	1,482.9	1,501.5	20%	1%			
Net debt / EBITDA ⁵	2.7x	3.3x	5.0x	+2.3x	+1.7x			
Adjusted net debt / EBITDA ⁵	0.5x	1.6x	2.1x	+1.7x	+0.5x			
EBITDA / Interest ⁶	4.4x	3.7x	3.0x	-1.4x	-0.7x			

Note: Financial year ends 30 June, Q2 ends 31 December

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

² EPS is measured in US Dollars per share based on 82.0 million shares for Q2 FY2020 and 81.9 million for Q2 FY2019.

³ 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.

⁴ Adjusted net debt is net debt less readily marketable inventories.

⁵ Calculated based on 12-month trailing EBITDA.

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

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

Segment Results and Discussion

for the three and the six months ended 31 December 2019

Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons ¹			EBITDA margin, US\$/t ²		
	Q2 FY2019	Q2 FY2020	y-o-y	Q2 FY2019	Q2 FY2020	y-o-y	Q2 FY2019	Q2 FY2020	y-o-y	Q2 FY2019	Q2 FY2020	y-o-y
Oilseed Processing	380	365	(4%)	39	39	(0%)	379	346	(9%)	104	113	9%
Infrastructure and Trading	874	866	(1%)	40	61	50%	1,746	2,263	30%	23	27	16%
Farming	211	188	(11%)	62	19	(70%)						
Unallocated corporate expenses				(12)	(9)	(24%)						
Reconciliation	(350)	(403)	15%									
Total	1,115	1,016	(9%)	129	109	(15%)						

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons ¹			EBITDA margin, US\$/t ²		
	H1 FY2019	H1 FY2020	y-o-y	H1 FY2019	H1 FY2020	y-o-y	H1 FY2019	H1 FY2020	y-o-y	H1 FY2019	H1 FY2020	y-o-y
Oilseed Processing	737	661	(10%)	56	62	11%	784	647	(17%)	71	95	34%
Infrastructure and Trading	1,741	1,557	(11%)	79	96	22%	3,129	3,884	24%	25	25	(2%)
Farming	325	323	(1%)	115	77	(33%)						
Unallocated corporate expenses				(19)	(19)	(2%)						
Reconciliation	(547)	(678)	24%									
Total	2,255	1,862	(17%)	230	216	(6%)						

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

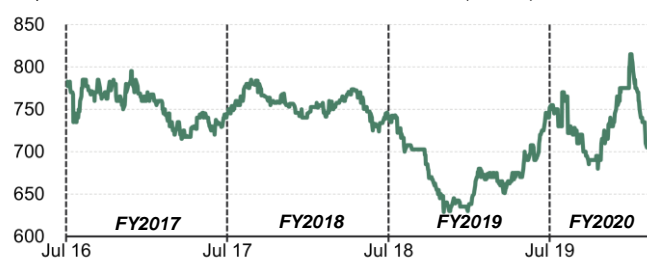
- **Market fundamentals** are generally supportive for Oilseed Processing business in FY2020:
 - **Sunflower oil prices** continue to provide a premium over previous season level, having a positive contribution to profitability of farmers and crushers in Ukraine;
 - **Sunflower seed harvest in Ukraine** reached a record 16.2 million tons, up 7% y-o-y, reducing the gap between installed

crushing capacities and supply of seeds to as low as 2.3 million tons, according to our estimates. It results in healthy supply of seeds on the market, driving both higher y-o-y margins and capacity utilization of oilseed processing plants. Sunflower seed crushing capacities in Ukraine remain unchanged at 18.5 million tons.

- As a result, Kernel **processed** 951 thousand tons of **sunflower seeds** in Q2 FY2020, up 1% y-o-y, setting a new production record and running facilities at full capacity utilization level.
- Although **edible oil sales volumes** in Q2 FY2020 reduced 9% y-o-y, to 346 thousand tons, we consider it neutrally, planning to sell 1.5 million tons of sunflower oil for the full FY2020.
- **EBITDA margin** in October-December 2019 increased 9% y-o-y to US\$ 113 per ton of oil sold, on the back of supportive market fundamentals discussed above.
 - For the full FY2020, we expect a margin of US\$ 85 per ton of oil sold, up 26% y-o-y.
- With lower sales volumes but stronger margin, segment **EBITDA** in Q2 FY2020 remained virtually unchanged as compared to the same period a year ago, standing at US\$ 39 million.

Sunflower oil price

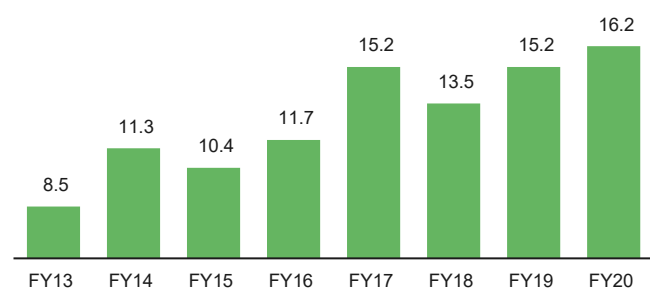
US\$ per ton of unrefined oil sold in bulk, FOB-Chornomorsk (Ukraine)



Source: Bloomberg

Sunflower seed harvest in Ukraine

million tons



Source: Kernel estimates

Segment volumes

metric tons	Q2 FY2019	Q2 FY2020	y-o-y
Oilseeds processed	940,556	950,986	1%
Sunflower oil sales ¹	379,392	346,461	(9%)
Grain and oilseeds received in inland silos	2,282,061	2,036,506	(11%)
Export terminal throughput (Ukraine)	1,256,723	1,692,237	35%
Grain export from Ukraine	1,745,807	2,262,727	30%

Note 1 Includes 278,480 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.

Segment Results and Discussion

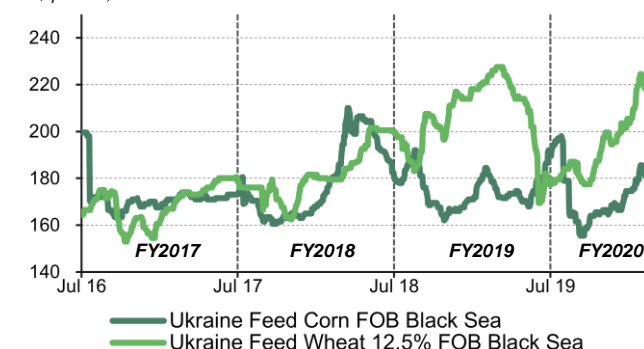
for the three and the six months ended 31 December 2019

Infrastructure and Trading

- **Market environment** for infrastructure business is favorable. Ukraine harvested **second in a row record harvest of grain**, totaling at 73 million tons of three key grain (corn, wheat and sunflower), a 7% increase y-o-y. With domestic consumption relatively unchanged, all the surpluses will have been exported, implying high capacity utilization of grain export value chain and healthy infrastructure businesses margins.
- During October-December 2019, we **exported 2.3 million tons of grain from Ukraine**, a 30% growth y-o-y, of which 1.5 million tons was grain originated from external suppliers, and the remaining was produced by company's farming division. We are well on track to achieve our target of 8 million tons of grain exported from Ukraine for the full FY2020, with 49% of that target completed in the first half of the season.
 - Our **export terminal throughput volumes** in Ukraine reached the highest ever 1.7 million tons in Q2 FY2020, up 35% y-o-y. Silo in-take volumes over the reporting quarter amounted to 2.0 million tons, down 11% y-o-y.
- **Segment's EBITDA** increased by 50% y-o-y in Q2 FY2020, to US\$ 61 million.
 - **Infrastructure businesses** performed as expected with healthy margins in export terminals and silo business lines, and more than US\$ 12 million savings provided by own railcar fleet.
 - **Trading operations** (grain origination in Ukraine and Avere activities) generated strong US\$ 19 million EBITDA during three months ended 31 December 2019.
- With 2.3 million tons of grain exported from Ukraine, we generated 27 US\$/ton EBITDA margin, a 16% growth y-o-y.
- 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;
 - growing grain export volumes from Ukraine; and
 - strong contribution of grain railcars business.

Ukraine grain export prices

US\$ per ton, FOB-Black Sea



Farming

- Segment **EBITDA** in October-December 2019 reduced to US\$ 19 million, including US\$ 13 million positive effect from implementation of IFRS 16. Strong Ukrainian currency implies downbeat economics for all sector participants, including Kernel farming operations.
- For the whole FY2020, we expect US\$ 85 million farming EBITDA (net of IFRS 16 effect and revaluation of biological assets), weakened by growing production costs due to local currency appreciation, corn yield decline and weak corn prices in the first half of the season.
- 2020 harvest winter crops are in a satisfactory condition. We have planted over 74 thousand hectares under winter wheat and almost 13 thousand hectares under winter rapeseed.

Harvest update

	Acreage, thousand hectares			Net yields ¹ , 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	8.5	(14%)	2,227	1,976	(11%)
Sunflower	134.5	136.5	2%	3.2	3.5	9%	426	472	11%
Wheat	100.0	97.1	(3%)	5.1	5.9	15%	509	569	12%
Soybean	36.3	24.3	(33%)	3.0	2.5	(15%)	108	61	(43%)
Other ²	34.1	23.3	(32%)						
Total	529.1	512.7	(3%)				3,269	3,079	(6%)

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 and the six months ended 31 December 2019

Income statement highlights

- The company generated US\$ 1,016 million **revenue** in Q2 FY2020, down 9% y-o-y due to lower physical sales volumes reported by our Avere subsidiary.
- Net gain from revaluation of biological assets** amounted to US\$ 10 million in Q2 FY2020.
- Cost of sales** in October-December reduced by 3% y-o-y, to US\$ 944 million. Although costs of goods for resale and raw materials used reduced in line with revenue, other costs components actually increased (payroll costs, amortization and depreciation, shipping and handling costs).
- Consequently, **gross profit** in the reporting period decreased by 38% y-o-y, to US\$ 83 million.
- Other operating income** in Q2 FY2020 totaled at US\$ 25 million, mainly driven by positive Avere contribution in the reporting period.
- General and administrative expenses** added US\$ 5 million vs Q2 FY2019 results to end up at US\$ 28 million in October-December 2019.
- As a result, Kernel generated **operating profit** of US\$ 79 million in Q2 FY2020, down 29% y-o-y.
- Net finance costs** in Q2 FY2020 increased by 70% y-o-y, to US\$ 38 million, mostly driven by the implementation of IFRS 16 in FY2020 with additional finance costs related to recognition of land lease liabilities on our balance sheet.
- Net foreign exchange gain** in the reporting period comprised US\$ 7 million, as compared to US\$ 5 million for the same period a year ago.
- Adding US\$ 4 million of **other income** and minor contribution from **profit of joint venture**, profit before tax amounted to US\$ 52 million in Q2 FY2020, down 46% down y-o-y.
- Accounting for US\$ 7 million income tax expenses, Group **net profit** amounted to US\$ 45 million, of which US\$ 41 million **net profit attributable to shareholders of Kernel Holding S.A.**

Cash flow highlights

- Operating profit before working capital changes** in October-December 2019 amounted to US\$ 89 million, down 23% y-o-y.
- Investments into **working capital** over the same period amounted to US\$ 426 million, impacted most by:
 - US\$ 383 million increase in inventories following the US\$ 133 million reduction in biological assets after completion of the harvesting campaign; and

- Increase in trade accounts receivable (US\$ 84 million) and VAT prepaid (US\$ 68 million) on growing sales volumes.
- Net cash used in investing activities** stood at US\$ 121 million, of which US\$ 57 million cash invested in purchase of property, plant and equipment, and US\$ 27 million spent for acquisition of subsidiaries (including payment for crushing plant in Kropyvnytskyi acquired in December 2019 and remaining part of amount payable for the RTK-Ukraine).

Credit metrics highlights

- Kernel **debt liabilities** reached US\$ 1,718 million as of 31 December 2019, up from US\$ 1,225 million as of 30 September 2019, driven by:
 - New US\$ 300 million Eurobond-2024 placement;
 - Short-term debt growth to finance seasonal accumulation of working capital.
- As a result, **Net debt** of the Group added 44% over Q2 FY2020, to US\$ 1,644 million as of 31 December 2019.
- Readily marketable inventories** ("RMI") increased by 65% in Q2 FY2020 to US\$ 940 million. Sunflower seeds accounted for 44% of all RMI, and grain stood for 40%.
- Net debt adjusted for RMI** increased by US\$ 128 million over October-December 2019 to US\$ 704 million.
- Net-debt-to-EBITDA** ratio as of 31 December 2019 (measured on 12 months trailing basis) increased to 5.0x, as compared to 3.3x as of 30 September 2019. **Interest coverage** reduced to 3.0x EBITDA-to-Interest over the same period. We are not in breach of any covenants: our Net-debt-to-EBITDA is tested as of 30 June each year, and our Eurobond 3.0x EBITDA-to-interest covenant is tested while excluding IFRS 16 impact.

Hedge accounting

- Since October 2019, the Group started applying cash flow hedge accounting for its forecasted sunflower oil highly probable sales at end destination and designated sunflower oil derivative contracts as hedging instruments in cash flow hedge relationship, hedging the sunflower oil commodity price risk for the future cash flows. Loss resulted from change in fair value of hedging instruments under cash flow hedge accounting in Q2 FY2020 was US\$ 46 million and is reflected within the cashflow hedge reserve in other comprehensive income.

Credit metrics

US\$ million, except ratios	31 Dec 2018	30 Sep 2019	31 Dec 2019	q-o-q	y-o-y
Short-term interest-bearing debt	494	349	457	31%	(8%)
Long-term interest-bearing debt	4	71	147	2.1x	+41.2x
Lease liabilities	9	307	322	5%	+35.2x
Eurobond	496	496	793	60%	60%
Debt liabilities	1,002	1,225	1,718.4	40%	71%
Cash and cash equivalents	127	80	74	(7%)	(41%)
Net debt	875	1,144	1,644	44%	88%
Readily marketable inventories	727	568	940	65%	29%
of which sunflower oil and meal	106	69	146	2.1x	37%
Sunflower seeds	340	296	417	41%	23%
Grains and other RMIs	280	203	377	1.9x	35%
Adjusted net debt	149	576	704	22%	+4.7x
Shareholders' equity ¹	1,254	1,483	1,501	1%	20%
Net debt / EBITDA ²	2.7x	3.3x	5.0x	+1.7x	+2.3x
Adjusted net debt / EBITDA ²	0.5x	1.6x	2.1x	+0.5x	+1.7x
EBITDA / Interest ³	4.4x	3.7x	3.0x	-0.7x	-1.4x

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 and the six months ended 31 December 2019

Effect of IFRS 16 introduction on Group's H1 FY2020 financial statements¹

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 had significant impact on Company's financials. As a result of IFRS 16 implementation:

- Company recognized US\$ 372 million right-of-use assets (of which US\$ 364 million rights to lease land) and US\$ 322 million corresponding lease liabilities as of 31 December 2019.
- Rental payments disappeared and were replaced by amortization of right-of-use assets and finance 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	H1 FY2019	H1 FY2020		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Revenues	2,255.2	1,862.3	-	1,862.3
Revaluation of biological assets	35.6	39.0	5.3	44.2
Cost of sales	(2,071.6)	(1,734.2)	5.9	(1,728.2)
of which depreciation & amortization	(34.5)	(41.7)	(9.8)	(51.5)
Rental payments	(36.3)	(48.1)	15.7	(32.4)
Gross profit	219.2	167.1	11.2	178.3
Other operating income	18.3	37.9	-	37.9
General and administrative expenses	(44.1)	(54.0)	(0.3)	(54.3)
Operating profit	193.4	151.0	10.9	161.9
Finance costs	(42.1)	(44.3)	(27.4)	(71.7)
Other non-operating items	19.3	23.0	0.2	23.2
Profit before income tax	170.6	129.6	(16.2)	113.4
Income tax	(3.8)	(8.7)	-	(8.7)
Net profit	166.9	120.9	(16.2)	104.8
Net profit attributable to shareholders	164.0	120.9	(16.2)	100.4
Depreciation and amortization	(36.5)	(43.9)	(10.1)	(53.9)
EBITDA	229.9	194.8	21.0	215.8

Effect on Statement of Financial Position

In US\$ million	30 June 2019	31 Dec 2019		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Current assets	1,256	1,955	(33)	1,921
Non-current assets	1,207	1,383	326	1,710
of which right-of-use assets	-	-	372	372
other non-current assets	1,207	1,383	(45)	1,338
Total assets	2,464	3,338	293	3,631
Current liabilities	480	814	53	867
of which current portion of lease liabilities	-	-	66	66
other current liabilities	480	814	(13)	801
Non-current liabilities	638	1,020	250	1,271
of which lease liabilities	-	-	256	256
other non-current liabilities	638	1,020	(5)	1,015
Equity	1,346	1,503	(10)	1,493
Total liabilities and equity	2,464	3,338	293	3,631

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

Principal Risks and Uncertainties

for the three and the six months ended 31 December 2019

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

Strategic (Business) risks:

- Weak harvest in Ukraine
- Low global soft commodities prices

Operational risks:

- Trade position management issues
- Fraudulent activities
- Investment projects issues
- Crop loss due to late harvesting
- New business management issues (railcars)
- Failure to maintain the integrity of the leasehold farmland bank
- General IT and information security risk
- Human capital risks

For a detailed disclosure of the possible impact of each of the key risks and our management approach, please refer to pages 30-34 of the annual report for the year ended 30 June 2019, available at www.kernel.ua.

Other risks identified by the Company's management include:

- Increase in competition;
- Compliance with environmental standards;
- A prolonged period of weak economic growth, either globally or in the Company's key markets;
- Economic policy, political, social, and legal risks and uncertainties in certain countries in which Kernel Holding S.A. operates;
- Any loss or diminution in the services of Mr. Andrii Verevskyi, Kernel Holding S.A.'s chairman of the Board of Directors;
- The risk that changes in the assumptions underlying the carrying value of certain assets, including those occurring as a result of adverse market conditions, could result in the impairment of tangible and intangible assets, including goodwill;
- The risk of fluctuations in the exchange rate of the Ukrainian hryvnia to the US dollar;
- The risk of disruption or limitation of natural gas or electricity supply;
- The risk of disruptions in Kernel Holding S.A.'s manufacturing operations;
- The risk of product liability claims;
- The risk of potential liabilities from investigations, litigation, and fines regarding antitrust matters;
- The risk that Kernel Holding S.A.'s governance and compliance processes may fail to prevent regulatory penalties or reputational harm, both at operating subsidiaries and in joint ventures; and
- The risk that Kernel Holding S.A.'s insurance policies may provide inadequate coverage.

Significant Events

for the three and the six months ended 31 December 2019

On 10 December 2019, Kernel Holding S.A. convened its annual General Meeting of Shareholders, which adopted the following resolutions with immediate effect:

- The general meeting, after having reviewed the management report of the board of directors of the Company and the report of the independent auditor of the Company, approves these reports.
- The general meeting, after having reviewed the management report of the board of directors of the Company and the report of the independent auditor of the Company, approves in their entirety the Consolidated Financial Statements of the Company for the financial year ended on 30 June 2019, with a resulting consolidated net profit attributable to equity holders of the Company of one hundred eighty-nine million four hundred sixty-four thousand US dollars (USD 189,464,000. -).
- The general meeting, after having reviewed the management report of the board of directors and the report of the independent auditor of the Company, approves in their entirety the Parent Company's annual accounts (unconsolidated) for the financial year ended on 30 June 2019, with a resulting net income for Kernel Holding S.A. as parent company of the Kernel Holding S.A. group of twenty-nine million seven hundred forty-nine thousand nine hundred fifteen US dollars and ninety-eight cents (USD 29,749,915.98).
- The general meeting approves the proposal of the board of directors (i) to carry forward the net income of the Parent Company annual accounts (non-consolidated) of twenty-nine million seven hundred forty-nine thousand nine hundred fifteen US dollars and ninety-eight cents (USD 29,749,915.98) and (ii) after allocation to the legal reserve of the Company, to declare a dividend at twenty-five cents per ordinary share (USD 0.25) for the financial year ended on 30 June 2019. The general meeting delegates to the board of directors to set up record and payment dates for the dividends distribution.
- The general meeting decides to grant discharge to the directors of the Company for their management duties and the exercise of their mandates in the course of the financial year ended on 30 June 2019.
- The general meeting, having acknowledged the end of the mandates of directors and in consideration of the proposal to reappoint Mr. Andrzej Danilczuk, Mrs. Nathalie Bachich, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mr. Yuriy Kovalchuk, Mrs. Viktoriia Lukianenko and Mr. Yevgen Osyrov for a one-year term, decides to renew the mandates of Mr. Andrzej Danilczuk, Mrs. Nathalie Bachich, Mr. Sergei Shibaev, Mrs. Anastasiia Usachova, Mr. Yuriy Kovalchuk, Mrs. Viktoriia Lukianenko and Mr. Yevgen Osyrov for a one-year term mandate, which shall terminate on the date of the general meeting of shareholders to be held in 2020.
- The general meeting, having acknowledged that fees (tantiemes) paid to the non-executive directors for their previous term in office amounted in total to two hundred sixty thousand US dollars (USD 260,000. -), approves the independent directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2020, for a total gross annual amount of two hundred sixty thousand US dollars (USD 260,000. -).
- The general meeting, having acknowledged that fees (tantiemes) paid to the executive directors for their previous term as members of the board of directors amounted in total to two hundred forty thousand US dollars (USD 240,000. -), approves the executive directors' fees for the new one-year mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2020, for a total gross annual amount of two hundred forty thousand US dollars (USD 240,000. -) including two hundred thousand US dollars (USD 200,000. -) to be paid to the chairman of the board of directors.
- The general meeting grants discharge to the independent auditor of the Company, Deloitte Audit, a société à responsabilité limitée, having its registered office at 20 Boulevard de Kockelscheuer, L-1821 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 for the financial year

ended on 30 June 2019.

- The general meeting, following proposal by the board of directors to reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 20 Boulevard de Kockelscheuer, L-1821 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as independent auditor of the Company, resolves to reappoint Deloitte Audit, a société à responsabilité limitée, having its registered office at 20 Boulevard de Kockelscheuer, L-1821 Luxembourg, registered with the Luxembourg Trade and Companies' Register under number B 67 895 as independent auditor of the Company for a one-year term mandate, which shall terminate on the date of the annual general meeting of shareholders to be held in 2020.

Alternative Performance Measures

for the three and the six months ended 31 December 2019

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 less Net 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. The second APM included dividends paid, thus distorting the cash flow available to repay debt and distribute dividends to shareholders. Instead,

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

EBITDA and EBITDA margin

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

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

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

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

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

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

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

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

<i>in thousand US\$ except the margin</i>	Q2 FY2019	Q2 FY2020	H1 FY2019	H1 FY2020
Profit from operating activities	111,287	79,416	193,378	161,906
<i>add back:</i>				
Amortization and depreciation	18,037	29,875	36,477	53,924
EBITDA	129,324	109,291	229,855	215,830
Revenue	1,114,859	1,016,451	2,255,163	1,862,289
EBITDA margin	11.6%	10.8%	10.2%	11.6%

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

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

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

Alternative Performance Measures

for the three and the six months ended 31 December 2019

Investing Cash Flows less Net 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 less Net 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.

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.

Calculation of Segment EBITDA and Segment EBITDA margin:

in thousand US\$	Q2 FY2019	Q2 FY2020	H1 FY2019	H1 FY2020
Oilseed Processing				
Profit from operating activities	35,319	35,198	47,336	53,582
plus Amortization and depreciation	4,087	4,061	8,229	7,968
Segment EBITDA	39,406	39,259	55,565	61,550
Segment revenue	379,611	365,153	736,516	661,301
Segment EBITDA margin	10%	11%	8%	9%
Infrastructure and Trading				
Profit from operating activities	38,207	54,371	74,343	84,573
plus Amortization and depreciation	2,167	6,254	4,339	11,398
Segment EBITDA	40,374	60,625	78,682	95,971
Segment revenue	873,664	866,020	1,741,191	1,556,885
Segment EBITDA margin	5%	7%	5%	6%
Farming				
Profit / (loss) from operating activities	50,464	(381)	91,581	43,419
plus Amortization and depreciation	11,384	19,080	23,079	33,617
Segment EBITDA	61,848	18,699	114,660	77,036
Segment revenue	211,121	188,141	324,548	322,558
Segment EBITDA margin	29%	9.9%	35%	24%
Other				
Loss from operating activities	(12,703)	(9,772)	(19,882)	(19,668)
plus Amortization and depreciation	399	480	830	941
Segment EBITDA	(12,304)	(9,292)	(19,052)	(18,727)

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

in thousand US\$	Q2 FY2019	Q2 FY2020	H1 FY2019	H1 FY2020
Net cash used in investing activities	(49,956)	(121,431)	(122,198)	(182,744)
<i>Adding back:</i>				
Purchase of property, plant and equipment	(45,061)	(56,905)	(92,100)	(119,714)
Proceeds from disposal of property, plant and equipment	3,060	1,016	5,560	2,923
Investing Cash Flows less Net Fixed Assets Investments	(91,957)	(177,320)	(208,738)	(299,535)

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

in thousand US\$	Q2 FY2019	Q2 FY2020	H1 FY2019	H1 FY2020
Purchase of property, plant and equipment	(45,061)	(56,905)	(92,100)	(119,714)
Proceeds from disposal of property, plant and equipment	3,060	1,016	5,560	2,923
Net Fixed Assets Investments	(42,001)	(55,889)	(86,540)	(116,791)

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

in thousand US\$	Q2 FY2019	Q2 FY2020	H1 FY2019	H1 FY2020
Net cash generated by operating activities	(124,348)	(337,276)	(100,172)	(389,994)
<i>Less:</i>				
Changes in working capital, including:	(239,976)	(426,132)	(269,921)	(536,469)
Change in trade and other accounts receivable	26,623	(84,441)	(112,060)	(82,135)
Change in prepayments and other current assets	45,068	10,975	33,706	28,412
Change in restricted cash balance	(10,495)	(1,163)	(10,470)	(1,315)
Change in taxes recoverable and prepaid	(28,934)	(67,733)	(32,461)	(126,697)
Change in biological assets	140,296	132,552	287,998	339,862
Change in inventories	(350,031)	(382,572)	(467,472)	(691,300)
Change in trade accounts payable	(58,704)	(18,283)	24,685	1,853
Change in advances from customers and other current liabilities	(3,799)	(15,467)	6,153	(5,149)
Operating Cash Flows before Working Capital Changes	115,628	88,856	169,749	146,475

Alternative Performance Measures

for the three and the six months ended 31 December 2019

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>	Q2 FY2019	Q2 FY2020	H1 FY2019	H1 FY2020
Net cash used in operating activities	(139,408)	(354,286)	(143,242)	(440,220)
Net cash used in investing activities	(49,956)	(121,431)	(122,198)	(182,744)
Free Cash Flows to the Firm	(189,364)	(475,717)	(265,440)	(622,964)

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 31 December 2018	As of 30 September 2019	As of 31 December 2019
Sunflower oil & meal	106,394	68,679	145,921
Sunflower seed	340,085	296,232	417,102
Grains	280,172	202,054	375,231
Other	104,107	107,560	134,557
Total	830,758	674,526	1,072,811
<i>of which: Readily Marketable Inventories</i>	726,651	568,368	939,948

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

<i>in thousand US\$</i>	As of 31 December 2018	As of 30 September 2019	As of 31 December 2019
Bonds issued	495,591	496,355	792,818
Interest on bonds issued	17,949	7,131	21,945
Long-term borrowings	3,577	71,465	147,357
Current portion of long-term borrowings	3,993	1,233	1,233
Short-term borrowings	471,807	340,940	433,413
Obligations under finance lease	6,467	-	-
Lease liabilities	-	290,105	255,551
Current portion of lease liabilities	2,675	17,366	66,076
Debt Liabilities	1,002,059	1,224,595	1,718,393
less: cash and cash equivalents	126,753	80,134	74,353
Net Debt	875,306	1,144,461	1,644,040
less: readily marketable inventories	726,651	568,368	939,948
Adjusted Net Debt	148,655	576,093	704,092

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

<i>in thousand US\$</i>	As of 31 December 2018	As of 30 September 2019	As of 31 December 2019
Total current assets	1,499,983	1,487,525	1,921,405
less:			
Cash and cash equivalents	126,753	80,134	74,353
Assets classified as held for sale	1,991	521	474
Total current liabilities	733,885	681,286	867,471
add back:			
Short-term borrowings	471,807	340,940	433,413
Current portion of long-term borrowings	3,993	1,233	1,233
Current portion of obligations under finance lease	2,675	-	-
Current portion of lease liabilities	-	17,366	66,076
Interest on bonds issued	17,949	7,131	21,945
Adjusted Working Capital	1,133,778	1,092,254	1,501,774

Alternative Performance Measures

for the three and the six months ended 31 December 2019

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

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

Management Statement

for the three and the six months ended 31 December 2019

This statement is provided to confirm that, to the best of our knowledge, the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') and its subsidiaries (hereinafter together - the 'Group') for the six months ended 31 December 2019, and the comparable information, have been prepared in compliance with International Accounting Standard 34 - 'Interim financial reporting' (hereinafter, 'IAS 34') and give a true and fair view of the financial position, cash flows, changes in equity and profit or loss and other comprehensive income, and that the directors' report on the operations of the Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that Deloitte Audit S.a.r.l. has been appointed in accordance with applicable laws and performed the review as an independent auditor of the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. for the six months ended 31 December 2019, and that the entities of the Group and the independent auditor performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Review Engagements.

27 February 2020

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Statement of Management Responsibilities

for the three and the six months ended 31 December 2019

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

- the Condensed Consolidated Interim Financial Statements of Kernel Holding S.A. (the 'Holding') presented in this Interim Report and established in conformity with IAS 34 give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2019;
- the interim accounts of the Company presented in this Interim Report and established in conformity with Luxembourg legal and regulatory requirements relating to the preparation of interim accounts give a true and fair view of the consolidated financial position of the Group and consolidated results of its operations, cash flows and changes in equity for the six months ended 31 December 2019;
- the Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

27 February 2020

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kernel Holding S.A. and its subsidiaries (the "Group") as of 31 December 2019, and the related interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months then ended, and selected explanatory notes (collectively – the "interim condensed consolidated financial information"). Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

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

Basis for Qualified Conclusion

As described in the Accounting Policies for Derivatives and Hedging activities in Note 3, the Group started applying hedge accounting in October 2019 and during the six months period ended 31 December 2019 has recognized USD 46,069 thousand corresponding to the loss resulted from the change in fair value of hedging instruments within the cashflow hedge reserve and USD 5,362 thousand corresponding to Deferred Tax income related to this item, in other comprehensive income. Based on the information provided there was no formal designation and documentation of the hedging relationship at the inception of the hedging relationship, as required by IFRS 9-Financial Instruments. According to the accounting policy, those derivatives should therefore have been classified at fair value through profit and loss (FVPL). Had this been done, other operating income would have been decreased by USD 46,069 thousand, Income tax expense would have been decreased by 5,362 thousand and other comprehensive income would have increased by USD 40,707 thousand net of taxes. As a further consequence, the profit for the period and the Other comprehensive income allocated to Non-controlling interest, as disclosed in the Condensed Consolidated Interim Statement of Changes in Equity, would have been decreased and increased respectively by USD 11,194 thousand.

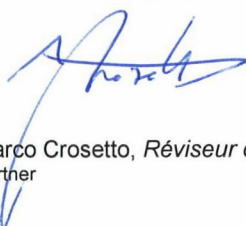
Qualified Conclusion

Based on our review, with the exception of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Other Matter

The accompanying interim condensed consolidated financial information for the three-months ended 31 December 2019 and 2018, were not audited or reviewed by us and accordingly we do not express any other form of assurance on it.

For Deloitte Audit, *Cabinet de Révision Agréé*



Marco Crosetto, *Réviser d'Entreprises Agréé*
Partner

27 February 2020

Selected Financial Data

for the six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

	USD ¹		PLN		EUR	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
I. Revenue	1,862,289	2,255,163	7,221,398	8,425,289	1,678,295	1,958,158
II. Profit from operating activities	161,906	193,378	627,823	722,460	145,910	167,910
III. Profit before income tax	113,429	170,624	439,844	637,451	102,222	148,153
IV. Profit for the period from continuing operations	104,757	166,861	406,216	623,393	94,407	144,885
V. Net cash used in operating activities	(440,220)	(143,242)	(1,707,042)	(535,152)	(396,726)	(124,377)
VI. Net cash used in investing activities	(182,744)	(122,198)	(708,626)	(456,532)	(164,689)	(106,105)
VII. Net cash generated by financing activities	619,439	290,430	2,401,999	1,085,046	558,238	252,180
VIII. Total net cash flow	(3,525)	24,990	(13,669)	93,362	(3,177)	21,698
IX. Total assets	3,631,085	2,555,648	13,789,772	9,608,470	3,238,202	2,234,403
X. Current liabilities	867,471	733,885	3,294,395	2,759,187	773,611	641,636
XI. Non-current liabilities	1,270,561	558,812	4,825,210	2,100,966	1,133,086	488,569
XII. Issued capital	2,219	2,164	8,427	8,136	1,979	1,892
XIII. Total equity	1,493,053	1,262,951	5,670,167	4,748,317	1,331,505	1,104,198
XIV. Number of shares	81,952,589	81,941,230	81,952,589	81,941,230	81,952,589	81,941,230
XV. Profit per ordinary share (in USD/PLN/EUR)	1.23	2.00	4.75	7.48	1.10	1.74
XVI. Diluted number of shares	82,677,873	82,825,519	82,677,873	82,825,519	82,677,873	82,825,519
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	1.21	1.98	4.71	7.40	1.09	1.72
XVIII. Book value per share (in USD/PLN/EUR)	17.87	15.30	67.86	57.52	15.94	13.38
XIX. Diluted book value per share (in USD/PLN/EUR)	18.16	15.14	68.97	56.92	16.20	13.24

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

Condensed Consolidated Interim Statement of Financial Position

for the six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Assets				
Current assets				
Cash and cash equivalents	7	74,353	76,801	126,753
Trade accounts receivable, net	9, 21	264,782	183,196	203,391
Prepayments to suppliers and other current assets, net	21	98,475	129,822	76,843
Corporate income tax prepaid	20	5,043	8,484	8,032
Taxes recoverable and prepaid, net	8	263,109	118,575	142,619
Inventory	10	1,072,811	357,610	830,758
Biological assets	11	27,224	309,030	29,855
Other financial assets		115,134	70,835	79,741
Assets classified as held for sale		474	2,079	1,991
Total current assets		1,921,405	1,256,432	1,499,983
Non-current assets				
Property, plant and equipment, net	12	958,684	764,686	624,913
Right-of-use assets	3	371,610	—	—
Intangible assets, net		79,857	114,942	110,790
Goodwill		126,447	107,735	102,621
Investments in joint ventures		59,036	51,252	52,754
Deferred tax assets		11,678	8,447	14,350
Corporate income tax prepaid	20	5,075	4,374	3,623
Other non-current assets	21	97,293	155,732	146,614
Total non-current assets		1,709,680	1,207,168	1,055,665
Total assets		3,631,085	2,463,600	2,555,648
Liabilities and equity				
Current liabilities				
Trade accounts payable	21	144,188	136,043	97,000
Advances from customers and other current liabilities	21	123,126	104,976	117,794
Short-term borrowings	14	433,413	183,692	471,807
Current portion of long-term borrowings	15	1,233	1,233	3,993
Current portion of lease liabilities	3	66,076	—	—
Interest on bonds issued	16	21,945	17,949	17,949
Other financial liabilities		77,490	35,867	25,342
Total current liabilities		867,471	479,760	733,885
Non-current liabilities				
Long-term borrowings	15	147,357	63,680	3,577
Bonds issued	16	792,818	496,051	495,591
Lease liabilities	3	255,551	—	—
Obligations under finance leases		—	5,230	6,467
Deferred tax liabilities		28,785	29,010	19,453
Other non-current liabilities		46,050	43,843	33,724
Total non-current liabilities		1,270,561	637,814	558,812
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital		2,219	2,164	2,164
Share premium reserve		500,378	481,878	481,878
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve	2	4,624	9,111	8,625
Revaluation reserve		62,249	62,249	42,189
Other reserves	3	(29,513)	—	—
Translation reserve		(645,858)	(734,396)	(784,521)
Retained earnings		1,567,413	1,489,996	1,463,408
Total equity attributable to Kernel Holding S.A. equity holders		1,501,456	1,350,946	1,253,687
Non-controlling interests		(8,403)	(4,920)	9,264
Total equity		1,493,053	1,346,026	1,262,951
Total liabilities and equity		3,631,085	2,463,600	2,555,648
Book value		1,501,456	1,350,946	1,253,687
Number of shares	2	84,031,230	81,941,230	81,941,230
Book value per share (in USD)		17.87	16.49	15.30
Diluted number of shares		82,677,873	82,820,378	82,825,519
Diluted book value per share (in USD)		18.16	16.31	15.14

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 six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2019	3 months ended 31 December 2019	6 months ended 31 December 2018	3 months ended 31 December 2018
Revenue	17, 21	1,862,289	1,016,451	2,255,163	1,114,859
Net change in fair value of biological assets and agricultural produce	11	44,248	10,300	35,640	(5,826)
Cost of sales	18, 21	(1,728,248)	(943,800)	(2,071,644)	(975,732)
Gross profit		178,289	82,951	219,159	133,301
Other operating income, net	19	37,884	24,713	18,342	1,215
General and administrative expenses	21	(54,267)	(28,248)	(44,123)	(23,229)
Profit from operating activities		161,906	79,416	193,378	111,287
Finance costs, net	21	(71,705)	(38,296)	(42,087)	(22,508)
Foreign exchange gain, net		12,043	6,868	17,217	5,275
Other income, net	21	6,243	3,475	1,580	1,149
Share of income of joint ventures	13	4,942	281	536	144
Profit before income tax		113,429	51,744	170,624	95,347
Income tax expenses	20	(8,672)	(6,595)	(3,763)	(6,915)
Profit for the period from continuing operations		104,757	45,149	166,861	88,432
Profit for the period		104,757	45,149	166,861	88,432
Profit for the period attributable to:					
Equity holders of Kernel Holding S.A.		100,424	40,981	163,999	88,506
Non-controlling interests		4,333	4,168	2,862	(74)
Earnings per share					
From continuing operations					
Weighted average number of shares		81,952,589	81,963,947	81,941,230	81,941,230
Profit per ordinary share (in USD)		1.23	0.50	2.00	1.08
Diluted number of shares		82,677,873	82,600,954	82,825,519	82,852,444
Diluted profit per ordinary share (in USD)		1.21	0.50	1.98	1.07

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 six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

	6 months ended 31 December 2019	3 months ended 31 December 2019	6 months ended 31 December 2018	3 months ended 31 December 2018
Profit for the period	104,757	45,149	166,861	88,432
Other comprehensive income/ (loss)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	89,285	13,765	(60,742)	7,018
Loss arising on cash flow hedge	(46,069)	(46,069)	—	—
Income tax related to this item	5,362	5,362	—	—
Other comprehensive income/(loss), net	48,578	(26,942)	(60,742)	7,018
Total comprehensive income for the period	153,335	18,207	106,119	95,450
Total comprehensive income attributable to:				
Equity holders of Kernel Holding S.A.	159,449	25,161	103,532	95,417
Non-controlling interests	(6,114)	(6,954)	2,587	33

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 six months ended 31 December 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	Other reserves	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
Balance as of 30 June 2018 (as previously reported)	2,164	481,878	39,944	8,114	43,815	—	(724,054)	1,318,872	1,170,733	6,871	1,177,604
Effect of IFRS 9 implementation	—	—	—	—	—	—	—	(314)	(314)	—	(314)
Balance as of 1 July 2018 (restated)	2,164	481,878	39,944	8,114	43,815	—	(724,054)	1,318,558	1,170,419	6,871	1,177,290
Profit for the period	—	—	—	—	—	—	—	163,999	163,999	2,862	166,861
Other comprehensive loss	—	—	—	—	—	—	(60,467)	—	(60,467)	(275)	(60,742)
Total comprehensive income/(loss) for the period	—	—	—	—	—	—	(60,467)	163,999	103,532	2,587	106,119
Distribution of dividends	—	—	—	—	—	—	—	(20,969)	(20,969)	—	(20,969)
Disposal of subsidiaries	—	—	—	—	(1,626)	—	—	1,626	—	—	—
Effect of changes on minority interest	—	—	—	—	—	—	—	194	194	(194)	—
Recognition of share-based payments	—	—	—	511	—	—	—	—	511	—	511
Balance as of 31 December 2018	2,164	481,878	39,944	8,625	42,189	—	(784,521)	1,463,408	1,253,687	9,264	1,262,951
Profit/(loss) for the period	—	—	—	—	—	—	—	25,465	25,465	(13,822)	11,643
Other comprehensive income/(loss)	—	—	—	—	21,183	—	50,125	—	71,308	(362)	70,946
Total comprehensive income/(loss) for the period	—	—	—	—	21,183	—	50,125	25,465	96,773	(14,184)	82,589
Distribution of dividends	—	—	—	—	—	—	—	484	484	—	484
Effect of changes on minority interest	—	—	—	—	—	—	—	(484)	(484)	—	(484)
Recognition of share-based payments	—	—	—	486	—	—	—	—	486	—	486
Transfer of revaluation reserve	—	—	—	—	(1,123)	—	—	1,123	—	—	—
Balance as of 30 June 2019	2,164	481,878	39,944	9,111	62,249	—	(734,396)	1,489,996	1,350,946	(4,920)	1,346,026
Profit for the period	—	—	—	—	—	—	—	100,424	100,424	4,333	104,757
Other comprehensive income/(loss) (Note 3)	—	—	—	—	—	(29,513)	88,538	—	59,025	(10,447)	48,578
Total comprehensive income/(loss) for the period	—	—	—	—	—	(29,513)	88,538	100,424	159,449	(6,114)	153,335
Increase of share capital (Note 2)	55	13,555	—	—	—	—	—	—	13,610	—	13,610
Distribution of dividends	—	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Effect of changes on minority interest	—	—	—	—	—	—	—	(2,631)	(2,631)	2,631	—
Recognition of share-based payments (Note 2)	—	4,945	—	(4,487)	—	—	—	109	567	—	567
Balance as of 31 December 2019	2,219	500,378	39,944	4,624	62,249	(29,513)	(645,858)	1,567,413	1,501,456	(8,403)	1,493,053

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 Cash Flows

for the six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

	Notes	6 months ended 31 December 2019	6 months ended 31 December 2018
Operating activities:			
Profit before income tax		113,429	170,624
Adjustments for:			
Amortization and depreciation		53,924	36,477
Finance costs, net		71,705	42,087
Movement in allowance for doubtful receivables		3,244	4,340
Other accruals		1,114	(2,857)
Loss/(Gain) on disposal of property, plant and equipment		36	(1,270)
Net foreign exchange gain		(9,041)	(21,941)
Net change in fair value of biological assets and agricultural produce	11	(44,248)	(35,640)
Share of income of joint ventures	13	(4,942)	(536)
Gain on sales of subsidiaries	6	(4,901)	(1,693)
Net gain arising on financial assets classified as at fair value through profit or loss		(33,845)	(19,842)
Operating profit before working capital changes		146,475	169,749
Changes in working capital:			
Change in trade and other accounts receivable ¹		(82,135)	(112,060)
Change in prepayments and other current assets		28,412	33,706
Change in restricted cash balance		(1,315)	(10,470)
Change in taxes recoverable and prepaid		(126,697)	(32,461)
Change in biological assets		339,862	287,998
Change in inventories		(691,300)	(467,472)
Change in trade accounts payable		1,853	24,685
Change in advances from customers and other current liabilities		(5,149)	6,153
Cash used in operations		(389,994)	(100,172)
Interest paid		(47,419)	(41,823)
Interest received		2,463	1,021
Income tax paid		(5,270)	(2,268)
Net cash used in operating activities		(440,220)	(143,242)
Investing activities:			
Purchase of property, plant and equipment		(119,714)	(92,100)
Proceeds from disposal of property, plant and equipment		2,923	5,560
Payment for lease agreements		(7,109)	—
Purchase of intangible and other non-current assets		(3,494)	(20,274)
Disposal of subsidiaries	6	3,151	6,545
Acquisition of subsidiaries	6	(27,232)	—
Amount advanced for subsidiaries		557	1,825
Amount advanced to related parties		(184)	(10,085)
Payment to acquire financial assets		(17,882)	(13,669)
Loans for stock options execution		(13,760)	—
Net cash used in investing activities		(182,744)	(122,198)
Financing activities:			
Proceeds from borrowings		417,843	377,784
Repayment of borrowings		(80,294)	(85,791)
Repayment of lease liabilities		(28,188)	—
Proceeds from share capital increase		13,555	—
Issued capital		55	—
Proceeds from bonds issued		297,660	—
Transactions costs related to corporates bonds issue		(1,895)	—
Net cash generated by financing activities		618,736	291,993
Effects of exchange rate changes on the balance of cash held in foreign currencies		703	(1,563)
Net (decrease)/increase in cash and cash equivalents		(3,525)	24,990
Cash and cash equivalents, at the beginning of the period	7	76,417	90,069
Cash and cash equivalents, at the end of the period	7	72,892	115,059

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

Anastasiia Usachova
Director, Chief Financial Officer

¹ Includes movement in other financial assets

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 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), commodity trading, farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities is primarily based in Ukraine.

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

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

As of 31 December 2019, 30 June 2019 and 31 December 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		
			31 December 2019	30 June 2019	31 December 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 S.A.		Switzerland	72.5%	60.0%	60.0%
Ukragroinvest LLC ¹	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	0.0%	100.0%	100.0%
Poltava OEP PJSC		Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%	100.0%
Kropyvnytskyi OEP PJSC ²		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		Cyprus	100.0%	100.0%	100.0%
Poltava HPP PJSC		Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	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%
Hliborob LLC		Ukraine	100.0%	100.0%	100.0%
Prydniprovskyi Kray ALLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	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 ³		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%

These condensed consolidated interim financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 27 February 2020.

¹ The company was disposed in December 2019

² The company was renamed from Kirovogradoliya PJSC

³ The company merged with Hliborob LLC

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 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 31 December 2019, 30 June 2019 and 31 December 2018, consisted of 84,031,230, 81,941,230 and 81,941,230 ordinary electronic shares without indication of the nominal value, respectively. Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

				As of 31 December 2019		As of 30 June 2019		As of 31 December 2018	
				Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders									
Namsen	Limited	Liability	Company	32,753,673	38.98%	32,716,775	39.93%	32,716,775	39.93%
registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')									
Free float				51,277,557	61.02%	49,224,455	60.07%	49,224,455	60.07%
Total				84,031,230	100.00%	81,941,230	100.00%	81,941,230	100.00%

As of 31 December 2019, 30 June 2019 and 31 December 2018, 100% of the beneficial interest in the Major Equity Holder was held by Andrii Mykhailovych Verevskyi (hereinafter the 'Beneficial Owner').

In December 2019, with purpose to exercise vested options granted to the management (2,090,000 vested options with a strike price of PLN 29.61), Kernel increased the Company's share capital by the issue of 2,090,000 new Ordinary Shares without indication of a nominal value. As a result of the increase, the Company's share capital is set at USD 2,219 thousand divided into 84,031,230 shares without indication of nominal value and share premium reserve increased by USD 18,500 thousand.

On 10 December 2019, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share amounting to USD 20,485 thousand.

As of and during the six months ended 31 December 2019, the fair value of the share-based options granted to the management was USD 4,624 thousand and USD 567 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 six months ended 31 December 2018: USD 8,625 thousand and USD 511 thousand, respectively) and USD 5,054 thousand decrease in the fair value of the share-based options was recognized as a result of exercised share-based options (31 December 2018: nil).

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 216 thousand as of 31 December 2019 (31 December 2018: USD 216 thousand), 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 six months ended 31 December 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 condensed consolidated interim financial statements have been prepared on a going concern basis.

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 cumulative catch-up 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.

It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

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;
- Not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, the Group continues 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.

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

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 applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract).

The Group as a lessee

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

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.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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%. The average lease term is 9 years. As of 31 December 2019, the Group is committed to USD 430 thousand for short-term leases.

For the six months ended 31 December 2019 interest expense on lease liabilities in the amount of USD 27,356 thousand was recognized within the line "Finance costs, net" in the condensed consolidated interim statement of profit or loss. Current portion of lease liabilities as of 31 December 2019 has been calculated as present value of lease payments for the year ended 31 December 2020.

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	(305,008)
Total additional lease liabilities recognized on adoption of IFRS 16	283,801
Existing finance lease obligations at 30 June 2019	7,714
Total lease liabilities at 1 July 2019	291,515
Of which	
Current portion of lease liabilities	34,706
Lease liabilities	256,809

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.

They are subsequently measured at cost less accumulated depreciation and impairment losses.

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Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

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

	As of 31 December 2019	As of 01 July 2019
Land	364,461	324,406
Property, plant and equipment	7,149	9,167
Total right-of-use assets	371,610	333,573

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 31 December 2019 in comparison with 1 July 2019 resulted mostly from the revaluation of the Ukrainian hryvnia during the six months ended 31 December 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 875 thousand for the six months ended 31 December 2019.

For the six months ended 31 December 2019 the amount of depreciation charge on right-of-use assets of USD 12,572 thousand was recognized as an expense within the line "Cost of sales" in the statement of profit or loss and of USD 8,711 thousand was capitalized in "Agricultural products".

The Group separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the condensed consolidated interim statement of cash flows. Prepayments for right-of-use assets are presented within investing activities in the condensed consolidated interim statement of cash flows.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

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.

IFRS 9 – Financial Instruments

Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. On the date a derivative contract is entered, the Group designates certain derivatives as a hedge of a commodity price risk of highly probable forecast Cash flow hedge.

Derivatives are regarded as hedging instruments under hedge cash flow accounting relationships unless they are not designated as hedges in which case they will be classified as fair value through profit and loss (FVPL). Derivatives expected to be settled within a year after the end of the reporting period are classified as current liabilities or current assets. For cash flow hedge gains and losses, the effective portion of changes in the fair value of derivatives is recognized in the cash flow hedging reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge and recycled to profit or loss as the hedged transaction occurs. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts deferred in equity are transferred to the statement of profit or loss and classified as income or expense in the same periods during which the cash flows, such as hedged highly probable sales, affect the statement the profit or loss.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

Ineffectiveness is recognized on hedges where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. Ineffectiveness may arise if the timing of the transaction changes from what was originally estimated, or other differences arise between the designated hedged risk and hedging instrument.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

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During October 2019, the Group started applying cash flow hedge accounting for its forecasted sunflower oil highly probable sales at end destination and designated sunflower oil derivative contracts as hedging instruments in cash flow hedge relationship, hedging the sunflower oil commodity price risk for the future cash flows. Loss resulted from change in fair value of hedging instruments under cash flow hedge accounting in the second quarter amounted to USD 46,069 thousand and was recognized in other comprehensive income. The Other reserves includes cash flow hedge reserve representing the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges, which is attributable to the shareholders of the Company. The remaining part of cash flow hedge reserve is included in non-controlling interests.

The Group's risk management strategies are aligned with the requirements of IFRS 9 and thus the designated derivatives are treated as cash flow hedges under IFRS reporting. As of 31 December 2019, the hedges were effective, and no ineffectiveness was recorded through Statement of Profit or Loss.

Functional and Presentation Currency

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

Foreign Currencies

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in 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 31 December 2019	Average rate for the 6 months ended 31 December 2019	Closing rate as of 31 December 2018	Average rate for the 6 months ended 31 December 2018
USD/UAH	23.6862	24.7609	27.6883	27.6496
USD/EUR	0.8918	0.9012	0.8743	0.8683
USD/PLN	3.7977	3.8777	3.7597	3.7360

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 31 December 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.

Reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments.

The segment data is calculated as follows:

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

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

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

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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.

5. Key Data by Operating Segments

Key data by operating segments for the six months ended 31 December 2019:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	324,983	1,520,072	17,234	—	—	1,862,289
Intersegment sales	336,318	36,813	305,324	—	(678,455)	—
Total revenue	661,301	1,556,885	322,558	—	(678,455)	1,862,289
Net change in fair value of biological assets and agricultural produce	—	—	44,248	—	—	44,248
Other operating income, net	2,824	21,746	12,986	328	—	37,884
Profit/(Loss) from operating activities	53,582	84,573	43,419	(19,668)	—	161,906
Finance costs, net	—	—	—	—	—	(71,705)
Foreign exchange gain, net	—	—	—	—	—	12,043
Other income, net	—	—	—	—	—	6,243
Share of income of joint ventures	—	—	—	—	—	4,942
Income tax expenses	—	—	—	—	—	(8,672)
Profit for the period from continuing operations	—	—	—	—	—	104,757
Total assets	1,411,037	1,200,068	946,464	73,516	—	3,631,085
Capital expenditures	129,587	47,750	34,911	1,673	—	213,921
Amortization and depreciation	7,968	11,398	33,617	941	—	53,924
Liabilities	111,854	189,327	373,159	1,463,692	—	2,138,032

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

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

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

	For the 6 months ended 31 December 2019				For the 6 months ended 31 December 2018			
	Oilseeds Processing	Infrastructure and Trading	Farming	Continuing operations	Oilseeds Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	302,165	1,466,395	17,234	1,785,794	512,732	1,610,056	18,016	2,140,804
Freight and other services	22,818	53,677	—	76,495	25,284	86,462	2,613	114,359
Total external revenue from contracts with customers	324,983	1,520,072	17,234	1,862,289	538,016	1,696,518	20,629	2,255,163

During the six months ended 31 December 2019, revenues of approximately USD 110,913 thousand (six months ended 31 December 2018: USD 208,262 thousand) are derived from a single external customer. These revenues are attributed to Oilseeds processing and Infrastructure

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and Trading segments. Also, during that period, export sales amounted to 96.3% of total external sales (six months ended 31 December 2018: 96.0%).

During the six months ended 31 December 2019, revenue from the Group's top five customers accounted for approximately 34.2% of total revenue (six months ended 31 December 2018, revenue from the top five customers accounted for 35.1% of total revenue).

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.

External revenue in Oilseed processing segment doesn't include revenue from edible oils sold in bulk, meal and cake (Note 17) obtained by Avere, results of which is included in Infrastructure and Trading segment.

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

	As of and for the 6 months ended 31 December 2019		As of and for the 6 months ended 31 December 2018	
	Revenue from external customers	Non-current assets	Revenue from external customers	Non-current assets
Ukraine	1,070,305	1,636,415	1,146,864	984,682
Europe	648,038	2,235	402,722	2,620
North America	143,946	180	705,577	316
Other locations	—	59,172	—	53,697
Total	1,862,289	1,698,002	2,255,163	1,041,315

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

On 4 December 2019, Prydniprovskiy OEP LLC, 100% subsidiary of Kernel Holding S.A., acquired assets of an active oilseed crushing plant, that was qualified as a business combination as defined in IFRS 3. Purchase consideration equaled to USD 44,600 thousand and were paid in cash (out of which USD 20,914 thousand paid within the reporting period). As of the date of acquisition, the net assets of the acquired oilseed crushing plant, which mostly consisted of property, plant and equipment, amounted to USD 28,379 thousand. The goodwill in the amount of USD 16,221 thousand comprises the value of expected synergies arising from the high profitability of the acquired business and launch additional products. Goodwill is allocated entirely to the Oilseeds processing segment. It will not be deductible for tax purposes.

Since the acquisition date, the amount of revenue has been contributed by Prydniprovskiy OEP LLC to the group revenue was immaterial as business was bought at the end of reporting period. The Group does not disclose the revenue and net profit of the acquired oilseed crushing plant as if it has been acquired at the beginning of the reporting period as it is impracticable due to the fact that no IFRS financial information is available for the acquired plant as from the beginning of the reporting period and up to the date of acquisition.

The initial accounting for the acquisition has only been provisionally determined since at the end of the reporting period the necessary market valuations and other calculations had not been finalized yet.

As of 30 June 2019, as a result of acquisition of Rail Transit Kargo Ukraine LLC (a railcar business) during the year ended 30 June 2019, the consideration paid comprised USD 56,272 thousand and the present value of amount payable was USD 5,638 thousand, calculated as the present value of amounts payable at discount rate 7.5% (represented within the line 'Other non-current liabilities'). As of 31 December 2019, and during the six months ended then, as a result of accelerated payments of USD 6,318 thousand, remaining part of amount payable for the acquisition amounted to USD 680 thousand.

During the six months ended 31 December 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 six months ended 31 December 2019, as a result of the optimization process of its logistic assets, the Group disposed of two grain elevators located in Kirovohrad and Poltava regions, and one holding company, located in Poltava region. The net assets of the disposed entities as of the date of disposal were equal to USD 368 thousand and the cash consideration received was USD 2,424 thousand (out of which USD 1,272 thousand was received during this reporting period).

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

During the six months ended 31 December 2018, as a result of the optimization process of the logistic assets, the Group disposed of three grain elevators located in Ternopil, Kyiv and Chernihiv regions, and one agricultural company with about 2,850 ha of leasehold farmland, located in

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Zhytomyr region. The net assets of the disposed entities as of the date of disposal were equal to USD 1,282 thousand and the cash consideration receivable was USD 2,328 thousand (out of which USD 1,532 thousand was received during this reporting period).

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

7. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Cash in banks in USD	59,057	64,109	116,114
Cash in banks in UAH	13,388	4,448	9,192
Cash in banks in other currencies	1,901	8,237	1,445
Cash on hand	7	7	2
Total	74,353	76,801	126,753
Less restricted and blocked cash on security bank accounts	(1,453)	(138)	(11,146)
Less bank overdrafts (Note 14)	(8)	(246)	(548)
Cash for the purposes of cash flow statement	72,892	76,417	115,059

8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid increased to USD 263,109 thousand as of 31 December 2019 from USD 118,575 thousand as of 30 June 2019 (31 December 2018: USD 142,619 thousand) mostly due to increase of commodities purchases, input VAT on which is a subject to refund by state. For the six months ended 31 December 2019, the amount of VAT refunded by the government in cash was USD 115,968 thousand (31 December 2018: USD 122,178 thousand).

9. Trade Accounts Receivable, net

Increase of trade accounts receivable, net as of 31 December 2019 in comparison with 30 June 2019 and 31 December 2018 is mostly connected with an increase of grain and bulk sunflower oil export at the end of the period.

10. Inventory

The balances of inventories were as follows:

	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Raw materials	481,342	148,205	327,778
Goods for resale	227,226	47,355	168,937
Agricultural products	182,126	38,560	194,700
Finished products	118,492	105,569	88,909
Work in progress	49,746	1,478	38,180
Fuel	3,330	7,075	4,041
Packaging materials	1,475	1,620	1,403
Other inventories	9,074	7,748	6,810
Total	1,072,811	357,610	830,758

As of 31 December 2019, raw materials mostly consisted of sunflower seed stock in the amount of USD 417,003 thousand (as of 30 June 2019 and 31 December 2018: USD 103,661 thousand and USD 279,274 thousand, respectively).

As of 31 December 2019, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 91,822 thousand (as of 30 June 2019 and 31 December 2018: USD 75,518 thousand and USD 67,970 thousand, respectively).

For the six months ended 31 December 2019, write-downs of inventories to net realizable value amounted to USD 2,438 thousand (31 December 2018: USD 2,551 thousand) and were recognized as an expense and included in line "Cost of sales".

As of 31 December 2019, inventory balances in the amounts of USD 404,419 thousand (as of 30 June 2019 and 31 December 2018: USD 166,245 thousand and USD 409,924 thousand, respectively) were pledged as security for short-term borrowings (Note 14).

11. Biological Assets

Current biological assets as of 31 December 2019 consisted of 88,486 hectares of winter crops sowed in the amount of USD 25,120 thousand (30 June 2019: 503,716 hectares of crops in the amount of USD 307,115 thousand; 31 December 2018: 112,809 hectares of winter crops in the amount of USD 23,483 thousand and 4,877 hectares of not harvested corn in the amount of USD 4,501 thousand) and current cattle of USD 2,104 thousand was represented mainly by 4,729 heads of calves (30 June 2019: USD 1,915 thousand and was represented mainly by 4,707 heads of calves; 31 December 2018: USD 1,871 thousand and was represented mainly by 5,127 heads of calves).

Net change in fair value of biological assets and agricultural produce for the six months ended 31 December 2019 in the amount of

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USD 44,248 thousand (six months ended 31 December 2018: USD 35,640 thousand) reflects revaluation of crops in fields, livestock and agricultural produce balances to its fair value.

The following table represents the changes in the carrying amounts of crops in fields:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 31 December 2018	20,597	7,387	27,984
Decrease due to harvest (harvest 2018)	(3,716)	(785)	(4,501)
Decrease resulting from disposals	(970)	(265)	(1,235)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2019)	229,544	—	229,544
Decrease due to harvest (harvest 2019)	(333)	(71)	(404)
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2019)	—	46,811	46,811
Exchange difference	7,801	1,115	8,916
As of 30 June 2019	252,923	54,192	307,115
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2019)	169,255	—	169,255
Decrease due to harvest (harvest 2019)	(422,178)	(54,192)	(476,370)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2020)	14,555	—	14,555
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2020)	—	9,990	9,990
Exchange difference	332	243	575
As of 31 December 2019	14,887	10,233	25,120

12. Property, Plant and Equipment, net

During the six months ended 31 December 2019, the Group acquired property, plant and equipment in the amount of USD 207,139 thousand (31 December 2018: USD 86,628 thousand). These purchases were related mainly to the construction of an oil-crushing plant and a port terminal. (31 December 2018: acquisition of storage capacities and agricultural vehicles and equipment for silos and farming segments).

The increase in property, plant and equipment in the amount of USD 35,013 thousand resulted from the revaluation of the Ukrainian hryvnia during the six months ended 31 December 2019 (31 December 2018: decrease USD 14,247 thousand as a result of depreciation of the Ukrainian hryvnia).

During the six months ended 31 December 2019, depreciation of property, plant and equipment amounted USD 35,784 thousand (as of 31 December 2018: USD 29,726 thousand).

As of 31 December and 30 June 2019, the Group had construction in progress and uninstalled equipment amounted to USD 272,758 thousand, which is mostly related to the construction of an oil-crushing plant and a port terminal (31 December 2018: USD 65,027 thousand, mostly related to the agricultural equipment and construction of a port terminal).

As of 31 December 2019, property, plant and equipment with a carrying amount of USD 218,093 thousand (30 June 2019 and 31 December 2018: USD 104,053 thousand and USD 556 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 14, 15).

As of 31 December 2019, property, plant and equipment with a carrying amount of USD 28,915 thousand were pledged as a collateral for the amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016 (30 June 2019 and 31 December 2018: USD 29,228 thousand and USD 24,818 thousand, respectively, as a guarantee for amount due and payable within the acquisition of Prydniprovskiy OEP).

13. Investments in Joint Ventures

For the six months ended 31 December 2019, the share of gain of joint ventures equaled USD 4,942 thousand (for the six months ended 31 December 2018: gain USD 536 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 981 thousand (for the six months ended 31 December 2018: USD 991 thousand) and interest expenses in the amount of USD 247 thousand (for the six months ended 31 December 2018: USD 374 thousand).

During that period capital increase in the amount of USD 2,630 thousand took place, with equal increase by another participant of joint venture, as a result of which share of ownership haven't changed.

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14. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Bank credit lines	431,822	182,160	469,534
Interest accrued on long-term borrowings	827	527	12
Interest accrued on short-term borrowings	756	759	1,713
Bank overdrafts (Note 7)	8	246	548
Total	433,413	183,692	471,807

The balances of short-term borrowings as of 31 December 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+3.90%	USD	January 2020	107,461
European bank	Libor+3.95%	USD	January 2020	39,797
European bank	Libor+4.20%	USD	January 2020	35,000
European bank	Libor+2.25%	USD	January 2020	34,714
Ukrainian subsidiary of European bank	14.50%	UAH	January 2020	30,777
European bank	Libor+4.00%	USD	January 2020	30,000
Ukrainian subsidiary of European bank	4.00%	USD	January 2020	29,987
European bank	Libor+2.50%	USD	July 2020	22,690
European bank	Libor+2.00%	USD	January 2020	20,000
Ukrainian subsidiary of European bank	2.90%	USD	January 2020	19,500
Ukrainian subsidiary of European bank	3.00%	USD	March 2020	15,000
Ukrainian subsidiary of European bank	3.50%	USD	June 2020	9,900
Ukrainian subsidiary of European bank	15.00%	UAH	January 2020	9,288
Ukrainian subsidiary of European bank	3.50%	USD	January 2020	8,000
Ukrainian subsidiary of European bank	14.40%	UAH	January 2020	5,320
Ukrainian subsidiary of European bank	14.20%	UAH	January 2020	4,982
Ukrainian subsidiary of European bank	3.45%	USD	January 2020	4,200
European bank	Libor+1.50%	USD	August 2020	3,664
European bank	Libor+1.65%	USD	March 2020	1,550
Total bank credit lines				431,830
Interest accrued on short-term loans				756
Interest accrued on long-term loans				827
Total				433,413

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

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

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

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

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

As of 31 December 2019, undrawn short-term bank credit lines amounted to USD 719,165 thousand (as of 30 June 2019 and 31 December 2018: USD 708,866 thousand and USD 366,529 thousand).

Short-term borrowings from banks were secured as follows:

	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Assets pledged			
Inventory (Note 10)	404,419	166,245	409,924
Future sales receipts	187,064	85,365	25,009
Property, plant and equipment (Note 12)	760	626	556
Other financial assets	—	—	3,401
Total	592,243	252,236	438,890

15. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Long-term bank borrowings	148,590	64,913	7,570
Current portion of long-term borrowings	(1,233)	(1,233)	(3,993)
Total	147,357	63,680	3,577

The balances of long-term borrowings as of 31 December 2019 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.78%	USD	February 2029	50,000
European bank	Libor+4.50%	USD	May 2027	33,600
European bank	Libor+2.80%	USD	October 2029	20,000
European bank	Libor+2.78%	USD	December 2029	17,000
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	2,157
European bank	Libor+1.00%	USD	May 2027	5,600
Total				148,590

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

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

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

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

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

As of 31 December 2019, undrawn long-term borrowings amounted to USD 159,567 thousand (as of 30 June 2019 and 31 December 2018: USD 243,860 thousand and nil, respectively).

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

	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
Assets pledged			
Property, plant and equipment (Note 12)	217,333	103,427	—
Total	217,333	103,427	—

16. Bonds issued

The balances of bonds issued were as follows:

	Maturity	As of 31 December 2019	As of 30 June 2019	As of 31 December 2018
US 300,000 thousand 6.5% coupon bonds	October 2024	295,914	—	—
US 500,000 thousand 8.75% coupon bonds	January 2022	496,904	496,051	495,591
Total		792,818	496,051	495,591

In October 2019 the Group issued USD 300,000 thousand unsecured notes ('the Notes'), that will mature on 17 October 2024. The Notes bear interest from 17 April 2020 at the rate of 6.5% per annum payable semi-annually in arrears.

The Notes are unsecured, ranking equally with all existing and future senior unsecured indebtedness of the Company 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.

As of 31 December 2019, accrued interest on bonds issued was USD 21,945 thousand (30 June 2019 and 31 December 2018: USD 17,949 thousand).

17. Revenue

The Group's revenue was as follows:

	6 months ended 31 December 2019	6 months ended 31 December 2018
Revenue from agriculture commodities merchandizing	891,674	1,466,207
Revenue from edible oils sold in bulk, meal and cake	886,332	707,211
Revenue from bottled sunflower oil	60,154	56,122
Revenue from farming	17,234	20,629
Revenue from grain silo services	4,301	4,541
Revenue from transshipment services	2,594	453
Total	1,862,289	2,255,163

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:

	6 months ended 31 December 2019	6 months ended 31 December 2018
Cost of goods for resale and raw materials used	1,422,621	1,797,637
Shipping and handling costs	165,410	161,774
Amortization and depreciation	51,500	34,465
Payroll and payroll related costs	45,178	32,937
Rental payments	32,375	36,341
Other operating costs	11,164	8,490
Total	1,728,248	2,071,644

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

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19. Other Operating Income, net

For the six months ended 31 December 2019, other operating income, net increased mostly as a result of gain on operations with commodity futures, which amounted to USD 39,823 thousand (six months ended 31 December 2018: USD 14,913 thousand).

20. Income Tax

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

As of 31 December 2019, the Group prepaid USD 10,118 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (30 June 2019: USD 12,858 thousand and 31 December 2018: USD 11,655 thousand). The changes were mostly connected with ordinary operating activity and revaluation of the Ukrainian hryvnia, related to foreign exchange gains recognized.

For the six months ended 31 December 2019, income tax expenses in the amount of USD 8,672 thousand is mostly connected with increase of taxable profit in comparison with previous period (31 December 2018: income tax expenses in the amount of USD 3,763 thousand).

21. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances as of 31 December 2019	Total category as per consolidated balance sheet as of 31 December 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 31 December 2018	Total category as per consolidated balance sheet as of 31 December 2018
Trade accounts receivable, net	728	264,782	785	183,196	1,657	203,391
Prepayments to suppliers and other current assets, net	5,686	98,475	9,675	129,822	10,600	76,843
Other non-current assets	28,823	97,293	19,769	155,732	20,433	146,614
Trade accounts payable	81	144,188	—	136,043	280	97,000
Advances from customers and other current liabilities	11,078	123,126	4,462	104,976	9,991	117,794

As of 31 December 2019, 30 June 2019 and 31 December 2018, the Group did not create an allowance for trade accounts receivable, prepayments to suppliers and other current and non-current assets from related parties.

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 (31 December 2018: USD 4,358 thousand), which was repaid as of 31 December 2019 in full amount.

As of 30 June 2019, prepayments to suppliers and other current assets and other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,575 thousand provided to Taman Grain Terminal Holding (31 December 2018: USD 2,528 thousand), which was repaid as of 31 December 2019 in full amount.

As of 31 December 2019, other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 10,711 thousand provided to the company under control of the Beneficial Owner (30 June 2019 and 31 December 2018: USD 10,459 thousand and USD 8,825 thousand, respectively).

As of 31 December 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 18,272 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; 31 December 2018: USD 6,221 thousand and USD 1,000 thousand, respectively).

As of 31 December 2019, USD 8,188 thousand of dividends payable due to Namsen Limited were included in advances from customers and other current liabilities (30 June 2019 and 31 December 2018: nil and USD 8,179 thousand, respectively).

As of 31 December 2019, advances from customers and other current liabilities included USD 895 thousand in bonuses payable to the management (30 June 2019 and 31 December 2018: USD 3,099 thousand and USD 1,069 thousand, respectively).

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

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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:

	6 months ended 31 December 2019		6 months ended 31 December 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)	268	1,862,289	1,120	2,255,163
Cost of sales (Note 18)	(1,182)	(1,728,248)	(891)	(2,071,644)
General and administrative expenses	(2,137)	(54,267)	(2,831)	(44,123)
Finance costs, net	(1,469)	(71,705)	(1,083)	(42,087)
Other income/(expenses), net	705	6,243	(1,216)	1,580

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

All other transactions occurred with related parties under common control.

As of 31 December 2019, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the six months ended 31 December 2019 amounted to USD 250 thousand (31 December 2018: 8 directors, USD 250 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 12 people, amounted to USD 1,238 thousand for the six months ended 31 December 2019 (31 December 2018: 12 people, USD 1,256 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).

22. Commitments and Contingencies

Operating Environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019 year, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of national currency (appreciation of national currency by around 4% to USD and 9% to EUR comparing to previous year averages).

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetsk regions. As a result of this, the Ukrainian economy is refocusing on the European Union ("EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with EU.

To further facilitate business activities in Ukraine, the National Bank of Ukraine ("NBU") starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds and cancelled all limits on repatriation of dividends since July 2019.

The degree of macroeconomic uncertainty in Ukraine in 2019 still remains high due to significant amount of public debt scheduled for repayment in 2019-2020 that require mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through presidents and parliamentary elections. All newly elected authorities showed their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These positive changes resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign- and Local-Currency Issuer Default Ratings from 'B-' to 'B' with positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund ("IMF").

Capital Commitments

As of 31 December 2019, the Group had commitments under contracts with a group of suppliers for a total amount of USD 93,150 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; 31 December 2018: USD 138,209 thousand, mostly for the construction of an oil-crushing plant).

Contractual Commitments on Sales

As of 31 December 2019, the Group had entered into commercial contracts for the export of 1,550,198 tons of grain and 1,301,369 tons of sunflower oil and meal, corresponding to an amount of USD 286,717 thousand and USD 629,726 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.

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

Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in the Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 December 2019, the consideration paid for Stiom Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfilment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect of the non-fulfilment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts said to be due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case in which the Group asserted its counterclaims and thereafter written statements of evidence and expert reports were also exchanged. The hearing took place in November 2015. The tribunal delivered its award in late February 2018. 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 was delivered in December 2019.

As of 31 December 2019 and 2018, the Group has recognized a provision regarding the above-mentioned award. The provision represents the directors' best estimate at the relevant dates of the maximum future outflow that will be required in respect of the award.

The carrying amount of the provision for legal claims is USD 32,965 thousand as of 31 December 2019 (30 June 2019: USD 31,872 thousand), and related expenses in the amount of USD 1,093 thousand were recognized within the six months ended 31 December 2019 (31 December 2018: nil) and included within the line "Other expenses, net". No payment has yet been made to the claimant.

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 believed that the AMC approval for the concentration was not required as the Acquisition fell under the exemption allowing not to obtain the AMC approval for the concentration. In December 2019, the AMC decided to drop the investigation and close the case, thus confirming that no AMC approval for the concentration prior to acquisition of RTK Ukraine was required.

As of 31 December 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 19,881 thousand (30 June 2019: USD 21,493 thousand), from which USD 8,588 related to VAT recoverability (30 June 2019: USD 7,797 thousand), USD 11,120 thousand related to corporate income tax (30 June 2019: 10,592 thousand) and USD 173 thousand related to other tax issues (30 June 2019: 3,104 thousand).

As of 31 December 2019, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 19,881 thousand (30 June 2019: USD 20,471 thousand), included in the above-mentioned amount. Out of this amount, USD 13,614 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.

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

In 2019, the State's tax policy was amended in order to be in line with OECD guidance for Base Erosion and Profit Shifting (BEPS) prevention.

Ratification of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("MLI")

On 8 August 2019, Ukraine has deposited with the OECD its instrument of ratification of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("Multilateral Convention"). The Multilateral Convention is intended to automatically modify all existing bilateral treaties/conventions for the avoidance of double taxation specified by the signatories to the Multilateral Convention in their notifications to the Depository (OECD).

The main change introduced by the MLI is the Principal Purpose Test ("PPT"). It provides that the benefits of double tax treaties (DTT) must not be applied to the payments to non-residents if the main or one of the main purposes of the transaction turns out to receive such benefits. In practice, this means that tax authorities may challenge application of DTTs by questioning the purpose of incorporation of non-resident legal entity and the nature of payments to such non-resident.

Therefore, application of reduced withholding tax ("WHT") rates and other benefits granted by the DTT may be challenged.

Reform bill No. 1210

On 16 January 2020, the Ukraine parliament adopted a tax reform bill containing significant proposed changes to the tax legislation, including recommendations under the OECD base erosion and profit shifting (BEPS) project, as well as significant changes to tax administration procedures. Measures in the reform include the introduction of the three-tiered transfer pricing reporting requirements, a new fixed ratio rule that limit the

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amount of interest expense, general anti-abuse rules (GAAR), new controlled foreign company (CFC) rules, and a mutual agreement procedure (MAP).

We expect that the new Law No. 1210 will be signed by the President of Ukraine and will come into force in the nearest future. Official text of the Law is not published as of the date of this report. The major expected changes that may affect the Groups tax position, based on the preliminary text of the Law:

Introduction of a GAAR

The tax reform bill would introduce anti-abuse rules, particularly a "business purpose test" in transactions with nonresidents for corporate income tax and transfer pricing purposes. The business purpose test already has been applied by Ukraine's tax authorities as judicial concept, under which deductions are disallowed for expenses in transactions entered into without genuine business reasons. The new law translates the existing practice into domestic law.

Introduction of three-tiered transfer pricing reporting in accordance with BEPS action 13

In addition to a local file, multinational enterprises (MNEs) would be required to prepare a master file and a country-by-country (CbC) report. Proposed revenue thresholds are in line with OECD recommendations (i.e., EUR 50 million for master files and EUR 750 million for CbC reports). The first reporting year for master files and CbC reports would be 2021 (but not earlier than when Ukraine joins the CbCR MCAA).

Repeal of the thin capitalization rules and introduction of a fixed ratio rule under BEPS action 4

The tax reform bill would repeal the current thin capitalization rules and introduce a fixed ratio rule. The new rule would apply to transactions with related and unrelated persons (whether or not resident in Ukraine) if the debt is greater than 3.5 times the company's equity. Debt attributable to all nonresident creditors would be compared with the relevant entity's equity (currently, only debt with related nonresident entities is considered). If the debt-to-equity ratio is exceeded, the relevant entity's deductions for all interest, (and economically equivalent payments) would be limited to 30% of tax EBITDA (rather than the current rule of 50% of financial EBITDA).

Interest expenses above the limit could be carried forward and deductible against corporate income tax. The non-deductible interest may be carried forward indefinitely, but it would be subject to an annual 5 percent disallowance.

30% upward adjustment (increase of taxable base) on sales to residents from low-tax jurisdictions and to fiscally transparent entities. Resident companies would be required to increase their taxable base for corporate income tax purposes by 30% of the value of the goods and services sold to residents of low tax jurisdictions and foreign companies having special legal forms (the lists of low tax jurisdiction and fiscally transparent entities are approved by the Government).

Mutual agreement procedure

The MAP for resolving tax disputes under double tax treaties would be introduced into domestic law (current tax laws do not provide for this type of procedure). MAP requests would be filed with the Ministry of Finance by both residents and nonresident taxpayers who believe that actions or decisions of the tax authorities (both Ukrainian and foreign) have resulted or will result in taxation not in accordance with the relevant tax treaty.

Temporary VAT holiday (until the end of 2021) for export of soybean and rape was abolished. Therefore, traders of these crops are eligible for 0% VAT export rate application, which gives them the opportunity to recover VAT credit accumulated from the purchase of these goods.

Controlled foreign companies

CFC rules that tax undistributed profits of CFCs at the level of the resident owner would be introduced (controlling shareholder) (whether an individual or a legal person). A CFC would be defined broadly to include corporate entities, as well as certain transparent entities (e.g., trusts, investment funds, and other arrangements without a separate corporate legal personality) if those entities are used to circumvent disclosure of control over a foreign legal entity.

CFC's income would be taxable, unless any exemptions could be applied. If a Ukraine resident controlling shareholder meets the minimum control threshold, income would be attributed to that shareholder. The amount of income to be attributed to each controlling shareholder would be calculated by reference to both their proportion of ownership and their actual period of ownership or control over the CFC. For CFC taxation purposes, the reporting period would be a calendar year or other fiscal year as the CFC may apply for financial reporting in the jurisdiction of tax residence. The taxable income of each CFC would be included in the annual income of a controlling shareholder for income tax purposes and reported in the annual tax return.

An 18% tax would apply on the undistributed income of a CFC calculated under the applicable tax laws. Distributed income of a CFC could be subject to an 18% or 9% rate depending on the period of distribution. The lower 9% rate would apply if CFC income is distributed by CFC to the resident controlling shareholder as dividends, provided that distribution is made by CFC before filing of the CFC report in Ukraine or by the end of the second calendar year that follows the reporting year. 18% rate would apply if distribution is made later.

The new CFC rules will be introduced in phases over the period 2021 to 2023.

Other changes in 2019 calendar year

The limit on repatriation of dividends is abolished. The National Bank of Ukraine has approved the resolution which abolishes the limit on repatriation of dividends. Hence, a foreign investor is allowed to repatriate foreign-currency dividends in any amount (the last limit approved during Q2 2019 constituted EUR 12 mln per month). The resolution came into force starting from July 10, 2019.

23. Financial Instruments

The following tables present the carrying amounts and fair values of financial assets and liabilities, including their levels in fair value hierarchy.

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

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.

	31 December 2019		30 June 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities¹						
Long-term borrowings (Note 15)	148,590	149,051	64,913	65,066	7,570	7,570
Obligations under finance lease	—	—	7,714	7,709	9,135	9,135
Bonds issued (Note 16)	814,763	847,180	514,000	527,330	513,540	481,250

For the six months ended 31 December 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 5.11% (for the six months ended 31 December 2018: 4.65%) that is within level 2 of the fair value hierarchy.

The fair value of Bonds issued was estimated based on published price quotations in an active market and is within Level 1 of the fair value hierarchy.

The following table below represents the fair values of the derivative financial instruments including trade related financial and physical forward purchase and derivatives designated as cash flow hedges:

	31 December 2019			30 June 2019			31 December 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Other financial assets									
Physical forwards	—	43,237	43,237	—	21,591	21,591	—	59,713	59,713
Futures	1,073	—	1,073	318	—	318	2,405	—	2,405
Options	4,717	—	4,717	393	—	393	3,732	—	3,732
Total	5,790	43,237	49,027	711	21,591	22,302	6,137	59,713	65,850

	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Other financial liabilities									
Physical forwards	—	29,693	29,693	—	26,397	26,397	—	22,887	22,887
Futures	2,070	—	2,070	9,470	—	9,470	2,455	—	2,455
Derivatives held for hedging	—	45,460	45,460	—	—	—	—	—	—
Options	267	—	267	—	—	—	—	—	—
Total	2,337	75,153	77,490	9,470	26,397	35,867	2,455	22,887	25,342

Derivative instruments are carried at fair value through Statement of Profit or Loss or other comprehensive income (derivatives held for hedging) 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, other non-derivative financial 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, other non-derivative financial assets and short-term borrowings are classified as level 2 fair values in the fair value hierarchy due to the inclusion of directly and indirectly observable inputs. 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 six months ended 31 December 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.

¹ Including accrued interests

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

Notes to the Condensed Consolidated Interim Financial Statements

for the six months ended 31 December 2019 (in thousands of US dollars, unless otherwise stated)

For the six months ended 31 December 2019, fair value of other non-current assets and liabilities as well as lease liabilities does not differ materially from its carrying amount and are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk. For the six months ended 31 December 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 six months ended 31 December 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 24.82% and 25.82%, respectively.

There were no transfers between levels of fair value hierarchy.

24. Subsequent Events

No subsequent events occurred after the reporting date.