

# Q3

FY2020

## Condensed Consolidated Interim Financial Statements

for the three months ended  
31 March 2020

# Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020

## Table of Contents

2	Key Highlights
4	Segment Results and Discussion
6	Financial Highlights
8	Alternative Performance Measures
12	Selected Financial Data
13	Condensed Consolidated Interim Statement of Financial Position
14	Condensed Consolidated Interim Statement of Profit or Loss
15	Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
16	Condensed Consolidated Interim Statement of Changes in Equity
17	Condensed Consolidated Interim Statement of Cash Flows
18	Notes to the Condensed Consolidated Interim Financial Statements



# Key Highlights

for the three and the nine months ended 31 March 2020

## Financial highlights

- **Proceeds from sales** of Kernel Holding group of companies on the consolidated basis (*hereinafter "Kernel", the "Company", the "Group"*) amounted to US\$ 1,047 million in Q3 FY2020, up 30% y-o-y on the back of strong Avere physical sales of edible oils purchased from 3<sup>rd</sup>-parties in the reporting period.
- Group **EBITDA** in Q3 FY2020 increased by 88% y-o-y to US\$ 104 million (*or US\$ 95 million if excluding IFRS 16 impact*).
  - **Oilseed Processing** EBITDA lost 15% y-o-y, mostly due to weaker margin as a result of the sharp decline in global sunflower oil prices in Q3 FY2020.
  - **Infrastructure and Trading** segment EBITDA in Q3 FY2020 increased by 3.6x, to US\$ 65 million, driven by stronger segment volumes (grain export from Ukraine and terminal transshipment volumes), higher savings from railcars operations, and substantial trading business contribution.
  - **Farming** segment EBITDA amounted to US\$ 25 million in January-March 2020 (*or US\$ 17 million if excluding IFRS 16 impact*), up 42% y-o-y.
  - **Unallocated corporate expenses** added 7% y-o-y, to US\$ 12 million for the three months ended 31 March 2020.
- **Net loss attributable to shareholders** in Q3 FY2020 totaled to US\$ 25 million. Earnings ended in the red due to one-off non-operating loss recognized as a result of Taman transaction (see section "M&A and corporate highlights").
- **Readily marketable inventories** ("RMI") expectedly reduced to US\$ 671 million as of 31 March 2020, down 29% from US\$ 940 million as of 31 December 2019. As a result, the Group reduced **short-term debt** (mostly related to the working capital financing) by US\$ 170 million and increased cash balance by US\$ 107 million, with the last

item enhanced also by received proceeds for Taman divestment. Consequently, **net debt** as of 31 March 2020 reduced to US\$ 1,334 million, down 19% from US\$ 1,644 million as of 31 December 2019.

**Net debt adjusted for RMI** negligibly declined in the reporting period to US\$ 664 million at the end of Q3 FY2020 from US\$ 704 million as of 31 December 2019).

- As a result, Group's **leverage** as of 31 March 2020 reduced to 3.5x Net-debt-to-EBITDA from 5.0x as of 31 December 2019. EBITDA-to-interest ratio amounted to 2.9x

## M&A and corporate highlights

- In March 2020, Kernel Holding S.A. divested its 50% stake in Taman Grain Terminal Holdings Limited, a joint venture owning 100% interest in a deep-water grain export terminal in Taman port, Russia. Cash consideration received in the reporting period amounted to EUR 61 million (equivalent of US\$ 65 million). On top of that, US\$ 3 million prepayment was received before FY2020. Kernel has not been involved in grain marketing operations in Russia for the last several years, assigning its transshipment quota in the Taman terminal to a third party.
  - While the total consideration received was above the carrying amount of the Group's interest in the joint venture at the last reporting date before the divestment (US\$ 59 million as of 31 December 2019), the Group recognized US\$ 46 million loss on Taman disposal, of which US\$ 55 million loss due to reclassification of historical FX translation differences previously recognized in other comprehensive income to profit or loss.
- During Q3 FY2020, as a result of business optimization, the Group disposed of three silos located in Mykolaiv and Poltava regions. The cash consideration received was US\$ 6.2 million (out of which US\$

US\$ million except ratios and EPS	Q3 FY2019	Q2 FY2020	Q3 FY2020	y-o-y	q-o-q	9M FY2019	9M FY2020	y-o-y
<b>Income statement highlights</b>								
Revenue	803	1,016	1,047	30%	3%	3,058	2,909	(5%)
EBITDA <sup>1</sup>	55	109	104	88%	(5%)	285	320	12%
Net profit attributable to shareholders of Kernel Holding S.A.	26	41	(25)	n/a	n/a	190	76	(60%)
EBITDA margin	6.9%	10.8%	9.9%	3.0pp	(0.8pp)	9.3%	11.0%	1.7pp
Net margin	3.2%	4.0%	(2.4%)	n/a	n/a	6.2%	2.6%	(3.6pp)
Earnings per share <sup>2</sup> , US\$	0.32	0.50	(0.30)	n/a	n/a	2.32	0.91	(61%)

## Cash flow highlights

Operating profit before working capital changes	111	89	110	(0%)	24%	281	257	(8%)
Change in working capital	154	(426)	181	18%	n/a	(116)	(355)	+3.1x
Finance costs paid, net	(21)	(14)	(30)	45%	+2.1x	(62)	(75)	22%
Income tax paid	(0)	(3)	(1)	+6.6x	(71%)	(2)	(6)	+2.5x
Net cash used in operating activities	243	(354)	260	7%	n/a	100	(180)	n/a
Net cash used in investing activities	(159)	(121)	17	n/a	n/a	(281)	(165)	(41%)

	31 Mar 2019	30 Dec 2019	31 Mar 2020	y-o-y	q-o-q
<b>Liquidity and credit metrics</b>					
Net debt	780	1,644	1,334	71%	(19%)
Readily marketable inventories <sup>3</sup>	513	940	671	31%	(29%)
Adjusted net debt <sup>4</sup>	268	704	664	+2.5x	(6%)
Shareholders' equity	1,296	1,501	1,419	9%	(5%)
Net debt / EBITDA <sup>5</sup>	2.5x	5.0x	3.5x	+1.0x	-1.4x
Adjusted net debt / EBITDA <sup>5</sup>	0.9x	2.1x	1.7x	+0.9x	-0.4x
EBITDA / Interest <sup>6</sup>	4.0x	3.0x	2.9x	-1.1x	-0.1x

Note: Financial year ends 30 June, Q3 ends 31 March

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

<sup>2</sup> EPS is measured in US Dollars per share based on 84.0 million shares for Q3 FY2020, 82.0 million shares for Q2 FY2020, 81.9 million for Q2 FY2019, 82.6 million shares for 9M FY2020 and 81.9 million shares for 9M FY2019.

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

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

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

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

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

# Key Highlights

for the three and the nine months ended 31 March 2020

4.9 million was received in Q3 FY2020 and US\$ 1.2 million was received earlier).

- On 30 April 2020, Kernel paid dividends of US\$ 21 million (US\$ 0.25 per share), as approved by the general meeting of shareholders held on 10 December 2019.

## Our response to COVID-19

- Kernel business model has not felt any major disruptions from the lockdowns and restrictions introduced in Ukraine and countries of our export. All Group's production assets are operating as usual, grain and sunflower oil logistics runs smoothly, supply chain feels no major disruptions, and spring crop sowing campaign in the farming business was completed without any extraordinary complications.
- COVID-19 may cause a few months delay in the execution of Group's CapEx program, namely commissioning of green energy projects and new oilseed processing plant, due to various business restrictions caused by COVID-19, like the inability of our contractors to deliver equipment in time and to launch pre-commissioning installation processes due to imposed travel restrictions.
- We successfully tested a new work model, whereby most of our administrative staff has been performing their duties remotely. Business processes have been properly transformed to reflect the new operating environment.
- Safety of our employees is a top priority for us. We introduced numerous initiatives and strict guidelines to protect our teams and support continuity of operations. With all the measures taken, only a few of our employees out of 13 thousand have been tested positive for COVID-19. Luckily, we have no COVID-related fatalities among our employees.
- We donated almost US\$ 6 million to support local hospitals in the regions of our operations in their fight with COVID-19, namely, to buy necessary medical equipment, personal protection devices for medical staff, disinfectants and medicine.

# Segment Results and Discussion

for the three and the nine months ended 31 March 2020

## Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons <sup>1</sup>			EBITDA margin, US\$/t <sup>2</sup>		
	Q3 FY2019	Q3 FY2020	y-o-y	Q3 FY2019	Q3 FY2020	y-o-y	Q3 FY2019	Q3 FY2020	y-o-y	Q3 FY2019	Q3 FY2020	y-o-y
<b>Oilseed Processing</b>	365	375	3%	31	26	(15%)	390	381	(2%)	79	68	(14%)
<b>Infrastructure and Trading</b>	629	892	42%	18	65	+3.6x	1,527	2,155	41%	12	30	+2.5x
<b>Farming</b>	157	172	10%	18	25	42%						
Unallocated corporate expenses				(11)	(12)	7%						
Reconciliation	(348)	(392)	13%									
<b>Total</b>	<b>803</b>	<b>1,047</b>	<b>30%</b>	<b>55</b>	<b>104</b>	<b>88%</b>						

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons <sup>1</sup>			EBITDA margin, US\$/t <sup>2</sup>		
	9M FY2019	9M FY2020	y-o-y	9M FY2019	9M FY2020	y-o-y	9M FY2019	9M FY2020	y-o-y	9M FY2019	9M FY2020	y-o-y
<b>Oilseed Processing</b>	1,102	1,037	(6%)	86	88	1%	1,174	1,029	(12%)	74	85	16%
<b>Infrastructure and Trading</b>	2,370	2,449	3%	97	161	66%	4,656	6,038	30%	21	27	28%
<b>Farming</b>	481	494	3%	132	102	(23%)						
Unallocated corporate expenses				(30)	(31)	1%						
Reconciliation	(896)	(1,070)	20%									
<b>Total</b>	<b>3,058</b>	<b>2,909</b>	<b>(5%)</b>	<b>285</b>	<b>320</b>	<b>12%</b>						

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

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

## Oilseed Processing

### Market environment in Q3 FY2020 was twofold:

- On the one hand, a record 2019 **harvest of sunflower seeds** in Ukraine (16.2 million tons, up 7% y-o-y) ensured ample supply of feedstock for crushing plants, thus contributing to higher margins.
- On the other hand, **sunflower oil export prices** touched

historical low levels in March 2020, after peak reached in December 2019, following the decline in global oil prices and the resulting pressure on the whole vegetable oil complex. It negatively impacted profitability in the whole sunflower oil production value chain.

- Group plants operated at full capacity in Q3 FY2020, processing 941 thousand tons of sunflower seeds, up 4% y-o-y and progressing on the revised guidance to reach 3.4 million tons crushing volumes for the whole FY2020.
- Kernel **edible oil sales** volumes amounted to 381 thousand tons in Q3 FY2020, marginally unchanged y-o-y, and slightly below the production volumes. We expect to sell 1.5 million tons of sunflower oil for the full FY2020, of which 1.0 million tons was sold during 9 months of the season.
- EBITDA margin** in Q3 FY2020 reduced to US\$ 68 per ton of oil sold, down from US\$ 113 in Q2 FY2020 and lower than US\$ 79 for the same period of the previous year, following the sharp decline in sunflower oil prices. Given that we envisage the improvement of margin in the last quarter for FY2020, we are not changing our guidance of US\$ 85 per ton of oil sold for the full FY2020.
- As a result, segment **EBITDA** reduced by 15% y-o-y, to US\$ 26 million.
- Sunflower seed sowing campaign is successfully completed, with preliminary updates from the fields making us expect growth in acreage under sunflower of more than 3% y-o-y. Together with expected normalization of crop yield following last season record, our initial view is that sunflower seed supply shall be flat y-o-y.

## Sunflower oil price

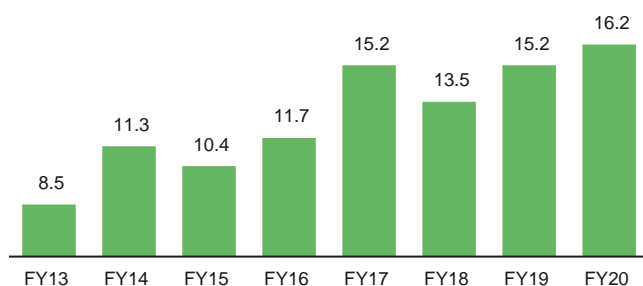
US\$ per ton of unrefined oil sold in bulk, FOB-Chornomorsk (Ukraine)



Source: Bloomberg

## Sunflower seed harvest in Ukraine

million tons



Source: Kernel estimates

# Segment Results and Discussion

for the three and the nine months ended 31 March 2020

## Infrastructure and Trading

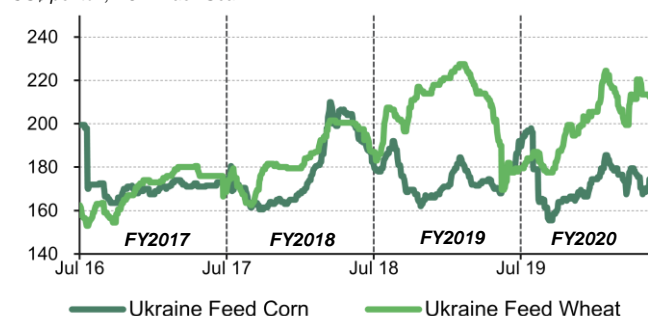
- **Market environment** in Ukraine remains favorable. With a second-in-a-row record harvest of grain (73 million tons for three key grains: corn, wheat and barley; up 8% y-o-y) and relatively stable domestic consumption, Ukraine secured strong surpluses to be exported, implying high capacity utilization of grain export value chain and healthy infrastructure businesses margins.
- Group **exported 2.2 million tons of grain from Ukraine** in Q3 FY2020, up 41% y-o-y. Of that, 35% was grain produced by Kernel farming division, and 65% was grain originated from external suppliers. With slightly lower than expected pace of sale in the 4<sup>th</sup> quarter of the season, we may end up a little bit below our target of 8 million tons of grain exported from Ukraine for the full FY2020.
  - Kernel **export terminal throughput volumes** in Ukraine exceeded 1.9 million tons on the back of strong grain export volumes from Ukraine and increased contribution from new TransGrainTerminal.
- Kernel share in total grain export from Ukraine during 9M FY2020 amounted to 13%, which is 5 percentage points above the second largest player, and higher than Group's 12% market share achieved for FY2019<sup>1</sup>.
- **EBITDA** of the segment reached US\$ 65 million in Q3 FY2020, 3.6x growth y-o-y, driven by
  - Another strong quarter of Avere (US\$ 11 million EBITDA)
  - Healthy performance of infrastructure businesses
  - Strong margin generated on grain originated in Ukraine
- Combined segment **margin** ended up at US\$ 30 per ton of grain exported from Ukraine, a 2.5x growth y-o-y.
- We expect no surprises for the segment performance in the last quarter of FY2020. Infrastructure and Trading segment will be the largest contributor to Group's EBITDA in FY2020 owing to:
  - launch of a new grain export terminal;
  - growing grain export volumes from Ukraine; and
  - strong contribution of grain railcars business.
- Preliminary news from the fields makes us expect 5% expansion of acreage under corn, and 5% decline of acreage under wheat in Ukraine for the 2020 harvest.

## Farming

- **EBITDA** of the segment amounted to US\$ 25 million (or US\$ 17 million if excluding IFRS 16 impact), resulting in US\$ 102 million EBITDA contribution for nine months (or US\$ 73 million if excluding IFRS 16 impact).
- At the end of Q3 FY2020, we remained long for more than 700 thousand tons of corn and a major portion of sunflower seeds of own produce, as we decided to crush sunflower seeds produced by our farming division at the end of the season. As a result, a large portion of segment EBITDA is to be recognized in the last quarter of FY2020.
- Given the huge FX and price headwinds this season, we may end up FY2020 season with farming EBITDA above the initial guidance of US\$ 85 million (net of IFRS 16 effect and revaluation of biological assets)
- Group successfully completed spring sowing campaign, with 257 thousand hectares under corn and 149 thousand hectares under sunflower. Following the decision to remove soybean from our crop rotation cycle, acreage under soybean totaled only to 3 thousand hectares.
- As of today, spring crops (corn and sunflower) are generally in good conditions. At the same time, winter wheat yield potential was undermined by lack of rains in April and frosts in April-May.

### Ukraine grain export prices

US\$ per ton, FOB-Black Sea



Source: Bloomberg

### Segment volumes

thousand metric tons	Q3 FY2019	Q3 FY2020	y-o-y	9M FY2019	9M FY2020	y-o-y
Oilseeds processed	908	941	4%	2,267	2,520	11%
Sunflower oil sales <sup>1</sup>	390	381	(2%)	1,174	1,029	(12%)
Grain and oilseeds received in inland silos	355	125	(65%)	4,195	4,120	(2%)
Export terminal throughput (Ukraine)	1,171	1,938	66%	3,410	4,825	41%
Grain export from Ukraine	1,527	2,155	41%	4,656	6,038	30%

**Note 1** Includes 314 thousand tons of sunflower oil and 0.6 thousand tons of soybean oil produced by Kernel plants and sold to Avere. Margins on that volumes are allocated to both Oilseed Processing and Infrastructure & Trading segments.

<sup>1</sup> Source: Stark Research

# Financial Highlights

for the three and the nine months ended 31 March 2020

## Income statement highlights

- **Revenue** of the Group totaled to US\$ 1,047 million in Q3 FY2020, up 30% y-o-y, driven primarily by high Avere physical sales of edible oils originated from 3<sup>rd</sup>-parties.
- **Net loss from revaluation of biological assets** totaled at US\$ 41 million in Q3 FY2020.
- **Cost of sales** over three months ended 31 March 2020 amounted to US\$ 911 million, up 31% y-o-y, which is in line with revenue growth rate.
- As a result, **gross profit** in Q3 FY2020 stood negligibly unchanged at US\$ 93 million, up 15% y-o-y.
- **Other operating income** in January-March 2020 stood at US\$ 12 million, mainly driven by positive Avere contribution in the reporting period.
- **General and administrative expenses** in the reporting period increased by 8% y-o-y, to US\$ 26 million.
- Consequently, Group's **operating profit** amounted to US\$ 79 million (or US\$ 74 million if excluding IFRS 16 impact, and twice as much as in Q3 FY2019).
- **Net finance costs** in Q3 FY2020 doubled from the same period of the previous year, to US\$ 37 million, mainly driven by the implementation of IFRS 16 in FY2020 with additional finance costs related to recognition of land lease liabilities on Group's balance sheet.
- Following the depreciation of Ukrainian hryvnia (UAH) in Q3 FY2020, the Group recognized US\$ 15 million of **net foreign exchange loss**, mostly caused by revaluation of UAH-denominated balances, namely VAT and income tax prepaid, and intra-group borrowings.
- **Other expenses** of US\$ 62 million comprised mostly US\$ 54.5 million losses from FX translation differences related to Kernel investment in Taman. Such losses were recognized in the previous periods as a part of other comprehensive income, but after disposal of 50% stake in Taman port, the loss was reclassified to profit and loss statement.
- **Income tax benefit** for the period amounted to US\$ 12 million and is mostly connected with recognized deferred tax assets on taxable losses occurred mostly as a result of the Ukrainian hryvnia depreciation and subsequent foreign exchange losses.
- As a bottom line, **loss attributable to shareholders** of Kernel Holding S.A. amounted to US\$ 25 million in Q3 FY2020.

## Cash flow highlights

- Group generated US\$ 110 million **operating profit before working capital changes** in Q3 FY2020, flat y-o-y.
- **Working capital release** generated US\$ 181 million cash inflow, mostly impacted by:
  - US\$ 102 million seasonal decrease in inventories, and
  - US\$ 69 million decrease in VAT recoverable and prepaid
- **Investing activities** generated US\$ 17 million cash inflow in the reporting period. While purchase of PP&E in Q3 FY2020 under Kernel CapEx program resulted in US\$ 56 million, proceeds from divestment of Group's 50% stake in Taman terminal secured US\$ 65 million.

## Credit metrics highlights

- Kernel **debt liabilities** reduced 12% over Q3 FY2020 following the repayment of short-term debt related to working capital financing and reduction of lease liabilities due to UAH appreciation.
- Group also accumulated US\$ 181 million of **cash**, impacted by working capital release and proceeds received from Taman transaction.
- Consequently, **Net debt** of the Group reduced 19% over January-March 2020 to US\$ 1.3 billion.
- **Readily marketable inventories** ("RMI") seasonally reduced by 29% in Q3 FY2020, to US\$ 671 million as of 31 March 2020. Sunflower seeds accounted for 45% of all RMI, sunflower oil and meal – for 27%, and grain stood for 28%.
- **Net debt adjusted for RMI** as of 31 March 2020 reduced 6% from 31 December 2019 level, to US\$ 664 million.
- **Net-debt-to-EBITDA** ratio as of 31 March 2020 (measured on 12 months trailing basis) reduced to 3.5x, as compared to 5.0x as of 31 December 2019. **Interest coverage** reduced to 2.9x EBITDA-to-Interest over the same period (including IFRS 16 impact). For the avoidance of doubt, Group's bond interest coverage covenant is tested when excluding IFRS 16 impact.
  - Group is not testing bank covenants as of 31 March 2020.
- Kernel had US\$ 1,009 million of **undrawn borrowings** at the end of Q3 FY2020, of which US\$ 864 million of undrawn short-term bank credit lines and US\$ 145 million of undrawn long-term borrowings.

### Credit metrics

US\$ million, except ratios	31 Mar 2019	31 Dec 2019	31 Mar 2020	y-o-y	q-o-q
Short-term interest-bearing debt	350	457	286	(18%)	(37%)
Long-term interest-bearing debt	52	147	160	+3.1x	9%
Lease liabilities	8	322	276	+33x	(14%)
Eurobond	496	793	793	60%	0%
<b>Debt liabilities</b>	<b>906</b>	<b>1,718</b>	<b>1,516</b>	<b>67%</b>	<b>(12%)</b>
Cash and cash equivalents	126	74	181	44%	2.4x
<b>Net debt</b>	<b>780</b>	<b>1,644</b>	<b>1,334</b>	<b>71%</b>	<b>(19%)</b>
Readily marketable inventories	513	940	671	31%	(29%)
of which sunflower oil and meal	143	146	182	27%	25%
Sunflower seeds	168	417	299	78%	(28%)
Grains and other RMIs	202	377	189	(6%)	(50%)
<b>Adjusted net debt</b>	<b>268</b>	<b>704</b>	<b>664</b>	<b>+2.5x</b>	<b>(6%)</b>
Shareholders' equity <sup>1</sup>	1,296	1,501	1,419	9%	(5%)
Net debt / EBITDA <sup>2</sup>	2.5x	5.0x	3.5x	+1.0x	-1.4x
Adjusted net debt / EBITDA <sup>2</sup>	0.9x	2.1x	1.7x	+0.9x	-0.4x
EBITDA / Interest <sup>3</sup>	4.0x	3.0x	2.9x	-1.1x	-0.1x

**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 nine months ended 31 March 2020

## Effect of IFRS 16 introduction on Group's 9M FY2020 financial statements<sup>1</sup>

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

- Company recognized US\$ 316 million right-of-use assets (of which US\$ 311 million rights to lease land) and US\$ 276 million corresponding lease liabilities as of 31 March 2020.
- 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	9M FY2019	9M FY2020		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Revenues	3,058	2,909	-	2,909
Revaluation of biological assets	8	(8)	11	2
Cost of sales	(2,765)	(2,645)	6	(2,640)
of which depreciation & amortization	57	(62)	(13)	(75)
Rental payments	58	(63)	19	(45)
<b>Gross profit</b>	<b>300</b>	<b>255</b>	<b>16</b>	<b>272</b>
Other operating income	(3)	49	-	49
General and administrative expenses	(68)	(80)	(0)	(80)
<b>Operating profit</b>	<b>229</b>	<b>225</b>	<b>16</b>	<b>241</b>
Finance costs	(61)	(68)	(41)	(109)
Other non-operating items	23	(53)	0	(53)
<b>Profit before income tax</b>	<b>192</b>	<b>103</b>	<b>(24)</b>	<b>79</b>
Income tax	(9)	4	-	4
<b>Net profit</b>	<b>183</b>	<b>107</b>	<b>(24)</b>	<b>83</b>
Net profit attributable to shareholders	190	107	(24)	76
Depreciation and amortization	(56)	(65)	(13)	(79)
<b>EBITDA</b>	<b>285</b>	<b>290</b>	<b>30</b>	<b>320</b>

### Effect on Statement of Financial Position

In US\$ million	30 June 2019	31 March 2020		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Current assets	1,256	1,807	(18)	1,788
Non-current assets	1,207	1,285	274	1,558
of which right-of-use assets	-	-	316	316
other non-current assets	1,207	1,285	(42)	1,243
<b>Total assets</b>	<b>2,464</b>	<b>3,092</b>	<b>255</b>	<b>3,347</b>
Current liabilities	480	682	44	726
of which current portion of lease liabilities	-	-	60	60
other current liabilities	480	682	(16)	666
Non-current liabilities	638	983	211	1,195
of which lease liabilities	-	-	216	216
other non-current liabilities	638	983	(5)	979
Equity	1,346	1,426	0	1,426
<b>Total liabilities and equity</b>	<b>2,464</b>	<b>3,092</b>	<b>255</b>	<b>3,347</b>

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



# Alternative Performance Measures

for the three and the nine months ended 31 March 2020

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

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

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

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

- **EBITDA** and **EBITDA margin** do not reflect the impact of finance costs, which 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>	Q3 FY2019	Q3 FY2020	9M FY2019	9M FY2020
<b>Profit from operating activities</b>	<b>35,987</b>	<b>78,993</b>	<b>229,365</b>	<b>240,899</b>
<i>add back:</i>				
Amortization and depreciation	19,329	24,924	55,806	78,848
<b>EBITDA</b>	<b>55,316</b>	<b>103,917</b>	<b>285,171</b>	<b>319,747</b>
<b>Revenue</b>	<b>802,522</b>	<b>1,046,811</b>	<b>3,057,685</b>	<b>2,909,100</b>
<b>EBITDA margin</b>	<b>6.9%</b>	<b>9.9%</b>	<b>9.3%</b>	<b>11.0%</b>

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

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

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

# Alternative Performance Measures

for the three and the nine months ended 31 March 2020

## 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:

<i>in thousand US\$</i>	Q3 FY2019	Q3 FY2020	9M FY2019	9M FY2020
<b>Oilseed Processing</b>				
Profit from operating activities	26,756	21,578	74,092	75,160
plus Amortization and depreciation	4,067	4,476	12,296	12,444
<b>Segment EBITDA</b>	<b>30,823</b>	<b>26,054</b>	<b>86,388</b>	<b>87,604</b>
Segment revenue	365,095	375,204	1,101,611	1,036,505
<b>Segment EBITDA margin</b>	<b>8%</b>	<b>7%</b>	<b>8%</b>	<b>8%</b>
<b>Infrastructure and Trading</b>				
Profit from operating activities	15,883	59,401	90,226	143,974
plus Amortization and depreciation	2,158	5,298	6,497	16,696
<b>Segment EBITDA</b>	<b>18,041</b>	<b>64,699</b>	<b>96,723</b>	<b>160,670</b>
Segment revenue	629,017	891,734	2,370,208	2,448,619
<b>Segment EBITDA margin</b>	<b>3%</b>	<b>7%</b>	<b>4%</b>	<b>7%</b>
<b>Farming</b>				
Profit / (loss) from operating activities	4,993	10,514	96,574	53,933
plus Amortization and depreciation	12,677	14,619	35,756	48,236
<b>Segment EBITDA</b>	<b>17,670</b>	<b>25,133</b>	<b>132,330</b>	<b>102,169</b>
Segment revenue	156,854	171,880	481,402	494,438
<b>Segment EBITDA margin</b>	<b>11%</b>	<b>15%</b>	<b>27%</b>	<b>21%</b>
<b>Other</b>				
Loss from operating activities	(11,645)	(12,500)	(31,527)	(32,168)
plus Amortization and depreciation	427	531	1,257	1,472
<b>Segment EBITDA</b>	<b>(11,218)</b>	<b>(11,969)</b>	<b>(30,270)</b>	<b>(30,696)</b>

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

<i>in thousand US\$</i>	Q3 FY2019	Q3 FY2020	9M FY2019	9M FY2020
<b>Net cash used in investing activities</b>	<b>(159,002)</b>	<b>17,387</b>	<b>(281,200)</b>	<b>(165,357)</b>
<i>Adding back:</i>				
Purchase of property, plant and equipment	(27,387)	(55,850)	(119,487)	(175,564)
Proceeds from disposal of property, plant and equipment	1,893	2,011	7,453	4,934
<b>Investing Cash Flows less Net Fixed Assets Investments</b>	<b>(184,496)</b>	<b>(36,452)</b>	<b>(393,234)</b>	<b>(335,987)</b>

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

<i>in thousand US\$</i>	Q3 FY2019	Q3 FY2020	9M FY2019	9M FY2020
Purchase of property, plant and equipment	(27,387)	(55,850)	(119,487)	(175,564)
Proceeds from disposal of property, plant and equipment	1,893	2,011	7,453	4,934
<b>Net Fixed Assets Investments</b>	<b>(25,494)</b>	<b>(53,839)</b>	<b>(112,034)</b>	<b>(170,630)</b>

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

<i>in thousand US\$</i>	Q3 FY2019	Q3 FY2020	9M FY2019	9M FY2020
<b>Net cash generated by operating activities</b>	<b>264,296</b>	<b>291,701</b>	<b>164,124</b>	<b>(98,293)</b>
<i>Less:</i>				
Changes in working capital, including:	153,524	181,357	(116,397)	(355,112)
Change in trade and other accounts receivable	1,745	9,126	(110,315)	(73,009)
Change in prepayments and other current assets	(11,303)	(25,041)	22,403	3,371
Change in restricted cash balance	1,070	(687)	(9,400)	(2,002)
Change in taxes recoverable and prepaid	36,939	69,266	4,478	(57,431)
Change in biological assets	(13,125)	(7,994)	274,873	331,868
Change in inventories	105,639	102,428	(361,833)	(588,872)
Change in trade accounts payable	35,932	14,103	60,617	15,956
Change in advances from customers and other current liabilities	(3,373)	20,156	2,780	15,007
<b>Operating Cash Flows before Working Capital Changes</b>	<b>110,772</b>	<b>110,344</b>	<b>280,521</b>	<b>256,819</b>

# Alternative Performance Measures

for the three and the nine months ended 31 March 2020

## 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>	Q3 FY2019	Q3 FY2020	9M FY2019	9M FY2020
Net cash used in operating activities	243,201	260,439	99,959	(179,781)
Net cash used in investing activities	(159,002)	17,387	(281,200)	(165,357)
<b>Free Cash Flows to the Firm</b>	<b>84,199</b>	<b>277,826</b>	<b>(181,241)</b>	<b>(345,138)</b>

The following table shows the Group's key inventories considered eligible for **RMI** by type and the amounts of such inventory that the Group treats as **RMI** as at the periods indicated:

<i>in thousand US\$</i>	As of 31 March 2019	As of 31 December 2019	As of 31 March 2020
Sunflower oil & meal	143,002	145,921	182,169
Sunflower seed	167,805	417,102	299,145
Grains	200,230	375,231	188,948
Other	183,855	134,557	186,409
<b>Total</b>	<b>694,892</b>	<b>1,072,811</b>	<b>856,671</b>
<i>of which: Readily Marketable Inventories</i>	512,909	939,948	670,532

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

<i>in thousand US\$</i>	As of 31 March 2019	As of 31 December 2019	As of 31 March 2020
Bonds issued	495,640	792,818	793,201
Interest on bonds issued	7,131	21,945	15,975
Long-term borrowings	51,848	147,357	160,034
Current portion of long-term borrowings	1,233	1,233	2,748
Short-term borrowings	341,768	433,413	267,532
Obligations under finance lease	5,849	-	-
Lease liabilities	-	255,551	216,004
Current portion of lease liabilities	2,500	66,076	60,042
<b>Debt Liabilities</b>	<b>905,969</b>	<b>1,718,393</b>	<b>1,515,536</b>
less: cash and cash equivalents	125,537	74,353	181,221
<b>Net Debt</b>	<b>780,432</b>	<b>1,644,040</b>	<b>1,334,315</b>
less: readily marketable inventories	512,909	939,948	670,532
<b>Adjusted Net Debt</b>	<b>267,523</b>	<b>704,092</b>	<b>663,783</b>

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

<i>in thousand US\$</i>	As of 31 March 2019	As of 31 December 2019	As of 31 March 2020
<b>Total current assets</b>	<b>1,427,759</b>	<b>1,921,405</b>	<b>1,788,495</b>
less:			
Cash and cash equivalents	125,537	74,353	181,221
Assets classified as held for sale	2,142	474	423
Total current liabilities	642,334	867,471	726,184
add back:			
Short-term borrowings	341,768	433,413	267,532
Current portion of long-term borrowings	1,233	1,233	2,748
Current portion of obligations under finance lease	2,500	-	-
Current portion of lease liabilities	-	66,076	60,042
Interest on bonds issued	7,131	21,945	15,975
<b>Adjusted Working Capital</b>	<b>1,010,378</b>	<b>1,501,774</b>	<b>1,226,964</b>

# Alternative Performance Measures

for the three and the nine months ended 31 March 2020

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

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



# Selected Financial Data

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

	USD <sup>1</sup>		PLN		EUR	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019
I. Revenue	1,046,811	802,522	4,104,023	3,041,028	949,458	706,701
II. Profit from operating activities	78,993	35,987	309,692	136,367	71,647	31,690
III. (Loss)/Profit before income tax	(34,539)	21,207	(135,410)	80,361	(31,327)	18,675
IV. (Loss)/Profit for the period from continuing operations	(22,194)	15,935	(87,012)	60,383	(20,130)	14,032
V. Net cash generated by operating activities	260,439	243,201	1,021,051	921,570	236,218	214,163
VI. Net cash generated by/(used in) investing activities	17,387	(159,002)	68,166	(602,512)	15,770	(140,017)
VII. Net cash used in financing activities	(171,646)	(84,049)	(672,938)	(318,490)	(155,683)	(74,014)
VIII. Total net cash flow	106,180	150	416,279	568	96,305	132
IX. Total assets	3,346,975	2,561,480	13,878,567	9,827,118	3,048,759	2,284,584
X. Current liabilities	726,184	642,334	3,011,195	2,464,314	661,481	572,898
XI. Non-current liabilities	1,194,564	623,890	4,953,379	2,393,554	1,088,128	556,447
XII. Issued capital	2,219	2,164	9,201	8,302	2,021	1,930
XIII. Total equity	1,426,227	1,295,256	5,913,993	4,969,250	1,299,150	1,155,239
XIV. Number of shares	84,031,230	81,941,230	84,031,230	81,941,230	84,031,230	81,941,230
XV. (Loss)/Profit per ordinary share (in USD/PLN/EUR)	(0.30)	0.32	(1.16)	1.20	(0.27)	0.28
XVI. Diluted number of shares	84,726,923	82,807,266	84,726,923	82,807,266	84,726,923	82,807,266
XVII. Diluted (loss)/profit per ordinary share (in USD/PLN/EUR)	(0.29)	0.31	(1.15)	1.18	(0.27)	0.28
XVIII. Book value per share (in USD/PLN/EUR)	16.89	15.82	70.04	60.69	15.39	14.11
XIX. Diluted book value per share (in USD/PLN/EUR)	17.02	15.65	70.58	60.04	15.50	13.96

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

# Condensed Consolidated Interim Statement of Financial Position

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 31 March 2020	As of 31 December 2019	As of 30 June 2019	As of 31 March 2019
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	7	181,221	74,353	76,801	125,537
Trade accounts receivable, net	20	234,361	264,782	183,196	201,860
Prepayments to suppliers and other current assets, net	20	123,832	98,475	129,822	78,108
Corporate income tax prepaid	19	4,268	5,043	8,484	7,407
Taxes recoverable and prepaid, net	8	170,491	263,109	118,575	104,051
Inventory	9	856,671	1,072,811	357,610	694,892
Biological assets	10	48,620	27,224	309,030	55,976
Other financial assets		168,608	115,134	70,835	157,786
Assets classified as held for sale		423	474	2,079	2,142
<b>Total current assets</b>		<b>1,788,495</b>	<b>1,921,405</b>	<b>1,256,432</b>	<b>1,427,759</b>
<b>Non-current assets</b>					
Property, plant and equipment, net	11	945,969	958,684	764,686	689,532
Right-of-use assets	3	315,762	371,610	—	—
Intangible assets, net		68,384	79,857	114,942	108,250
Goodwill		122,349	126,447	107,735	107,461
Investments in joint ventures		—	59,036	51,252	52,126
Deferred tax assets		10,870	11,678	8,447	10,346
Corporate income tax prepaid	19	4,284	5,075	4,374	4,002
Other non-current assets	20	90,862	97,293	155,732	162,004
<b>Total non-current assets</b>		<b>1,558,480</b>	<b>1,709,680</b>	<b>1,207,168</b>	<b>1,133,721</b>
<b>Total assets</b>		<b>3,346,975</b>	<b>3,631,085</b>	<b>2,463,600</b>	<b>2,561,480</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Trade accounts payable	20	151,483	144,188	136,043	132,287
Advances from customers and other current liabilities	20	182,816	123,126	104,976	121,809
Short-term borrowings	13	267,532	433,413	183,692	341,768
Current portion of long-term borrowings	14	2,748	1,233	1,233	1,233
Current portion of lease liabilities	3	60,042	66,076	—	—
Interest on bonds issued	15	15,975	21,945	17,949	7,131
Other financial liabilities		45,588	77,490	35,867	38,106
<b>Total current liabilities</b>		<b>726,184</b>	<b>867,471</b>	<b>479,760</b>	<b>642,334</b>
<b>Non-current liabilities</b>					
Long-term borrowings	14	160,034	147,357	63,680	51,848
Bonds issued	15	793,201	792,818	496,051	495,640
Lease liabilities	3	216,004	255,551	—	—
Obligations under finance leases		—	—	5,230	5,849
Deferred tax liabilities		23,093	28,785	29,010	25,720
Other non-current liabilities		2,232	46,050	43,843	44,833
<b>Total non-current liabilities</b>		<b>1,194,564</b>	<b>1,270,561</b>	<b>637,814</b>	<b>623,890</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>					
Issued capital		2,219	2,219	2,164	2,164
Share premium reserve		500,378	500,378	481,878	481,878
Additional paid-in capital		39,944	39,944	39,944	39,944
Equity-settled employee benefits reserve	2	4,624	4,624	9,111	8,866
Revaluation reserve		62,249	62,249	62,249	42,189
Other reserves	3	6,752	(29,513)	—	—
Translation reserve		(739,725)	(645,858)	(734,396)	(768,050)
Retained earnings		1,542,538	1,567,413	1,489,996	1,489,299
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>1,418,979</b>	<b>1,501,456</b>	<b>1,350,946</b>	<b>1,296,290</b>
Non-controlling interests		7,248	(8,403)	(4,920)	(1,034)
<b>Total equity</b>		<b>1,426,227</b>	<b>1,493,053</b>	<b>1,346,026</b>	<b>1,295,256</b>
<b>Total liabilities and equity</b>		<b>3,346,975</b>	<b>3,631,085</b>	<b>2,463,600</b>	<b>2,561,480</b>
Book value		1,418,979	1,501,456	1,350,946	1,296,290
Number of shares	2	84,031,230	84,031,230	81,941,230	81,941,230
Book value per share (in USD)		16.89	17.87	16.49	15.82
Diluted number of shares		83,351,007	82,677,873	82,820,378	82,807,266
Diluted book value per share (in USD)		17.02	18.16	16.31	15.65

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

**Anastasiia Usachova**  
Director, Chief Financial Officer

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

# Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 31 March 2020	9 months ended 31 March 2020	3 months ended 31 March 2019	9 months ended 31 March 2019
<b>Revenue</b>	16	1,046,811	2,909,100	802,522	3,057,685
Net change in fair value of biological assets and agricultural produce	10	(41,833)	2,415	(27,572)	8,068
Cost of sales	17, 20	(911,485)	(2,639,733)	(693,782)	(2,765,426)
<b>Gross profit</b>		<b>93,493</b>	<b>271,782</b>	<b>81,168</b>	<b>300,327</b>
Other operating income/(expenses), net		11,613	49,497	(21,085)	(2,743)
General and administrative expenses	20	(26,113)	(80,380)	(24,096)	(68,219)
<b>Profit from operating activities</b>		<b>78,993</b>	<b>240,899</b>	<b>35,987</b>	<b>229,365</b>
Finance costs, net	20	(37,335)	(109,040)	(18,634)	(60,721)
Foreign exchange (loss)/gain, net	18	(15,339)	(3,296)	1,127	18,344
Other (expenses)/income, net	6	(62,167)	(55,924)	3,355	4,935
Share of income/(loss) of joint ventures	12	1,309	6,251	(628)	(92)
<b>(Loss)/Profit before income tax</b>		<b>(34,539)</b>	<b>78,890</b>	<b>21,207</b>	<b>191,831</b>
Income tax benefit/(expenses)	19	12,345	3,673	(5,272)	(9,035)
<b>(Loss)/Profit for the period from continuing operations</b>		<b>(22,194)</b>	<b>82,563</b>	<b>15,935</b>	<b>182,796</b>
<b>(Loss)/Profit for the period</b>		<b>(22,194)</b>	<b>82,563</b>	<b>15,935</b>	<b>182,796</b>
<b>(Loss)/Profit for the period attributable to:</b>					
<b>Equity holders of Kernel Holding S.A.</b>		<b>(24,875)</b>	<b>75,549</b>	<b>25,891</b>	<b>189,890</b>
Non-controlling interests		2,681	7,014	(9,956)	(7,094)
<b>Earnings per share</b>					
From continuing operations					
Weighted average number of shares		84,031,230	82,632,830	81,941,230	81,941,230
(Loss)/Profit per ordinary share (in USD)		(0.30)	0.91	0.32	2.32
Diluted number of shares		84,726,923	83,351,007	82,807,266	82,819,428
Diluted (loss)/profit per ordinary share (in USD)		(0.29)	0.91	0.31	2.29

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer

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

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

	3 months ended 31 March 2020	9 months ended 31 March 2020	3 months ended 31 March 2019	9 months ended 31 March 2019
<b>(Loss)/Profit for the period</b>	<b>(22,194)</b>	<b>82,563</b>	15,935	182,796
<b>Other comprehensive (loss)/income</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Exchange differences on translating foreign operations	(94,636)	(5,351)	16,129	(44,613)
Gain arising on cash flow hedge	56,886	10,817	—	—
Income tax related to this item	(6,866)	(1,504)	—	—
<b>Other comprehensive (loss)/income, net</b>	<b>(44,616)</b>	<b>3,962</b>	16,129	(44,613)
<b>Total comprehensive (loss)/income for the period</b>	<b>(66,810)</b>	<b>86,525</b>	32,064	138,183
<b>Total comprehensive (loss)/income attributable to:</b>				
Equity holders of Kernel Holding S.A.	(82,477)	76,972	42,362	145,894
Non-controlling interests	15,667	9,553	(10,298)	(7,711)

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer



# Condensed Consolidated Interim Statement of Changes in Equity

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

## Attributable to Kernel Holding S.A. shareholders

	Issued capital	Share premium reserve	Addition al paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Other reserves	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
<b>Balance as of 31 March 2019</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>8,866</b>	<b>42,189</b>	<b>—</b>	<b>(768,050)</b>	<b>1,489,299</b>	<b>1,296,290</b>	<b>(1,034)</b>	<b>1,295,256</b>
Loss for the period	—	—	—	—	—	—	—	(426)	(426)	(3,866)	(4,292)
Other comprehensive income/(loss)	—	—	—	—	21,183	—	33,654	—	54,837	(20)	54,817
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>21,183</b>	<b>—</b>	<b>33,654</b>	<b>(426)</b>	<b>54,411</b>	<b>(3,886)</b>	<b>50,525</b>
Distribution of dividends	—	—	—	—	—	—	—	484	484	—	484
Effect of changes on minority interest	—	—	—	—	—	—	—	(484)	(484)	—	(484)
Recognition of share-based payments (Note 2)	—	—	—	245	—	—	—	—	245	—	245
Transfer of revaluation reserve	—	—	—	—	(1,123)	—	—	1,123	—	—	—
<b>Balance as of 30 June 2019</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>9,111</b>	<b>62,249</b>	<b>—</b>	<b>(734,396)</b>	<b>1,489,996</b>	<b>1,350,946</b>	<b>(4,920)</b>	<b>1,346,026</b>
Profit for the period	—	—	—	—	—	—	—	59,443	59,443	165	59,608
Other comprehensive income	—	—	—	—	—	—	74,845	—	74,845	675	75,520
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>74,845</b>	<b>59,443</b>	<b>134,288</b>	<b>840</b>	<b>135,128</b>
Effect of changes on minority interest	—	—	—	—	—	—	—	(2,631)	(2,631)	2,631	—
Recognition of share-based payments (Note 2)	—	—	—	280	—	—	—	—	280	—	280
<b>Balance as of 30 September 2019</b>	<b>2,164</b>	<b>481,878</b>	<b>39,944</b>	<b>9,391</b>	<b>62,249</b>	<b>—</b>	<b>(659,551)</b>	<b>1,546,808</b>	<b>1,482,883</b>	<b>(1,449)</b>	<b>1,481,434</b>
Profit for the period	—	—	—	—	—	—	—	40,981	40,981	4,168	45,149
Other comprehensive (loss)/income (Note 3)	—	—	—	—	—	(29,513)	13,693	—	(15,820)	(11,122)	(26,942)
<b>Total comprehensive (loss)/ income for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(29,513)</b>	<b>13,693</b>	<b>40,981</b>	<b>25,161</b>	<b>(6,954)</b>	<b>18,207</b>
Increase of share capital	55	13,555	—	—	—	—	—	—	13,610	—	13,610
Distribution of dividends	—	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Recognition of share-based payments (Note 2)	—	4,945	—	(4,767)	—	—	—	109	287	—	287
<b>Balance as of 31 December 2019</b>	<b>2,219</b>	<b>500,378</b>	<b>39,944</b>	<b>4,624</b>	<b>62,249</b>	<b>(29,513)</b>	<b>(645,858)</b>	<b>1,567,413</b>	<b>1,501,456</b>	<b>(8,403)</b>	<b>1,493,053</b>
(Loss)/Profit for the period	—	—	—	—	—	—	—	(24,875)	(24,875)	2,681	(22,194)
Other comprehensive income/(loss) (Note 3)	—	—	—	—	—	36,265	(93,867)	—	(57,602)	12,986	(44,616)
<b>Total comprehensive income/(loss) for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>36,265</b>	<b>(93,867)</b>	<b>(24,875)</b>	<b>(82,477)</b>	<b>15,667</b>	<b>(66,810)</b>
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(16)	(16)
<b>Balance as of 31 March 2020</b>	<b>2,219</b>	<b>500,378</b>	<b>39,944</b>	<b>4,624</b>	<b>62,249</b>	<b>6,752</b>	<b>(739,725)</b>	<b>1,542,538</b>	<b>1,418,979</b>	<b>7,248</b>	<b>1,426,227</b>

On behalf of the Board of Directors

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

**Anastasiia Usachova**  
Director, Chief Financial Officer

# Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 31 March 2020	9 months ended 31 March 2020	3 months ended 31 March 2019	9 months ended 31 March 2019
<b>Operating activities:</b>					
<b>(Loss)/Profit before income tax</b>		<b>(34,539)</b>	<b>78,890</b>	<b>21,207</b>	<b>191,831</b>
<b>Adjustments for:</b>					
Amortization and depreciation		24,924	78,848	19,329	55,806
Finance costs, net		37,335	109,040	18,634	60,721
Movement in allowance for doubtful receivables		(907)	2,337	1,820	6,160
Other accruals		(21)	1,093	1,241	(1,616)
(Gain)/Loss on disposal of property, plant and equipment		(869)	(833)	17	(1,253)
Net foreign exchange loss/(gain)		14,924	5,883	(1,574)	(23,515)
Net change in fair value of biological assets and agricultural produce	10	41,833	(2,415)	27,572	(8,068)
Share of (income)/loss of joint ventures	12	(1,309)	(6,251)	628	92
Loss/(Gain) on disposal of investments	6	43,552	38,651	(2,138)	(3,831)
Net (gain)/ loss arising on financial assets classified as at fair value through profit or loss		(14,579)	(48,424)	24,036	4,194
<b>Operating profit before working capital changes</b>		<b>110,344</b>	<b>256,819</b>	<b>110,772</b>	<b>280,521</b>
<b>Changes in working capital:</b>					
Change in trade and other accounts receivable <sup>1</sup>		9,126	(73,009)	1,745	(110,315)
Change in prepayments and other current assets		(25,041)	3,371	(11,303)	22,403
Change in restricted cash balance		(687)	(2,002)	1,070	(9,400)
Change in taxes recoverable and prepaid		69,266	(57,431)	36,939	4,478
Change in biological assets		(7,994)	331,868	(13,125)	274,873
Change in inventories		102,428	(588,872)	105,639	(361,833)
Change in trade accounts payable		14,103	15,956	35,932	60,617
Change in advances from customers and other current liabilities		20,156	15,007	(3,373)	2,780
<b>Cash generated by/(used in) operations</b>		<b>291,701</b>	<b>(98,293)</b>	<b>264,296</b>	<b>164,124</b>
Interest paid		(31,509)	(78,928)	(21,994)	(63,817)
Interest received		1,043	3,506	1,019	2,040
Income tax paid		(796)	(6,066)	(120)	(2,388)
<b>Net cash generated by/(used in) operating activities</b>		<b>260,439</b>	<b>(179,781)</b>	<b>243,201</b>	<b>99,959</b>
<b>Investing activities:</b>					
Purchase of property, plant and equipment		(55,850)	(175,564)	(27,387)	(119,487)
Proceeds from disposal of property, plant and equipment		2,011	4,934	1,893	7,453
Payment for lease agreements		(390)	(7,499)	—	—
Purchase of intangible and other non-current assets		(425)	(3,919)	(2,024)	(22,298)
Disposal of subsidiaries	6	4,942	8,093	3,450	9,995
Acquisition of subsidiaries		—	(27,232)	(50,351)	(50,351)
Disposal of joint ventures		65,313	65,313	—	—
Amount advanced for subsidiaries		1,786	2,343	4,734	6,559
Amount advanced to related parties		—	(184)	—	(10,085)
Payment to acquire financial assets		—	(17,882)	(89,317)	(102,986)
Loans for stock options execution		—	(13,760)	—	—
<b>Net cash generated by/(used in) investing activities</b>		<b>17,387</b>	<b>(165,357)</b>	<b>(159,002)</b>	<b>(281,200)</b>
<b>Financing activities:</b>					
Proceeds from borrowings		69,952	487,795	135,235	513,019
Repayment of borrowings		(219,646)	(299,940)	(219,466)	(305,257)
Financing for farmers		(2,659)	(2,659)	—	—
Repayment of lease liabilities		(18,253)	(46,441)	—	—
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)	—	—
<b>Net cash (used in)/generated by financing activities</b>		<b>(170,606)</b>	<b>448,130</b>	<b>(84,231)</b>	<b>207,762</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,040)	(337)	182	(1,381)
<b>Net increase in cash and cash equivalents</b>		<b>106,180</b>	<b>102,655</b>	<b>150</b>	<b>25,140</b>
Cash and cash equivalents, at the beginning of the period	7	72,892	76,417	115,059	90,069
Cash and cash equivalents, at the end of the period	7	179,072	179,072	115,209	115,209

On behalf of the Board of Directors

**Andrii Verevskyi**

Chairman of the Board of Directors

**Anastasiia Usachova**

Director, Chief Financial Officer

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

## 1. Corporate Information

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

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

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

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

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

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 March 2020	31 December 2019	30 June 2019	31 March 2019
Jerste S.a.r.l.	Holding companies.	Luxembourg	0.0% <sup>1</sup>	100.0%	100.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Avere Commodities S.A.		Switzerland	72.5%	72.5%	60.0%	60.0%
Ukragroinvest LLC <sup>2</sup>		Ukraine	0.0%	0.0%	100.0%	100.0%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Kropyvnytskyi OEP PJSC <sup>3</sup>		Ukraine	99.2%	99.2%	99.2%	99.2%
BSI LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Prydniprovskyi OEP LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Bilovodskyi KHP PJSC		Ukraine	91.12%	91.12%	91.12%	91.12%
Hliborob LLC	Agricultural farms.	Ukraine	100.0%	100.0%	100.0%	100.0%
Prydniprovskyi Kray ALLC	Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Agro Invest Ukraine LLC <sup>4</sup>		Ukraine	0.0%	0.0%	0.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%	100.0%	100.0%
AF Semerenky LLC		Ukraine	100.0%	100.0%	100.0%	100.0%
Hovtva ALLC		Ukraine	100.0%	100.0%	100.0%	0.0%

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

<sup>1</sup> The company was merged to Kernel Holding S.A. in March 2020

<sup>2</sup> The company was disposed in December 2019

<sup>3</sup> The company was renamed from Kirovogradoliya PJSC

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (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 March 2020, 31 December 2019 and 31 March 2019, consisted of 84,031,230, 84,031,230 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 March 2020		As of 31 December 2019		As of 31 March 2019	
Equity holders	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	32,903,278	39.16%	32,753,673	38.98%	32,716,775	39.93%
Free float	51,127,952	60.84%	51,277,557	61.02%	49,224,455	60.07%
<b>Total</b>	<b>84,031,230</b>	<b>100.00%</b>	<b>84,031,230</b>	<b>100.00%</b>	<b>81,941,230</b>	<b>100.00%</b>

As of 31 March 2020, 31 December 2019 and 31 March 2019, 100% of the beneficial interest in the Major Equity Holder was held by Andrii Mykhailovych Verevskyi (hereinafter the 'Beneficial Owner').

As of and during the three months ended 31 March 2020, the fair value of the share-based options granted to the management was USD 4,624 thousand and no expenses were recognized (part of payroll and payroll related expenses), since all the existing options have been already vested (as of and during the three months ended 31 March 2019: USD 8,866 thousand and USD 241 thousand, respectively).

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 216 thousand as of 31 March 2020 (31 March 2019: 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 three months ended 31 March 2020 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.

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 accompanying notes are an integral part of these financial statements.



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

## 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 1 July 2019, the Group is committed to USD 2,738 thousand for short-term leases.

For the three months ended 31 March 2020 interest expense on lease liabilities in the amount of USD 13,693 thousand was recognized within the line "Finance costs, net" in the condensed consolidated interim statement of profit or loss.

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

	Amount
Operating lease commitments at 30 June 2019	591,547
Short-term lease	(2,738)
Effect of discounting	(305,008)
<b>Total additional lease liabilities recognized on adoption of IFRS 16</b>	<b>283,801</b>
Existing finance lease obligations at 30 June 2019	7,714
<b>Total lease liabilities at 1 July 2019</b>	<b>291,515</b>
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.

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 accompanying notes are an integral part of these financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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

	As of 31 March 2020	As of 01 July 2019
Land	310,575	324,406
Property, plant and equipment	5,187	9,167
<b>Total right-of-use assets</b>	<b>315,762</b>	<b>333,573</b>

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

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

Decrease in right-of-use assets as of 31 March 2020 in comparison with 1 July 2019 resulted mostly from the devaluation of the Ukrainian hryvnia during the three months ended 31 March 2020.

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 47 thousand for the three months ended 31 March 2020.

For the three months ended 31 March 2020 the amount of depreciation charge on right-of-use assets of USD 4,616 thousand was recognized as an expense within the line "Cost of sales" in the statement of profit or loss and of USD 9,413 thousand was capitalized in "Biological assets".

The Group separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing 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.

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. Gain resulted from change in fair value of hedging instruments under cash flow hedge accounting in the third quarter was USD 56,886 thousand. 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 accompanying notes are an integral part of these financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

The Group's risk management strategies are aligned with the requirements of IFRS 9 and are thus the designated derivatives are treated as cash flow hedges under IFRS reporting. As of 31 March 2020, 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 March 2020	Average rate for the 3 months ended 31 March 2020	Average rate for the 9 months ended 31 March 2020	Closing rate as of 31 March 2019	Average rate for the 3 months ended 31 March 2019	Average rate for the 9 months ended 31 March 2019
USD/UAH	28.0615	25.0525	24.8574	27.2488	27.3141	27.5650
USD/EUR	0.9109	0.9070	0.9031	0.8919	0.8806	0.8723
USD/PLN	4.1466	3.9205	3.8918	3.8365	3.7893	3.7535

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 March 2019 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 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.

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

## 5. Key Data by Operating Segments

Key data by operating segments for the three months ended 31 March 2020:

	Oilseed Processing	Infrastructure and Trading	Farming	Other Reconciliation	Continuing operations
Revenue (external)	161,266	878,927	6,618	—	1,046,811
Intersegment sales	213,938	12,807	165,262	—	(392,007)
<b>Total revenue</b>	<b>375,204</b>	<b>891,734</b>	<b>171,880</b>	<b>—</b>	<b>1,046,811</b>
Net change in fair value of biological assets and agricultural produce	—	—	(41,833)	—	(41,833)
Other operating income, net	3,336	4,919	2,451	907	11,613
<b>Profit/(Loss) from operating activities</b>	<b>21,578</b>	<b>59,401</b>	<b>10,514</b>	<b>(12,500)</b>	<b>78,993</b>
Finance costs, net					(37,335)
Foreign exchange loss, net					(15,339)
Other expenses, net					(62,167)
Share of income of joint ventures					1,309
Income tax benefit					12,345
Loss for the period from continuing operations					(22,194)
<b>Total assets</b>	<b>1,342,887</b>	<b>1,093,345</b>	<b>811,869</b>	<b>98,874</b>	<b>3,346,975</b>
Capital expenditures	39,041	14,452	12,398	1,232	67,123
Amortization and depreciation	4,476	5,298	14,619	531	24,924
Liabilities	81,338	185,176	356,016	1,298,218	1,920,748

Key data by operating segments for the three months ended 31 March 2019:

	Oilseeds Processing	Infrastructure and Trading	Farming	Other Reconciliation	Continuing operations
Revenue (external)	179,441	618,409	4,672	—	802,522
Intersegment sales	185,654	10,608	152,182	—	(348,444)
<b>Total revenue</b>	<b>365,095</b>	<b>629,017</b>	<b>156,854</b>	<b>—</b>	<b>802,522</b>
Net change in fair value of biological assets and agricultural produce	—	—	(27,572)	—	(27,572)
Other operating (expenses)/income, net	835	(22,981)	1,061	—	(21,085)
<b>Profit/(Loss) from operating activities</b>	<b>26,756</b>	<b>15,883</b>	<b>4,993</b>	<b>(11,645)</b>	<b>35,987</b>
Finance costs, net					(18,634)
Foreign exchange gain, net					1,127
Other income, net					3,355
Share of loss of joint ventures					(628)
Income tax expenses					(5,272)
Profit for the period from continuing operations					15,935
<b>Total assets</b>	<b>885,778</b>	<b>801,063</b>	<b>717,898</b>	<b>156,741</b>	<b>2,561,480</b>
Capital expenditures	3,927	11,066	67,764	774	83,531
Amortization and depreciation	4,067	2,158	12,677	427	19,329
Liabilities	97,172	119,945	79,819	969,288	1,266,224

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

	For the 3 months ended 31 March 2020				For the 3 months ended 31 March 2019			
	Oilseeds Processing	Infrastructure and Trading	Farming	Continuing operations	Oilseeds Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	147,366	854,570	6,618	1,008,554	163,810	590,419	4,672	758,901
Freight and other services	13,900	24,357	—	38,257	15,631	27,990	—	43,621
<b>Total external revenue from contracts with customers</b>	<b>161,266</b>	<b>878,927</b>	<b>6,618</b>	<b>1,046,811</b>	<b>179,441</b>	<b>618,409</b>	<b>4,672</b>	<b>802,522</b>

During the three months ended 31 March 2020, revenues of approximately USD 103,969 thousand (three months ended 31 March 2019: USD 88,501 thousand) are derived from a single external customer. These revenues are attributed to Oilseeds processing and Infrastructure and Trading segments. Also, during that period, export sales amounted to 97.6% of total external sales (three months ended 31 March 2019: 97.0%).

During the three months ended 31 March 2020, revenue from the Group's top five customers accounted for approximately 35.5% of total revenue (three months ended 31 March 2019, revenue from the top five customers accounted for 44.6% of total revenue).

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



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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

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

	As of and for the 3 months ended 31 March 2020		As of and for the 3 months ended 31 March 2019	
	Revenue from external customers	Non-current assets	Revenue from external customers	Non-current assets
Ukraine	573,969	1,544,938	486,186	1,067,706
Europe	472,842	2,159	269,548	2,303
North America	—	179	46,788	314
Other locations	—	334	—	53,052
<b>Total</b>	<b>1,046,811</b>	<b>1,547,610</b>	<b>802,522</b>	<b>1,123,375</b>

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

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

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

## 6. Acquisition and Disposal of Subsidiaries

No entities were acquired during the three months ended 31 March 2020.

During the three months ended 31 March 2020, as a result of business optimization, the Group disposed of three silos located in Mykolaiv and Poltava regions, and trading companies located in the Russian Federation (which have been inactive for the last periods). The net assets of the disposed entities as of the date of disposal were equal to USD 3,421 thousand and the cash consideration received was USD 6,227 thousand (out of which USD 4,942 thousand was received during this reporting period).

Gain on disposal comprised to USD 2,822 thousand.

During the three months ended 31 March 2020, the Company disposed of 50% interest in a joint venture, a deep-water grain export terminal in Taman port (the Russian Federation). Fair value of investment, which was accounted for using the equity method, as of the date of disposal was equal to USD 60,187 thousand. Accumulated foreign exchange differences, previously recognized in other comprehensive income in the amount of USD 54,500 thousand of loss, as of the date of the disposal were reclassified to profit or loss. As result loss on disposal of Taman comprised to USD 46,374 thousand and recognized within the line "Other income/(expenses), net".

The cash consideration received was USD 68,313 thousand (out of which USD 65,313 thousand was received during this reporting period).

During the three months ended 31 March 2019, to protect the Company against ever rising logistic costs and to procure the smooth and efficient flow of grains from inland silos, the Group has acquired 100% effective ownership obtaining shares in Rail Transit Kargo Ukraine LLC (herein "RTK-Ukraine"): a railcar business that manages about 2,949 grain railcars.

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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

	Fair value
<b>Assets</b>	
<b>Current assets:</b>	
Cash and cash equivalents	1,137
Trade accounts receivable, net	1,696
Prepayments to suppliers and other current assets, net	2,085
Taxes recoverable and prepaid, net	1,982
Inventory	11
<b>Total current assets</b>	<b>6,911</b>
<b>Non-current assets:</b>	
Property, plant and equipment, net	56,925
<b>Total non-current assets</b>	<b>56,925</b>
<b>Total assets</b>	<b>63,836</b>
<b>Liabilities</b>	
<b>Current liabilities:</b>	
Advances from customers and other current liabilities	1,096
<b>Total current liabilities</b>	<b>1,096</b>
<b>Non-current liabilities:</b>	
Deferred tax liabilities	6,328
<b>Total non-current liabilities</b>	<b>6,328</b>
<b>Total liabilities</b>	<b>7,424</b>
<b>Fair value of net assets of acquired Subsidiaries</b>	<b>56,412</b>
<b>Non-controlling interest</b>	<b>-</b>
<b>Fair value of acquired net assets</b>	<b>56,412</b>
<b>Goodwill</b>	<b>3,867</b>
<b>Fair value of purchase consideration</b>	<b>60,279</b>
<b>Less: acquired cash</b>	<b>(1,137)</b>
<b>Net cash outflow on acquisition of subsidiaries</b>	<b>(48,016)</b>

The Group does not disclose the revenue and net profit of the acquired entity 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 entity as from the beginning of the reporting period and up to the date of acquisition.

At the moment of acquisition, nominal value of consideration amounted to USD 64,833 thousand and comprised of USD 49,153 thousand paid in cash and USD 15,680 thousand payable (out of which USD 15,000 thousand of deferred consideration payable over 5 years). At the moment of acquisition, fair value of consideration was USD 60,279 thousand (including USD 11,126 thousand payable) calculated as the present value of amounts payable at discount rate 7.5% (represented within the line 'Other non-current liabilities').

As of 31 March 2020, as a result of accelerated payments of USD 15,000 thousand, made after the acquisition date, the consideration paid comprised USD 64,153 thousand and the present value of amount payable was USD 680 thousand.

The goodwill in the amount of USD 3,867 thousand arising from the accounting for acquisition of RTK-Ukraine as business combination is attributable to the protection the Company against the rising logistic costs and the synergies expected to be gained efficient flow of grains from inland silos to the ports. It will not be deductible for tax purposes.

During the three months ended 31 March 2019, as a result of business optimization, the Group disposed of farming entities managing about 9,000 ha of leasehold suboptimal farmlands located in Volyn and Mykolaiv regions. The net assets of the disposed entities as of the date of disposal were equal to USD 6,034 thousand and the cash consideration receivable was USD 8,172 thousand (out of which USD 3,450 thousand was received during this reporting period). Fair value of cash consideration receivable which should be paid in full in arrears up to 1 December 2020, were calculated at a discount rate 7.5% and as of the reporting date the outstanding amount comprised to USD 4,734 thousand (USD 4,722 thousand as of the date of disposal) and is presented within the line 'Other non-current assets'.

Gain on disposal comprised to USD 2,138 thousand.

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

## 7. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
Cash in banks in USD	172,782	59,057	90,225
Cash in banks in UAH	5,451	13,388	26,834
Cash in banks in other currencies	2,982	1,901	8,471
Cash on hand	6	7	7
<b>Total</b>	<b>181,221</b>	<b>74,353</b>	<b>125,537</b>
Less restricted and blocked cash on security bank accounts	(2,140)	(1,453)	(10,076)
Less bank overdrafts (Note 13)	(9)	(8)	(252)
<b>Cash for the purposes of cash flow statement</b>	<b>179,072</b>	<b>72,892</b>	<b>115,209</b>

## 8. Taxes Recoverable and Prepaid, net

Taxes recoverable and prepaid decreased to USD 170,491 thousand as of 31 March 2020 from USD 263,109 thousand as of 31 December 2019 mostly due to VAT refund by state and foreign exchange losses recognized (Note 18).

## 9. Inventory

The balances of inventories were as follows:

	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
Raw materials	383,039	481,342	256,226
Finished products	148,934	118,492	109,853
Goods for resale	131,820	227,226	112,113
Agricultural products	98,615	182,126	125,860
Work in progress	79,468	49,746	78,418
Fuel	4,709	3,330	4,296
Packaging materials	1,585	1,475	1,811
Other inventories	8,501	9,074	6,315
<b>Total</b>	<b>856,671</b>	<b>1,072,811</b>	<b>694,892</b>

As of 31 March 2020, raw materials mostly consisted of sunflower seed stock in the amount of USD 299,468 thousand (as of 31 December and 31 March 2019: USD 417,003 thousand and USD 167,805 thousand, respectively).

As of 31 March 2020, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 138,590 thousand (as of 31 December and 31 March 2019: USD 91,822 thousand and USD 84,348 thousand, respectively).

For the three months ended 31 March 2020, write-downs of inventories to net realizable value amounted to USD 4,912 thousand (three months ended 31 March 2019: USD 1,467 thousand) and were recognized as an expense and included in line "Cost of sales".

As of 31 March 2020, inventory balances in the amounts of USD 268,330 thousand (as of 31 December and 31 March 2019: USD 404,419 thousand and USD 306,441 thousand, respectively) were pledged as security for short-term borrowings (Note 13).

## 10. Biological Assets

Current biological assets as of 31 March 2020 consisted of 85,554 hectares of winter crops sowed in the amount of USD 47,016 thousand (31 December 2019: 88,486 hectares of winter crops sowed in the amount of USD 25,120 thousand; 31 March 2019: 112,675 hectares of winter crops sowed in the amount of USD 54,160 thousand) and current cattle of USD 1,604 thousand was represented mainly by 4,367 heads of calves (31 December 2019: USD 2,104 thousand was represented mainly by 4,729 heads of calves; 31 March 2019: USD 1,816 thousand was represented mainly by 4,744 heads of calves).

Net change in fair value of biological assets and agricultural produce for the three months ended 31 March 2020 amounted to USD 41,833 thousand of loss (three months ended 31 March 2019: loss USD 27,572 thousand) reflecting revaluation of crops in fields, livestock and agricultural produce balances to its fair value.

## 11. Property, Plant and Equipment, net

During the three months ended 31 March 2020, the Group acquired property, plant and equipment in the amount of USD 66,657 thousand (31 March 2019: USD 80,492 thousand). These purchases were related mainly to the construction of an oil-crushing plant and a port terminal. (31 March 2019: acquisition of RTK-Ukraine, storage capacities, agricultural vehicles and equipment for export terminals and farming segments).

The decrease in property, plant and equipment in the amount of USD 58,294 thousand resulted from the devaluation of the Ukrainian hryvnia during the three months ended 31 March 2020 (31 March 2019: increase USD 3,763 thousand as a result of revaluation of the Ukrainian hryvnia).

During the three months ended 31 March 2020, depreciation of property, plant and equipment amounted USD 17,613 thousand (as of 31 March 2019: USD 16,329 thousand).

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

As of 31 March 2020, the Group had construction in progress and uninstalled equipment amounted to USD 283,101 thousand, which is mostly related to the construction of an oil-crushing plant and a port terminal (31 March 2019: USD 79,185 thousand, mostly related to the agricultural equipment and construction of a port terminal).

As of 31 March 2020, property, plant and equipment with a carrying amount of USD 633 thousand and USD 207,842 thousand were pledged by the Group as collateral against short-term and long-term bank loans, respectively (31 March 2019: USD 611 thousand and USD 100,460 thousand, respectively) (Notes 13, 14).

As of 31 March 2020, property, plant and equipment with a carrying amount of USD 28,462 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 (31 March 2019: USD 24,405 thousand, as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region).

## 12. Investments in Joint Ventures

During the three months ended 31 March 2020, the Company disposed of its share in a joint venture, a deep-water grain export terminal in Taman port (see Note 6).

For the three months ended 31 March 2020 and up to the date of disposal, the share of gain of joint venture (Taman) equaled USD 1,350 thousand (for the three months ended 31 March 2019: loss USD 628 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 413 thousand (for the three months ended 31 March 2019: USD 509 thousand) and interest expenses in the amount of USD 60 thousand (for the three months ended 31 March 2019: USD 150 thousand).

## 13. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
Bank credit lines	265,997	431,822	340,645
Interest accrued on long-term borrowings	1,084	827	—
Interest accrued on short-term borrowings	442	756	871
Bank overdrafts (Note 7)	9	8	252
<b>Total</b>	<b>267,532</b>	<b>433,413</b>	<b>341,768</b>

The balances of short-term borrowings as of 31 March 2020 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.50%	USD	July 2020	34,983
European bank	Libor+2.00%	USD	October 2020	27,556
European bank	Libor+3.90%	USD	April 2020	24,444
Ukrainian subsidiary of European bank	2.90%	USD	April 2020	21,000
Ukrainian subsidiary of European bank	3.50%	USD	April 2020	20,760
European bank	4.00%	USD	April 2020	20,009
European bank	Libor+2.25%	USD	April 2020	19,857
Ukrainian subsidiary of European bank	3.50%	USD	June 2020	17,900
European bank	Libor+3.95%	USD	April 2020	17,374
Ukrainian subsidiary of European bank	4.00%	USD	April 2020	15,489
Ukrainian subsidiary of European bank	10.00%	UAH	April 2020	12,473
Ukrainian subsidiary of European bank	14.25%	UAH	April 2020	9,978
Ukrainian subsidiary of European bank	9.90%	UAH	April 2020	9,087
Ukrainian subsidiary of European bank	3.75%	USD	April 2020	5,000
Ukrainian subsidiary of European bank	10.50%	UAH	May 2020	4,597
Ukrainian subsidiary of European bank	13.00%	UAH	April 2020	3,279
European bank	Libor+2.45%	USD	October 2020	1,220
European bank	Libor+2.00%	USD	August 2020	1,000
<b>Total bank credit lines</b>				<b>266,006</b>
Interest accrued on short-term loans				442
Interest accrued on long-term loans				1,084
<b>Total</b>				<b>267,532</b>

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



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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
<b>Total bank credit lines</b>				<b>431,830</b>
Interest accrued on short-term loans				756
Interest accrued on long-term loans				827
<b>Total</b>				<b>433,413</b>

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.20%	USD	April 2019	86,000
Ukrainian subsidiary of European bank	4.00%	USD	April 2019	65,748
European bank	Libor + 3.95%	USD	April 2019	61,056
European bank	Libor + 4.00%	USD	April 2019	38,416
European bank	2.75%	USD	April 2019	36,099
European bank	Libor + 2.00%	USD	April 2019	14,000
Ukrainian subsidiary of European bank	4.25%	USD	April 2019	10,325
European bank	Libor + 2.25%	USD	April 2019	9,028
Ukrainian subsidiary of European bank	2.00%	EUR	April 2019	8,414
Ukrainian subsidiary of European bank	4.00%	USD	May 2019	5,500
European bank	2.45%	USD	April 2019	3,500
European bank	Libor + 1.65%	USD	March 2019	2,811
<b>Total bank credit lines</b>				<b>340,897</b>
Interest accrued on short-term loans				871
<b>Total</b>				<b>341,768</b>

As of 31 March 2020, undrawn short-term bank credit lines amounted to USD 864,428 thousand (as of 31 December and 31 March 2019: USD 719,165 thousand and USD 532,934 thousand, respectively).

Short-term borrowings from banks were secured as follows:

	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
<b>Assets pledged</b>			
Inventory (Note 9)	268,330	404,419	306,441
Future sales receipts	71,123	187,064	45,127
Other financial assets	3,453	—	12,566
Property, plant and equipment (Note 11)	633	760	611
<b>Total</b>	<b>343,539</b>	<b>592,243</b>	<b>364,745</b>

## 14. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
Long-term bank borrowings	162,782	148,590	53,081
Current portion of long-term borrowings	(2,748)	(1,233)	(1,233)
<b>Total</b>	<b>160,034</b>	<b>147,357</b>	<b>51,848</b>

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

The balances of long-term borrowings as of 31 March 2020 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+2.79%	USD	January 2030	14,500
European bank	Libor+2.77%	USD	April 2029	12,140
European bank	Libor+2.84%	USD	September 2029	8,093
European bank	Libor+1.00%	USD	May 2027	5,600
Ukrainian subsidiary of European bank	Libor+4.50%	USD	August 2021	1,849
<b>Total</b>				<b>162,782</b>

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
European bank	Libor+1.00%	USD	May 2027	5,600
Ukrainian subsidiary of European bank	Libor+4.50%	USD	August 2021	2,157
<b>Total</b>				<b>148,590</b>

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 2.78%	USD	February 2029	50,000
Ukrainian subsidiary of European bank	Libor + 4.50%	USD	August 2021	3,081
<b>Total</b>				<b>53,081</b>

As of 31 March 2020, undrawn long-term borrowings amounted to USD 145,067 thousand (as of 31 December and 31 March 2019: USD 159,567 thousand and USD 156,000 thousand, respectively).

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

	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
Assets pledged			
Property, plant and equipment (Note 11)	207,842	217,333	100,460
<b>Total</b>	<b>207,842</b>	<b>217,333</b>	<b>100,460</b>

## 15. Bonds issued

The balances of bonds issued were as follows:

	Maturity	As of 31 March 2020	As of 31 December 2019	As of 31 March 2019
US 300,000 thousand 6.5% coupon bonds	October 2024	296,096	295,914	—
US 500,000 thousand 8.75% coupon bonds	January 2022	497,105	496,904	495,640
<b>Total</b>		<b>793,201</b>	<b>792,818</b>	<b>495,640</b>

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 March 2020, accrued interest on bonds issued was USD 15,975 thousand (31 December and 31 March 2019: USD 21,945 thousand and USD 7,131 thousand, respectively).

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

## 16. Revenue

The Group's revenue was as follows:

	3 months ended 31 March 2020	3 months ended 31 March 2019
Revenue from edible oils sold in bulk, meal and cake	597,903	375,935
Revenue from agriculture commodities merchandizing	403,153	390,645
Revenue from bottled sunflower oil	37,073	29,780
Revenue from farming	6,618	4,672
Revenue from grain silo services	453	1,273
Revenue from transshipment services	1,611	217
<b>Total</b>	<b>1,046,811</b>	<b>802,522</b>

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

## 17. Cost of Sales

Cost of sales was as follows:

	3 months ended 31 March 2020	3 months ended 31 March 2019
Cost of goods for resale and raw materials used	735,053	553,080
Shipping and handling costs	116,283	80,105
Amortization and depreciation	23,788	17,618
Payroll and payroll related costs	19,170	17,006
Rental payments	12,288	21,840
Other operating costs	4,903	4,133
<b>Total</b>	<b>911,485</b>	<b>693,782</b>

## 18. Foreign exchange (loss)/gain, net

For the three months ended 31 March 2020, foreign exchange loss, net amounted to USD 15,339 thousand (31 March 2019: gain USD 1,127 thousand). The result for the period is mostly connected with depreciation of the Ukrainian hryvnia which influenced on revaluation of balances denominated in other than functional currencies, namely VAT and income tax prepaid, borrowings (including intra-group balances: the Company's subsidiaries operate with different functional currencies and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's subsidiaries if they had different functional currencies).

During the three months ended 31 March 2020, the Ukrainian hryvnia rate devalued against the US dollar by 16% (revalued by 2% for the three months ended 31 March 2019).

## 19. 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 March 2020, the Group prepaid USD 8,552 thousand in corporate income tax, which was recognized in the Condensed Consolidated Interim Statement of Financial Position (31 December 2019 and 31 March 2019: USD 10,118 thousand and USD 11,409 thousand). The changes were mostly connected with devaluation of the Ukrainian hryvnia, related to foreign exchange losses recognized.

For the three months ended 31 March 2020, income tax benefit in the amount of USD 12,345 thousand is mostly connected with recognized deferred tax assets on taxable losses occurred mostly as a result of the Ukrainian hryvnia depreciation and subsequent foreign exchange losses (31 March 2019: income tax expenses in the amount of USD 5,272 thousand).

## 20. Transactions with Related Parties

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

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

The Group had the following balances outstanding with related parties:

	Related party balances as of 31 March 2020	Total category as per consolidated balance sheet as of 31 March 2020	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 31 March 2019	Total category as per consolidated balance sheet as of 31 March 2019
Trade accounts receivable, net	619	234,361	728	264,782	612	201,860
Prepayments to suppliers and other current assets, net	22,589	123,832	5,686	98,475	8,262	78,108
Other non-current assets	31,483	90,862	28,823	97,293	21,868	162,004
Trade accounts payable	215	151,483	81	144,188	273	132,287
Advances from customers and other current liabilities	10,316	182,816	11,078	123,126	9,457	121,809

As of 31 March 2020, 31 December and 31 March 2019, 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 31 March 2019, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 3,574 thousand, which was repaid as of 31 December 2019 in full amount.

As of 31 March 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 2,552 thousand provided to Taman Grain Terminal Holding, which was repaid as of 31 December 2019 in full amount.

As of 31 March 2020, prepayments to suppliers and other current assets and other non-current assets included loans at rate comparable to the average commercial rate of interest in the amount of USD 30,417 thousand provided to the companies under control of the Beneficial Owner (31 December and 31 March 2019: USD 10,711 thousand and USD 10,334 thousand, respectively).

As of 31 March 2020, 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 18,439 thousand and a loan at a rate comparable to the market rate in the amount of USD 1,750 thousand provided to key management personnel (31 December 2019: USD 18,272 thousand and USD 1,000 thousand, respectively; 31 March 2019: USD 4,276 thousand and USD 1,000 thousand, respectively).

As of 31 December 2019, USD 8,226 thousand of dividends payable due to Namsen Limited were included in advances from customers and other current liabilities (31 December 2019 and 31 March 2019: USD 8,188 thousand and USD 8,179 thousand, respectively).

As of 31 March 2020, advances from customers and other current liabilities included USD 343 thousand in bonuses payable to the management (31 December and 31 March 2019: USD 895 thousand and USD 68 thousand, respectively).

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

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

Transactions with related parties were as follows:

	3 months ended 31 March 2020		3 months ended 31 March 2019	
	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
Cost of sales (Note 17)	(139)	(911,485)	(1,408)	(693,782)
General and administrative expenses	(1,081)	(26,113)	(1,208)	(24,096)
Finance income/(costs), net	349	(37,335)	377	(18,634)

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 March 2020, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive independent directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the three months ended 31 March 2020 amounted to USD 125 thousand (31 March 2019: 8 directors, USD 125 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 12 people, amounted to USD 635 thousand for the three months ended 31 March 2020 (31 March 2019: 11 people, USD 580 thousand).

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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

## 21. Commitments and Contingencies

### Operating Environment

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 Donetska 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").

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets.

As the situation is rapidly evolving, it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets.

Though as of the date of this report, the Group has not experienced any material disruption due to COVID-19, the significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukraine economy.

### Capital Commitments

As of 31 March 2020, the Group had commitments under contracts with a group of suppliers for a total amount of USD 56,650 thousand, mostly for the construction of an oil-crushing plant and port terminal (31 December 2019: USD 93,150 thousand, mostly for the construction of an oil-crushing plant and port terminal; 31 March 2019: USD 159,816 thousand, mostly for the construction of an oil-crushing plant).

### Contractual Commitments on Sales

As of 31 March 2020, the Group had entered into commercial contracts for the export of 1,445,018 tons of grain and 1,117,893 tons of sunflower oil and meal, corresponding to an amount of USD 275,337 thousand and USD 593,713 thousand, respectively, in contract prices as of the reporting date.

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 31 March 2019, the Group had entered into commercial contracts for the export of 1,105,623 tons of grain and 655,383 tons of sunflower oil and meal, corresponding to an amount of USD 212,033 thousand and USD 303,876 thousand, respectively, in contract prices as of the reporting date.

### Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire Stiomi Holding, a farming company located in the Khmelnytskyi region of Ukraine. Upon signing, the sellers received approximately 40% of the estimated net asset value partly from the Group and its related parties. As of 31 March 2020, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfilment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers in respect of the non-fulfilment of the sellers' obligations. In December 2012, the Group received a request for arbitration from the sellers in which the sellers claimed amounts said to be due to them. An arbitral tribunal was formed; the parties exchanged written statements on the case in which the Group asserted its counterclaims and thereafter written statements of evidence and expert reports were also exchanged. The hearing took place in November 2015. The tribunal delivered its award in late February 2018. That award was

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



# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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 March 2020, 31 December and 31 March 2019, 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 33,506 thousand as of 31 March 2020 (31 December 2019 and 31 March 2019: USD 32,965 thousand and USD 28,971 thousand, respectively), and related expenses in the amount of USD 541 thousand were recognized within the three months ended 31 March 2020 (31 March 2019: nil) and included within the line "Other expenses, net". No payment has yet been made to the claimant.

As of 31 March 2020, 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 16,781 thousand (31 December 2019: USD 19,881 thousand), from which USD 7,249 thousand related to VAT recoverability (31 December 2019: USD 8,588 thousand), USD 9,386 thousand related to corporate income tax (31 December 2019: 11,120 thousand) and USD 146 thousand related to other tax issues (31 December 2019: 173 thousand).

As of 31 March 2020, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 16,781 thousand (31 December 2019: USD 19,881 thousand), included in the above-mentioned amount. Out of this amount, USD 11,491 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 (31 December 2019: USD 13,614 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 amount of interest expense, general anti-abuse rules (GAAR), new controlled foreign company (CFC) rules, and a mutual agreement procedure (MAP).

The new Law No. 1210 was signed by the President of Ukraine and came into force on 23 May 2020 (except for some amendments that will come into force starting from 1 July 2020 and 1 January 2021). The major changes that may affect the Groups tax position, based on the text of the Law:

## **Introduction of a GAAR**

The tax reform bill introduces 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. 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 repeals the current thin capitalization rules and introduces a fixed ratio rule. The new rule applies 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

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

# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

nonresident creditors would be compared with the relevant entity's equity (previously, only debt with related nonresident entities was 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 previous rule of 50% of financial EBITDA).

A 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 introduces into domestic law. 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 are introduced (controlling shareholder) (whether an individual or a legal person). A CFC is 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. The 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 million per month). The resolution came into force starting from July 10, 2019.

## 22. Financial Instruments

The following tables present the carrying amounts and fair values of financial assets and liabilities, including their levels in fair value hierarchy. 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 March 2020		31 December 2019		31 March 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities</b>						
Long-term borrowings (Note 14)	162,782	163,212	148,590	149,051	53,081	49,065
Obligations under finance lease	—	—	—	—	8,342	8,342
Bonds issued <sup>1</sup> (Note 15)	809,176	727,817	814,763	847,180	502,771	512,780

For the three months ended 31 March 2020, the fair value of bank long-term borrowings was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 4.60% (for the three months ended 31 March 2019: 5.49%) that is within level 2 of the

<sup>1</sup> Including accrued interests

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# Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 31 March 2020 (in thousands of US dollars, unless otherwise stated)

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 March 2020			31 December 2019			31 March 2019		
Other financial assets	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Physical forwards	—	47,895	47,895	—	43,237	43,237	—	57,578	57,578
Futures	24,371	—	24,371	1,073	—	1,073	2,826	—	2,826
Derivatives held for hedging	—	10,817	10,817	—	—	—	—	—	—
Options	5,507	—	5,507	4,717	—	4,717	7,071	—	7,071
<b>Total</b>	<b>29,878</b>	<b>58,712</b>	<b>88,590</b>	<b>5,790</b>	<b>43,237</b>	<b>49,027</b>	<b>9,897</b>	<b>57,578</b>	<b>67,475</b>

Other financial liabilities	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Physical forwards	—	36,281	36,281	—	29,693	29,693	—	35,230	35,230
Futures	—	—	—	2,070	—	2,070	2,876	—	2,876
Derivatives held for hedging	—	—	—	—	45,460	45,460	—	—	—
Options	9,307	—	9,307	267	—	267	—	—	—
<b>Total</b>	<b>9,307</b>	<b>36,281</b>	<b>45,588</b>	<b>2,337</b>	<b>75,153</b>	<b>77,490</b>	<b>2,876</b>	<b>35,230</b>	<b>38,106</b>

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.

A major part of other financial liabilities has contractual maturity due within 9 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 three months ended 31 March 2020, the fair value of other non-current assets recognized at FVTPL was estimated by market comparable approach that is within level 2 in the fair value hierarchy.

For the three months ended 31 March 2020, 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 three months ended 31 March 2020, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

For the three months ended 31 March 2020 and 2019, 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 24.62% and 25.83%, respectively.

There were no transfers between levels of fair value hierarchy.

## 23. Subsequent Events

No subsequent events occurred after the reporting date.

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