

KERNEL

Kernel Holding S.A.

ANNUAL REPORT

For the year ended 30 June 2020



Contents

Kernel is a diversified agricultural business in Ukraine, the leading exporter of agricultural products from the Black Sea region.

We are the world's largest producer and exporter of sunflower oil, the largest grain exporter from Ukraine, operator of an extensive agricultural logistics network and the largest producer of grain and oilseeds in Ukraine. In FY2020, we supplied 11 million tons of agricultural products from Ukraine across the world.

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Key Highlights

<i>US\$ million except ratios and EPS</i>	FY2019	FY2020	y-o-y
Income statement highlights			
Revenue	3,960	4,107	4%
EBITDA ^{1,2}	346	443	28%
Net profit attributable to equity holders of Kernel Holding S.A. ²	189	118	(38%)
EBITDA margin ²	8.7%	10.8%	2.1pp
Net margin ²	4.8%	2.9%	(1.9pp)
Earnings per share, US\$	2.31	1.42	(39%)
Cash flow highlights			
Operating profit before working capital changes	368	422	15%
Change in working capital	(94)	(10)	n/a
Finance costs paid ²	(76)	(140)	83%
Income tax paid	(3)	(8)	2.4x
Net cash generated by operating activities	199	269	36%
Net cash used in investing activities	(241)	(203)	(16%)
Liquidity and credit metrics			
Net debt ²	694	980	41%
Readily marketable inventories ³	293	252	(14%)
Adjusted net debt ^{2,4}	400	729	82%
Shareholders' equity	1,351	1,493	10%
Net debt / EBITDA ²	2.0x	2.2x	0.2x
Adjusted net debt / EBITDA ²	1.2x	1.6x	0.5x
EBITDA / Interest ²	4.2x	3.0x	(1.2x)
Non-financial highlights			
Number of employees (full-time equivalent) at 30 June	13,397	11,928	(11%)
Rate of recordable work-related injuries, accidents per million worked hours	0.88	0.68	(22%)
Social spending, US\$ million	2.3	7.7	3.3x
Greenhouse gas emissions, thousand tons of CO ₂ equivalent	1,781	1,679	(6%)
Total energy consumption, terajoules	7,139	6,998	(2%)

Note: Financial year ends 30 June.

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

2. Selected metrics lack the comparability between FY2019 and FY2020 due to the introduction of IFRS 16 standard in FY2020, which was not retrospectively applied to FY2019 financials.

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

4. Adjusted debt is the sum of short-term interest-bearing debt, current maturities of long-term interest-bearing debt, long-term interest-bearing debt and lease liabilities, less cash and cash equivalents, marketable securities and readily marketable inventories at cost.

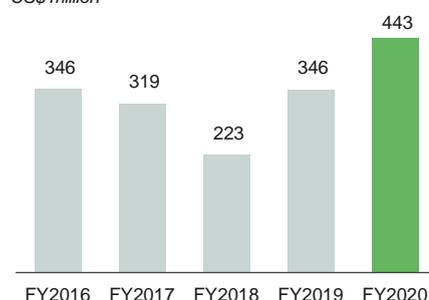
Hereinafter differences between totals and sums of the parts are possible due to rounding.

Hereinafter "Kernel", "Group" or "Company" refers to the Kernel Holding S.A. group of companies.

Non-financial highlights for FY2019 may differ with ones presented in FY2019 annual report due to changes in calculation methodology, as described in "Sustainability" section of this report.

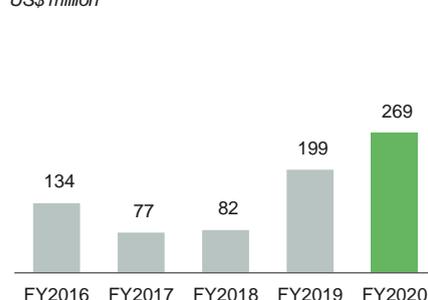
EBITDA

US\$ million



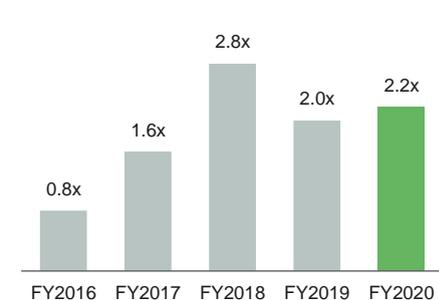
Net cash generated by operating activities

US\$ million



Net debt / EBITDA

US\$ million



Operating Highlights

Oilseed Processing



Segment volumes

million tons

Fiscal Year	Oilseeds processed	Sunflower oil sales
FY2016	2.7	1.1
FY2017	3.0	1.2
FY2018	3.1	1.4
FY2019	3.2	1.6
FY2020	3.4	1.5

EBITDA margin

US\$ / ton of sunflower oil sold

Fiscal Year	EBITDA margin
FY2016	120
FY2017	83
FY2018	54
FY2019	67
FY2020	100

EBITDA¹

US\$ millions

Fiscal Year	EBITDA
FY2016	129
FY2017	100
FY2018	77
FY2019	109
FY2020	152

We processed 3.4 million tons of sunflower seeds in FY2020, setting another record and running our plants at 99% capacity utilization rate. Sunflower oil sales volumes totaled 1.5 million tons, equal to the production volumes over the period.

EBITDA margin per ton of oil sold further increased, to US\$ 100, supported by:

- An all-time high sunflower seeds harvest of 16.5 million tons, which allowed to increase crushing capacities utilization in Ukraine, and...
- ... growth in average global sunflower oil prices over the season. Notwithstanding the huge price swings (from US\$ 815 to US\$ 635 per ton of oil sold in bulk at FOB Black Sea basis), average price level in FY2020 appeared to be higher than in FY2019.

As a result, segment generated EBITDA of US\$ 152 million in FY2020, up 39% y-o-y.

Infrastructure and Trading



Segment volumes

million tons

Fiscal Year	Grain export from Ukraine	Export terminal throughput	Inland silos in-take volumes
FY2016	4.4	3.7	2.8
FY2017	5.1	4.5	3.3
FY2018	4.0	4.1	3.3
FY2019	6.1	4.6	4.3
FY2020	7.9	6.7	4.2

EBITDA margin

US\$ / ton of grain exported

Fiscal Year	EBITDA margin
FY2016	24
FY2017	22
FY2018	26
FY2019	17
FY2020	27

EBITDA¹

US\$ millions

Fiscal Year	EBITDA
FY2016	107
FY2017	110
FY2018	101
FY2019	106
FY2020	216

Impressive segment performance in FY2020 with more than twofold y-o-y EBITDA increase was driven by:

- The highest ever grain export volumes from Ukraine of 7.9 million tons, up 30% y-o-y. We enhanced our positions as the largest grain exporter from Ukraine, controlling 14% of total country grain export, 6 percentage points above the closest competitor.
- Record grain transshipment volumes following the launch of operations on our newly constructed terminal in Chornomorsk port;
- Full-year contribution from railcars business we acquired in February 2019;
- Outstanding Avere performance.

EBITDA margin per ton of grain exported through our value chain increased to US\$ 27, boosted by Avere and railcars operations, while keeping margins in other business lines relatively unchanged.

Farming



Kernel's key crop production

Fiscal Year	Acreage harvested, thousand hectares	Crop production, million tons
FY2016	391	1.9
FY2017	385	2.1
FY2018	596	2.5
FY2019	529	3.3
FY2020	513	3.1

EBITDA margin

US\$ / ha

Fiscal Year	EBITDA margin (incl. IFRS 16 effect)	EBITDA margin (excl. IFRS 16 effect)
FY2016	374	374
FY2017	378	378
FY2018	149	149
FY2019	344	344
FY2020	262	163

EBITDA¹

US\$ millions

Fiscal Year	EBITDA (incl. IFRS 16 effect)	EBITDA (excl. IFRS 16 effect)
FY2016	146	146
FY2017	146	146
FY2018	89	89
FY2019	182	182
FY2020	134	83

Our Farming segment profitability expectedly normalized in FY2020, reaching US\$ 134 million EBITDA (or US\$ 83 million if adjusting for IFRS 16 impact). This result also includes US\$ 21 million loss attributable to next season crop due to revaluation of biological assets, as accounted under IAS 41 standard.

In FY2020, we benefitted from highest ever crop yields for sunflower and wheat, but lost from corn yield normalization, lower contracted grain prices, and growing cost base enhanced by Ukrainian currency appreciation against US\$.

Acreage harvested in FY2020 reduced 3% y-o-y following the divestment of suboptimal lands.

EBITDA margin (excl. IFRS 16 impact) ended up at US\$ 163 per hectare, which is below our long-term sustainable estimate of US\$ 250.

¹ Here and further segment EBITDA is provided before unallocated corporate expenses.

Chairman's Statement



Andrii Verevskyi
Chairman of the Board of Directors,
Founder

Dear Stockholders,

On behalf of the Board of Directors of Kernel Holding S.A. I am pleased to present the results and developments of the Group for the year ended 30 June 2020. Our EBITDA increased to US\$ 443 million, net profit attributable to shareholders amounted to US\$ 118 million, and leverage ended up at 2.2x net-debt-to-EBITDA as of 30 June 2020.

FY2020 highlights

We are happy with the resilient business performance in this challenging season. African swine fever, continuing US-China trade tensions, production oversupply and political instability, and finally COVID-19 pandemic – all these factors have made agricultural markets very turbulent. At the same time, our results are ahead of our initial expectations, we achieved several operational records, and progressed on execution of our Strategy 2021 along with numerous business optimization initiatives.

Diversity of our business model payed off once again this year: relative weakness of Farming business was offset with outstanding performance of Oilseed Processing and Infrastructure and Trading segments.

All external factors were supportive for our **Oilseed Processing** business in FY2020. Despite significant volatility, global prices for sunflower oil in FY2020 were generally higher than a year ago, which positively impacted profits captured by Ukrainian farmers and crushers. And given a record 16.5 million tons sunflower seeds harvest in Ukraine combined with muted crushing capacities growth, competition among processors for oilseeds reduced, which allowed Kernel to secure strong US\$ 100 EBITDA margin per ton of sunflower oil sold. With 1.5 million tons of sunflower oil sales, the segment generated US\$ 152 million EBITDA in FY2020, up 39% y-o-y.

Moreover, superior results were achieved by our **Infrastructure and Trading** segment, which doubled EBITDA as compared to FY2019 baseline reaching a historical high of US\$ 216 million. We increased grain export volumes from Ukraine by 30% y-o-y to 7.9 million tons in FY2020, solidifying our position as the largest grain exporter from Ukraine and being 67% bigger than the closest competitor. It is hard to imagine, but in FY2020 Kernel alone exported more grain than the whole Ukraine did on average annually in 2000-2007, just before Kernel's IPO.

Grain export achievement was also reflected in grain transshipment volumes dynamics. Our terminals handled 6.7 million tons, up 45% as compared to last year, enhanced by

the launch of the operations on our new TransGrainTerminal.

Thirdly, we benefitted from our last year investment in grain railcars. An overheated market allowed us to save US\$ 38 million on transportation costs, which fully justifies our investment in the railcar business last year.

Finally, a strong result has been delivered by our Avere subsidiary, which turned from last year loss to profit in FY2020, securing large share of segment EBITDA growth.

Our **Farming** segment EBITDA in the reporting season dropped to US\$ 134 million, (or US\$ 83 million excluding IFRS 16 impact, which is down 54% y-o-y). Key factors for decline were normalization of grain yields for corn, lower contracted grain prices, growing production costs amplified by the appreciation of Ukrainian hryvnia against US\$, and US\$ 21 million loss recognized from revaluation of biological assets reflecting suppressed view on the next season harvest.

Considering the FY2020 results and CapEx pipeline for current year, the Board of Directors proposes shareholders to approve the **dividend of US\$ 0.25 per share**.

Along the season, we continued optimization of our core. In March 2020, we **divested our 50% stake in Taman** grain terminal in Russia for US\$ 68 million. We have not been operating this asset for a while, assigning our transshipment quota to a third party, so full exit was a logical and expected move. Additionally, we divested five silos and one farming entity in Ukraine.

In FY2020, we optimized Kernel financing structure by **issuing our second Eurobond** in October 2019. US\$ 300 million 5-year 6.5% notes are used to finance our working capital and general corporate needs. Fitch upgraded Kernel credit rating from B+ to BB- (two notches above Ukrainian sovereign) and S&P affirmed rating at B (in line with Ukrainian sovereign).

FY2020 will go down in history as the year when Ukraine finally adopted the long-awaited **land market reform**, although in quite a restricted format. Final design of the reform implies no corporate investments in land acquisition until 2024, therefore we do not envisage any investments by Kernel into land purchases by that time.

Luckily, Kernel is one of the companies which did not suffer much from **COVID-19 pandemic**. Despite all concerns, throughout April-June 2020 we delivered to export

Chairman's Statement

markets record quarterly volumes of sunflower oil, which is another great testament of our business model resiliency. Our operations and logistics were running quite smoothly and without any disruptions, outside of the delay in our CapEx program. At the same time, we are closely watching COVID-19 developments and assessing the potential impact it may have on our business. The safety of our employees is our top priority, and we remain a reliable partner for local communities where we operate.

As usual, **sustainable development** remained on top of our agenda. In FY2020, we reduced energy and emissions intensity for all our segments as compared to FY2019 and set our first ESG-related goal. Our charity donations in FY2020 tripled against FY2019 level, reaching US\$ 8 million, mostly related to supporting the healthcare system in our regions of operations in the fight with COVID-19, but also comprising investments in local communities' well-being.

Additionally in the reporting period, Kernel joined the world's largest corporate sustainability initiative United Nations Global Compact, taking the obligation to promote the UN sustainable development goals and develop corporate social responsibility by introducing the "10 Principles of the UN Global Compact" in the areas of human rights, labor, environment, and anti-corruption.

FY2021 outlook

The new season seems to be an important test for the resilience of our platform against external factors. At the current stage of the season, we envisage **harvest size reduction for all key crops in Ukraine**. Sunflower harvest in FY2021 is expected to decline 14% y-o-y, to 14.2 million tons, and grain harvest is likely to reduce 8% y-o-y, to 67 million tons for three key crops: corn, wheat, and barley. This means that competition for the feedstock shall intensify though an upward trend of global soft commodity prices shall absorb part of downward pressure on margins for all our segments in new season.

Notwithstanding the above, we plan to deliver **record volumes in FY2021**. We target 3.5 million tons of sunflower seeds processing and 9.5 million tons of grain export from Ukraine. It is a scale Kernel never achieved before and is well above our initial volume target we set four years ago while announcing our Strategy 2021.

Among the **supportive** factors for next season, we need to mention the recent **pricing environment**. Sunflower oil prices are much stronger than last year, which shall benefit the

crushing margin. Grain prices also perform relatively well, providing relief to the crop yields pressure in our farming business.

Two other aspects supporting our earnings next season will be a full-year contribution from our new TransGrainTerminal grain transshipment facility in the port of Chornomorsk, and up to US\$ 15 million expected EBITDA generated by our renewable energy projects being commissioned now.

Some relief also comes on the cost side: we do not expect further costs growth in Farming business next season.

Our CapEx program in FY2021 completes our expansion projects within Strategy 2021. We expect to finalize our greenfield expansion by investing the residual US\$ 270 million in growth and maintenance projects to commission our new oilseed processing plant in Western Ukraine and renewable energy assets along with the increase of in-take capacity in grain export terminal.

What is beyond?

Looking back, it would have been hard to imagine a few years ago where we are now. We never crushed such volumes of sunflower seeds, we never handled such volumes in grain export business, and we never achieved such high sunflower and wheat crop yields in the farming business, as we did in FY2020. I am proud of all these achievements delivered by our team.

We built a global leader in sunflower oil production and trade which will capitalize on growing demand and high-quality asset base. We created and constantly improve a best-in-class value chain to connect Ukrainian farmers with global consumers. Finally, we developed a sustainable cost-efficient and scalable farming business.

Further growth opportunities within our business lines in Ukraine are rather brown-field driven to consolidate the few remaining independent players in crushing and infrastructure businesses to crystallize our leadership market position and keep our major international competitors at bay. Still, those opportunities would not require any material deployment of capital and the timing of such acquisitions is hard to predict with any certainty. Moreover, agricultural land market reform is de-facto postponed.

As a result, we expect material reduction of capital redeployment beyond FY2021 positively impacting on net cash generation capabilities of Kernel. To address it, we are developing a **new capital allocation policy**, which

we plan to present together with the next annual report after completing extensive CapEx program within Strategy 2021. We prioritize a disciplined approach to capital management and allocation with proper communication to our shareholders on all new material initiatives we take.

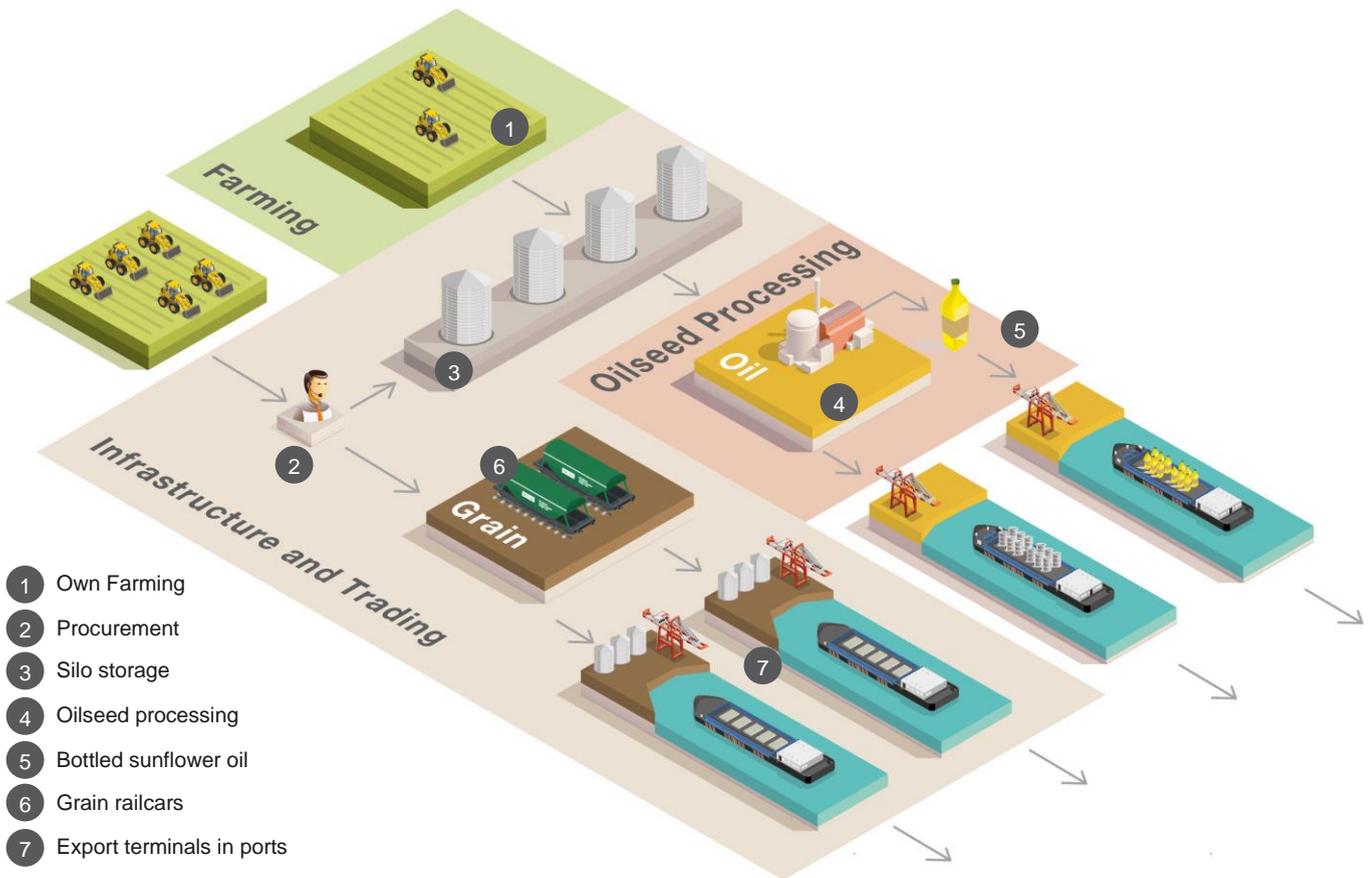
Along with the fellow members of the Board of Directors, I would like to express my appreciation to the whole Kernel team for the good performance in FY2020 and to thank our shareholders and creditors for the trust you place in us.



Andrii Verevskyi

Chairman of the Board of Directors,
Founder

Our Business Model



Topping industry league tables in all segments



Oilseed Processing segment

- #1 global sunflower oil producer (~7% of global production) and exporter (~12% of global exports)
- #1 bottled sunflower oil producer and marketer in Ukraine
- 3.5 million tons annual sunflower seed processing capacity
- Producer of renewable energy from biomass



Infrastructure and Trading segment

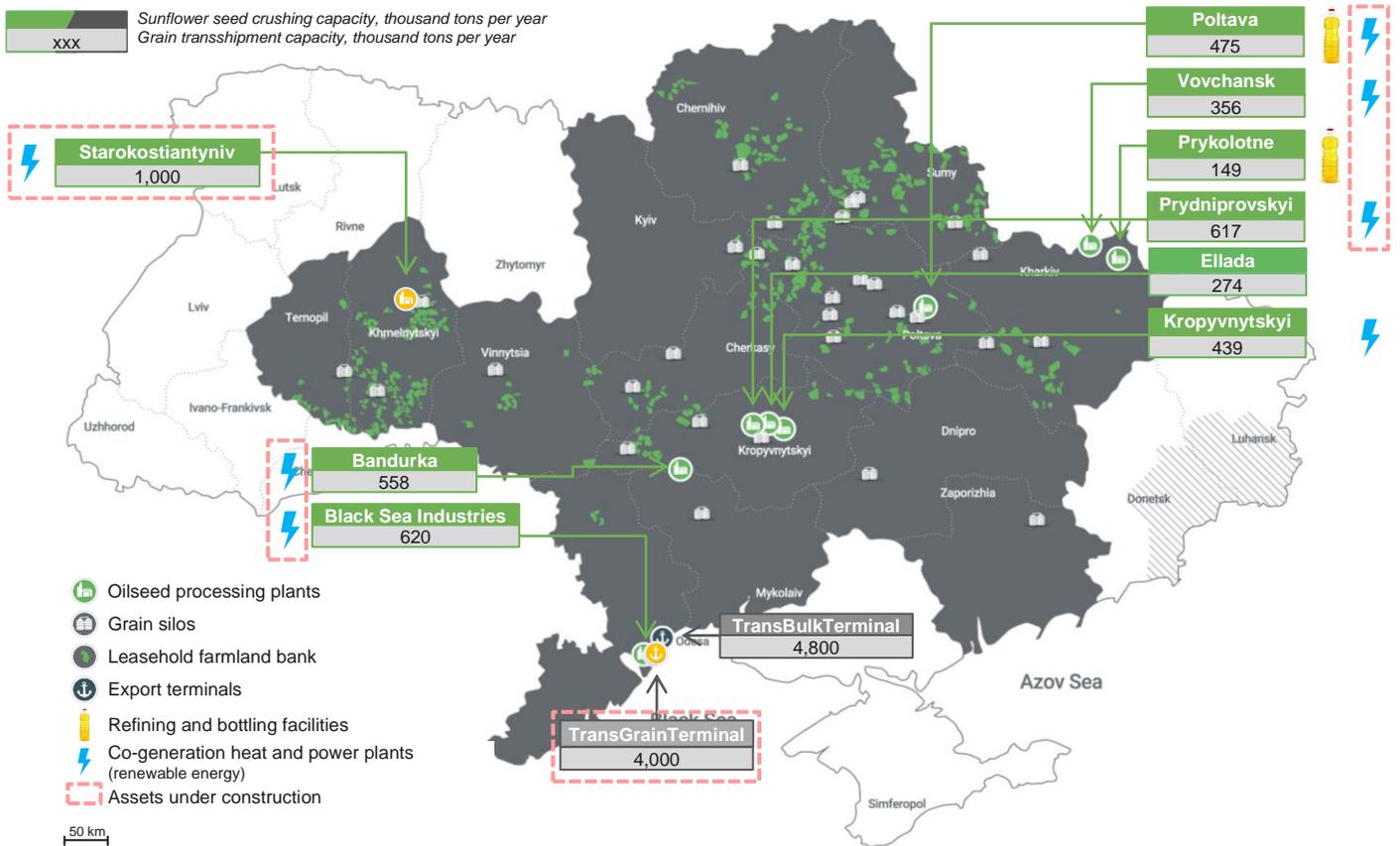
- #1 grain exporter from Ukraine with 14% share of country's total grain export
- 2 own grain export port terminals in Ukraine with annual capacity to transship 8.8 million tons of soft commodities (2nd largest player on the market)
- #1 private inland grain silo network in Ukraine with 2.4 million tons of grain storage capacity
- #1 private grain railcar fleet in Ukraine (3.4 thousand railcars)



Farming segment

- #1 crop producer in Ukraine controlling 514 thousand hectares of leasehold farmland
- Modern large-scale machinery, sustainable agronomic practices, cluster management system and export-oriented crop mix
- Nearly 100% of sales volumes flows through our Infrastructure and Trading and Oilseed Processing segments, earning incremental profits

Kernel at a Glance



Segment results summary

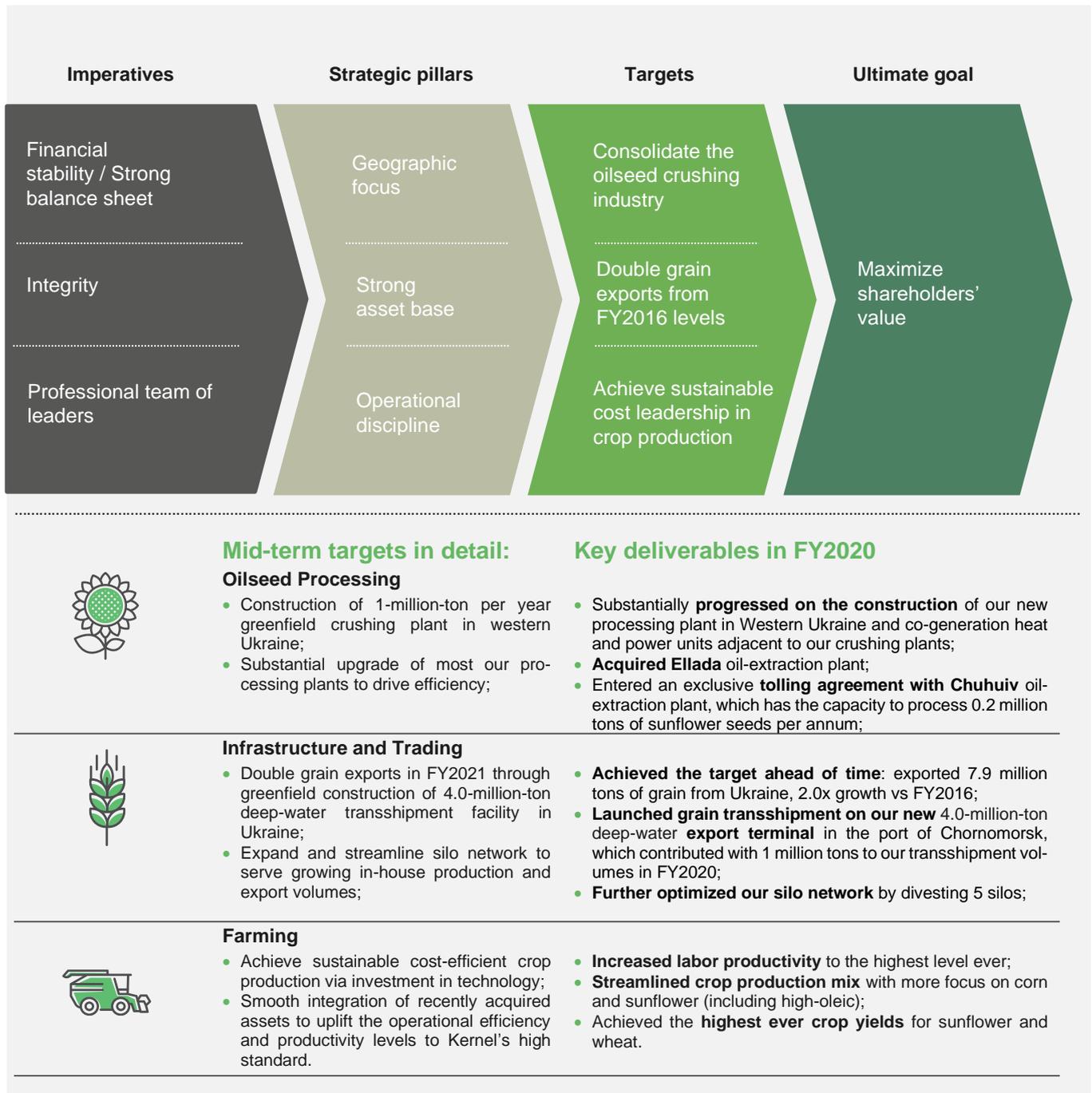
	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons ¹			EBITDA margin, US\$/t ²		
	FY2019	FY2020	y-o-y	FY2019	FY2020	y-o-y	FY2019	FY2020	y-o-y	FY2019	FY2020	y-o-y
Oilseed Processing	1,493	1,547	4%	109	152	39%	1,619	1,518	(6%)	67	100	49%
Infrastructure and Trading	3,108	3,426	10%	106	216	2.0x	6,094	7,902	30%	17	27	57%
Farming	602	604	0%	182	134	(26%)	3,294	3,271	(1%)	344	262	(24%)
Unallocated corporate expenses				(51)	(59)	15%						
Reconciliation	(1,243)	(1,471)	18%									
Total	3,960	4,107	4%	346	443	28%						

Note 1 Physical grain volumes exported from Ukraine (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; US\$ per hectare for Farming.

Our Strategy 2021

We aim to profitably double export volumes by FY2021, providing unique complex solutions to our clients (customers and suppliers) with balanced development of our business segments resulting from an efficient use of our asset base, investment in technology and innovation, strategic acquisitions, continuous development of our employees and the strengthening of our operations¹.



¹ Strategy 2021 has been announced in 2017

Financial Performance in FY2020



Stellar results in the challenging season



Kernel delivered astounding financial results in FY2020, although few factors distort the comparability with the previous season financials.

On the operating level, we generated US\$ 443 million EBITDA in FY2020, including US\$ 51 million positive impact from introduction of IFRS 16. Adjusted for that, EBITDA ended up at US\$ 392 million, up 13% from the baseline a year ago.

Diversity of our business model played out once again in the current season. While Farming segment performance in FY2020 was undermined, our remaining segments delivered extremely good results, more than compensating for the profitability normalization in our crop production business.

Infrastructure and Trading segment is a clear winner this season. First of all, FY2019 Avere loss turned into FY2020 profit, securing a major portion of segment's EBITDA increase. Secondly, full year saving of our railcars added US\$ 25 million incremental earning to FY2019 results. Finally, our grain export value chain added US\$ 28 million EBITDA driven by record volumes and the launch of transshipment operations on our new export terminal.

The season was also very rewarding for our **Oilseed Processing** segment. Crush margin soared to US\$ 100 EBITDA per ton of sunflower oil sold, driven by a strong harvest of sunflower seeds in Ukraine and a generally more favorable sunflower oil pricing environment. As a result, segment EBITDA surged by 39% y-o-y, to US\$ 152 million in FY2020.

Farming segment posted US\$ 134 million EBITDA in FY2020. Excluding IFRS 16 impact, it implies a 54% decline y-o-y, to US\$ 83 million.

Within the non-operating items, our result was significantly impacted by US\$ 46 million one-off loss recognized because of our exit from the Taman joint venture in Russia. Although we do not consider

Revenue

US\$ 4,107 million

+4% y-o-y

EBITDA

US\$ 443 million

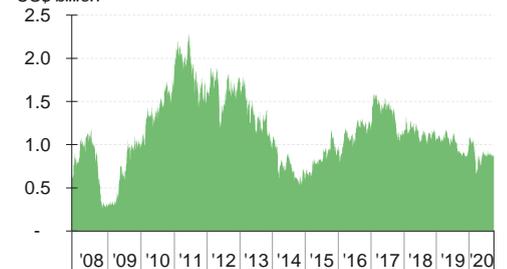
+28% y-o-y

the Taman deal as value-destructive for our shareholders, we had to reclassify historical FX translation differences previously recognized in other comprehensive income to profit or loss. On top of that, our **bottom-line** was adversely impacted by IFRS 16 introduction, which further reduced net profit by US\$ 22 million, to US\$ 123 million.

Net profit attributable to shareholders of Kernel Holding S.A. settled at US\$ 118 million, and the Board of Directors of Kernel Holding recommends the General Meeting of Shareholders distributing to shareholders US\$ 21 million as a dividend, unchanged as compared to the previous year and resulting in a 18% dividend payout ratio.

Kernel Holding S.A. market capitalization

US\$ billion



Source: Bloomberg

Financial Performance in FY2020 continued

Income statement highlights

The Group **revenues** exceeded US\$ 4.1 billion in FY2020, adding 4% y-o-y. At the same time, our sales structure changed substantially: sales of oilseeds downstream products exceeded revenue from grain and other agricultural commodities merchandising, mainly driven by change in physical trade structure of our Avere subsidiary.

We realized US\$ 21 million loss from **net change in fair value of biological assets and agricultural produce** in FY2020, compared to a US\$ 9 million gain a year ago. This component included a gain from revaluing crops in fields to fair value less costs to sell as of 30 June 2020 and expensing of the respective gain booked a year earlier, as well as a gain from change in the fair value of livestock. The recognized loss generally implies a bearish outlook for FY2021 crop size of our farming business as compared to FY2020 level.

Costs of sales in FY2020 is virtually unchanged against the previous year, staying at US\$ 3,624 million. We increased shipping and handling costs (selling more on CIF/CFR basis in the ports of our export destinations), amortization and depreciation (as a result of introduction of IFRS 16 standard¹), and payroll costs, but substantially reduced costs of goods for resale and raw materials used.

As a result, **gross profit** for the period increased by 38% y-o-y, to US\$ 462 million, of which US\$ 34 million is a positive effect from IFRS 16 introduction.

Other operating income amounted to US\$ 7 million, including losses on contracts wash-out

and gains on stock-take, proceeds received for assignment of our transshipment quota on Taman grain terminal in Russia to a 3rd party, and other items.

General and administrative costs amounted to US\$ 132 million in July'19-June'20, up 24% y-o-y. The increase was driven mainly by payroll costs increase also impacted by UAH strengthening against US\$, and growth in audit, legal, and other professional fees.

Consequently, **operating profit** landed at US\$ 337 million, or US\$ 304 million if excluding IFRS 16 impact. EBITDA of the Group surged to US\$ 443 million (or US\$ 392 million if adjusting for IFRS 16 effect, up 13% y-o-y).

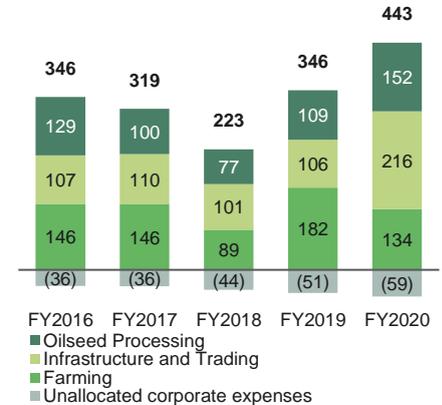
Finance costs in FY2020 totaled at US\$ 147 million, including US\$ 54 million IFRS 16 impact, namely interest on lease liabilities. Adjusted for it, finance costs reached to US\$ 93 million, up 13% y-o-y.

Other expenses spiked to US\$ 51 million in FY2020, substantially impacted by US\$ 46 million one-off loss related to divestment of our 50% stake in the Taman grain terminal in Russia. While the total consideration received was above the carrying amount of the Group's interest in the joint venture, the Group recognized the loss due to reclassification of historical FX translation differences previously recognized in other comprehensive income to profit or loss.

On top of that, we spent almost US\$ 8 million on charity, with a major portion of that corresponding to our COVID-19-related donations to support public healthcare in Ukraine, but

Kernel's EBITDA split

US\$ million



also our investments into wellbeing of local communities in regions of our operations.

Share of profit in our Taman joint venture up to the date of disposal of our 50% stake in this JV in March 2020 totaled at US\$ 6 million.

Corporate income tax expenses in FY2020 stood at US\$ 22 million, adding US\$ 10 million to FY2019 result.

Consequently, **net profit** in the reporting period comprised US\$ 123 million, reducing by US\$ 56 million from the previous year level mostly due to loss related to Taman transaction and IFRS 16 effect. Excluding those two factors, we should have reached US\$ 190 million, up 7% y-o-y.

Net profit attributable to shareholders of Kernel Holding S.A. ended up at US\$ 118 million.

Following the dividend policy, the Company in April 2020 paid the **dividend** of US\$ 0.25 per share totaling to US\$ 21 million for FY2019. Considering the Company performance in FY2020 and the CapEx-heavy cycle in Company's history, the Board of Directors recommends the general meeting of shareholders to approve the dividend of US\$ 0.25 per share to be paid during the financial year ending 30 June 2021.

Cash flow highlights

In FY2020, Kernel generated **operating profit before working capital changes** of US\$ 422 million, which was inflated by IFRS 16 introduction, namely reclassification of land rent payments from operating expenses to repayment of principal and interest under lease liabilities.

Income statement highlights

US\$ million

	FY2019	FY2020	y-o-y
Revenue	3,960	4,107	4%
Net IAS 41 gain	9	(21)	n/a
Cost of sales	(3,636)	(3,624)	(0%)
Gross profit	334	462	38%
Other operating income	42	7	(83%)
General and administrative expenses	(107)	(132)	24%
Operating profit	269	337	25%
Finance costs, net	(82)	(147)	79%
Foreign exchange gain(loss), net	13	(1)	n/a
Other expenses, net	(8)	(51)	6.0x
Share of profit/(losses) of joint venture	(1)	6	n/a
Profit / (loss) before income tax	190	145	(24%)
Income tax (benefit)/expenses	(12)	(22)	85%
Profit for the period	179	123	(31%)
Attributable to equity holders of Kernel Holding S.A.	189	118	(38%)
Non-controlling interest	(11)	5	n/a
EBITDA	346	443	28%

¹ See more on page 13 and in Note 3 to the FY2020 Consolidated Statements.

Financial Performance in FY2020 continued

Working capital changes resulted in US\$ 10 million cash outflow in FY2020: cash outflow caused by movements in receivables, payables, and prepayments exceeded the inflow from reduction of biological assets and growth in advances from customers.

Interest paid in FY2020 amounted to US\$ 140 million, but that includes US\$ 54 million IFRS 16 impact, namely interest on lease liabilities which by FY2020 was recognized among the operating cash expenses. Together with US\$ 5 million interest received and US\$ 8 million income tax paid, Kernel generated US\$ 269 million of cash provided by operating activities.

Net cash used in investing activities totaled at US\$ 203 million in FY2020. We invested US\$ 252 million as a part of our Strategy 2021 CapEx program, including our greenfield investments and acquisition of the Ellada crushing plant. Also, we received US\$ 75 million proceeds from M&A activities, including US\$ 65 million cash received for disposal of our 50% stake in the Taman grain terminal.

Company also paid US\$ 21 million dividends in FY2020, distributing 11% of profit attributable to shareholders of Kernel Holding S.A. for FY2019.

Although cash provided by operating activities appeared to be sufficient to finance our investment activities, in Q2 FY2020 we issued US\$ 300 million Eurobond as an alternative source of working capital financing. This issue was fully reflected in our US\$ 291 million cash balance increase between 30 June 2019 and 30 June 2020.

Debt overview

Liquidity positions and credit metrics

US\$ million, except ratios

	30 June 2019	30 June 2020	y-o-y
Short-term interest-bearing debt	203	73	(64%)
Long-term interest-bearing debt	64	172	2.7x
Lease liabilities	8	310	40x
Eurobonds	496	794	60%
Debt liabilities	770	1,350	75%
Cash and cash equivalents	77	369	4.8x
Net debt	694	980	41%
Readily marketable inventories	293	252	(14%)
of which sunflower oil and meal	125	96	(23%)
Sunflower seeds	104	121	17%
Grains and other RMIs	65	34	(48%)
Adjusted net debt	400	729	82%
Shareholders' equity	1,351	1,493	10%
Net debt / EBITDA	2.0x	2.2x	0.2x
Adjusted net debt / EBITDA	1.2x	1.6x	0.5x
EBITDA / Interest	4.2x	3.0x	(1.2x)

¹ Readily marketable inventories are agricultural inventories such as corn, wheat, barley, soybean, sunflower seed, meal and oil, among others, which are readily convertible into cash because of their commodity characteristics, widely available markets and international pricing mechanism, carried at cost.

Our debt and liquidity position in FY2020 was impacted by several important factors:

- **Firstly**, we introduced IFRS 16 accounting standard, recognizing US\$ 302 million of respective lease liabilities as of 30 June 2020, almost all of which is attributable to land lease agreements and was not accounted as a liability before. Since the new standard was not applied in FY2019, it distorts to some extent the comparability of leverage metrics between the periods;
- **Secondly**, we issued our second Euro-bond: 5-year 6.5% US\$ 300 million notes, rated BB- by Fitch, and B by S&P, two notches above and in line with Ukrainian sovereign, respectively. Proceeds from the notes were used to finance the permanent portion of working capital and general corporate needs;
- **Thirdly**, we increased the utilization of our long-term facilities provided by EBRD and EIB to finance our CapEx program;
- **Finally**, we preferred to keep relatively high liquidity on the balance sheet in the second half of FY2020 given the COVID-19-related business concerns.

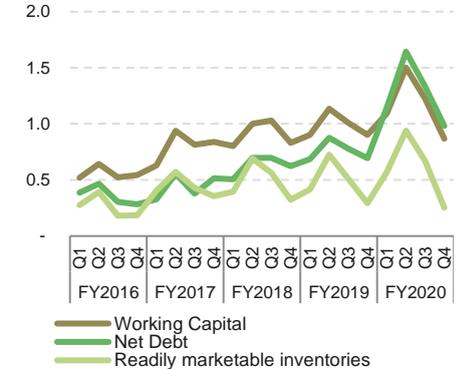
As a result, **net debt** as of 30 June 2020 amounted to US\$ 980 million, a US\$ 287 million increase y-o-y, primarily due to the introduction of IFRS 16 standard and recognition of respective liabilities.

Readily marketable inventories¹ ("RMI") as of 30 June 2020 totaled to US\$ 252 million, covering 26% of net debt outstanding. RMI are either presold or could easily be converted into cash being a commodity by nature. RMI accounted for 83% of all inventories as of 30 June 2020.

Net debt adjusted for RMI settled at US\$ 729 million as of FY2020 end, growing by US\$ 320 million as of FY2020 end, growing by US\$ 320 million as of FY2020 end.

Working capital and debt position

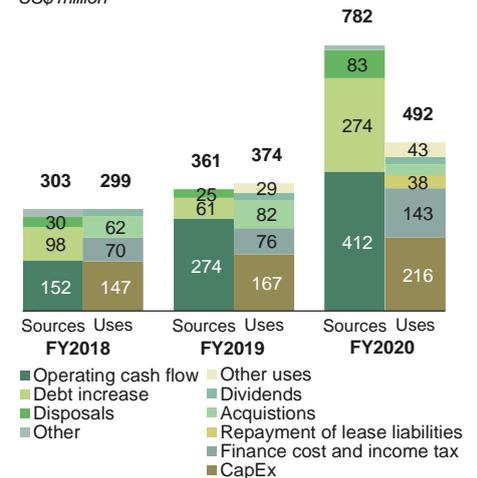
US\$ billion



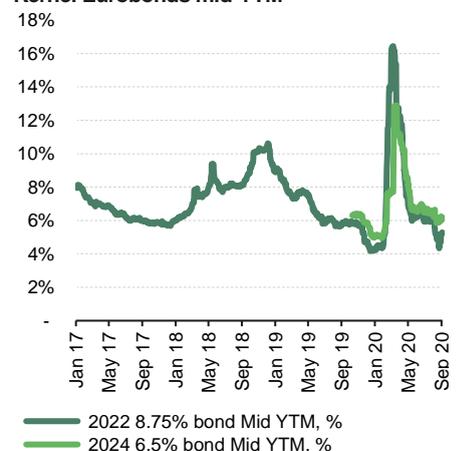
"Working Capital", "Net Debt" and "Readily marketable inventories" definitions as described in section Alternative Performance Measures.

Sources and uses of cash

US\$ million



Kernel Eurobonds mid-YTM



Financial Performance in FY2020 continued

million over the reporting period mainly due to the introduction of IFRS 16.

Key leverage metrics for FY2020 ended up at 2.2x Net debt / EBITDA, 1.6x Adjusted net debt / EBITDA, and 3.0x EBITDA / interest coverage.

We have Eurobond incurrence covenant of 3.0x EBITDA / Net interest calculated excluding IFRS 16 effect.

Undrawn facilities as of 30 June 2020 amounted to US\$ 959 million, of which 87% - are short term financing (mostly our grain and sunflower oil pre-export facilities), and 13% long-term EIB facility.

In FY2020, we changed our **working capital management approach**. We substantially increase volumes of grain and oilseeds procured from third-party farmers in Q2 of the season. This is the period right after the completion of the harvesting campaign, and normally it puts pressure on farmers to sell the crop given the logistics constraints. By originating more grain and oilseeds by December, we normally secure better crush and trading margins. We plan to continue such practice in the future, so it is reasonable to expect working capital and leverage spikes as of 31 December each season going forward.

CapEx schedule

In FY2021, we plan to invest US\$ 270 million in our expansion and maintenance projects, including the completion of renewable energy projects, in-take capacity increase on our new grain export terminal in the port of Chornomorsk, and reaching the pre-commissioning stage for our new oilseed processing plant in Western Ukraine.

IFRS 16 impact

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\$ 347 million right-of-use assets (of which US\$ 334 million rights to lease land) and US\$ 302 million corresponding lease liabilities as of 30 June 2020.
- Rental payments disappeared and were replaced by amortization of right-of-use assets and finance expenses attached to lease liabilities.

In FY2020, EBITDA increased by US\$ 51 million, which is roughly 2/3 of the annual effect to be visible going forward, since IFRS 16 was

Strategy 2021 investments pipeline overview

US\$ million, based on management accounts

	FY17	FY18	FY19	FY20	FY21	FY22	Total
Leasehold farmland bank expansion	152	47	-	-	-	-	199
Greenfield oilseed processing plant with CHP unit	-	52	10	39	73	6	180
Construction of CHP units on 6 our plants	0	12	30	64	63	-	169
New export terminal in Chornomorsk port	1	3	46	45	42	-	137
Grain railcars investments	-	16	65	8	-	-	89
Construction and upgrade of silo facilities	-	19	36	7	2	-	63
Acquisition of assets of Ellada plant	24	-	-	21	-	-	45
Total key expansion investments	177	150	186	184	179	6	881
Maintenance and other CapEx	35	61	72	68	92	60	
Total investments	211	211	258	252	270	66	

Effect of IFRS 16 introduction on Group's FY2020 financial statements

Effect on Statement of Profit or Loss

In US\$ million	FY2019	FY2020		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Revenues	3,960	4,107	-	4,107
Revaluation of biological assets	9	(45)	24	(21)
Cost of sales	(3,636)	(3,634)	10	(3,624)
of which depreciation & amortization	(72)	(83)	(17)	(101)
Rental payments	(72)	(80)	27	(53)
Gross profit	334	428	34	462
Other operating income	42	7	-	7
General and administrative expenses	(107)	(131)	(1)	(132)
Operating profit	269	304	33	337
Finance costs	(82)	(93)	(54)	(147)
Other non-operating items	4	(45)	(1)	(45)
Profit before income tax	190	166	(22)	145
Income tax	(12)	(22)	-	(22)
Net profit	179	144	(22)	123
Net profit attributable to shareholders	189	139	(22)	118
Depreciation and amortization	(76)	(88)	(18)	(106)
EBITDA	346	392	51	443

Effect on Statement of Financial Position

In US\$ million	30 June 2019	30 June 2020		
		prior to IFRS 16	IFRS 16 effect	with IFRS 16
Current assets	1,256	1,533	(2)	1,531
Non-current assets	1,207	1,331	0	1,634
of which right-of-use assets	-	-	347	347
other non-current assets	1,207	1,331	(44)	1,286
Total assets	2,464	2,864	301	3,165
Current liabilities	480	392	21	413
of which current portion of lease liabilities	-	-	45	45
other current liabilities	480	392	(24)	368
Non-current liabilities	638	998	260	1,258
of which lease liabilities	-	-	265	265
other non-current liabilities	638	998	(5)	993
Equity	1,346	1,474	20	1,494
Total liabilities and equity	2,464	2,864	301	3,165

introduced after half of the farming growing season was over.

Oilseed Processing



The largest global producer and exporter of sunflower oil



Record 3.4 million tons of oilseeds processed in FY2020

Kernel is a **global market leader in sunflower seed processing**, with 3.5 million tons of annual sunflower seed processing capacity and 1.5 million tons of sunflower oil sales in FY2020. This business generated US\$ 152 million EBITDA in FY2020, adding 39% as compared to the previous year.

Although the margins in this business increased for the second year in a row, the **market remains unbalanced**. Crushing capacities in Ukraine exceed the harvest of sunflower seeds by 16%, and many market players are underutilized. Any sizable harvest reduction, *ceteris paribus*, may cause the industry margin to fall,

At the same time, we are the best-positioned player to successfully compete in the current environment. Our scale and quality of asset base allows us to **run operations at lowest cost**. On top of that, our transparency and credibility allow us to attract **the cheapest cost of financing among Ukrainian corporates**, which is extremely important for such working-capital-intensive operations as oilseed processing.

We strictly adhere to our Strategy 2021 target: **consolidate the oilseed processing industry in Ukraine**. In the reporting period, we acquired the Ellada crushing plant, which we operated before under the tolling agreement, and entered one-year exclusive tolling agreement to process oilseeds on the Chuhuiv oil-extraction plant for FY2021. Additionally, in one year we expect to commission the largest oil-extraction plant in Ukraine, in the western part of the country. Having then 8-9% of global production of sunflower oil and 15-16% of global export, such a platform will allow us to effectively lever our scale for the benefit of our shareholders.

Revenue

US\$ 1,547 million
+4% y-o-y

EBITDA

(before unallocated head office expenses)

US\$ 152 million
+39% y-o-y

To diversify from pure crushing business exposure, we entered a **new synergetic business: renewable energy generation** using biomass leftover from the crushing process. By FY2023, this business arm is expected to secure US\$ 60-65 million EBITDA annually, being a new growth driver of this segment. We are the first big oilseed processor in Ukraine to invest in such projects, and once completed, Kernel will evolve as the largest producer of renewable energy from biomass in Ukraine.

With new crushing plant and renewable energy projects in the pipeline, Oilseed Processing segment is expected be a **key growth driver** of company EBITDA **in the next few years**.

Oilseed Processing continued

Market overview

We believe there are two determinants materially affecting Kernel oilseed processing business: 1) global sunflower oil prices and 2) supply-demand balance on Ukrainian sunflower seed processing market. While the first factor is important for **combined earnings** of sunflower seed farming and processing in Ukraine, the second one determines a **split of margins** between farmers and processors.

Both factors were favorable for oilseed processing business in FY2020, resulting in substantial margin improvement.

Global sunflower oil prices

Sunflower oil is the **4th largest vegetable oil in terms of global consumption** with 9.8% market share in the 2019/20 season. At the same time, it is the **fastest growing vegetable oil**: over the last five years, global consumption of sunflower oil increased with 6.8% CAGR, and in the 2019/20 season it added 8.5% y-o-y. The main demand on the global market comes from India and China (driven by income and population growth and rapidly expanding food processing industries) and EU, together taking 60% in global imports, while the **largest global exporter is Ukraine** with 52% share in total exports and 6.5 million tons of sunflower oil exported in 2019/20 season¹.

As major vegetable oils (palm, soybean, rapeseed/canola, and sunflower) are highly substitutable goods with price-elastic demand, sunflower oil prices are largely determined by vegetable oils' supply & demand situation on the global marketplace.

FY2020 sunflower oil prices were rather unstable against the backdrop of an extremely volatile edible oils market. Price dynamics followed four clearly observable trends:

- **Early FY2020.** Seasonal depletion of old crop stock resulted in price growth.
- **September-October 2019.** Expected bumper crop and cheap palm and soybean oils put pressure on sunflower oil prices.
- **November 2019 – January 2020.** Strong demand from biodiesel/food industries and slowdown in production due to dry weather in South-East Asia resulted in palm oil price increase. Expensive palm made sunflower oil very attractive, pushing its price up by about US\$ 100 per ton within three months, despite the record production.
- **January-March 2020.** Sharp drop in crude mineral oil prices made biodiesel not economically feasible, reducing the demand for vegetable oils used for biodiesel production. Besides, COVID-19 and the subsequent global lockdown destroyed fuel

(including biodiesel) demand due to movement restrictions. In the food sector, HoReCa demand for oils has dropped sharply as consumer behavior has changed notably in favor of home cooking. Short-term surge in retail demand for bottled oil was not enough to offset the losses.

- **April-June 2020.** Demand recovery came with easing of lockdown restrictions. Fuel consumption and dining out have recovered to some degree worldwide. Strong import demand from Asia, notably China, contributed to the sunflower oil price growth.

Supply-demand balance on Ukrainian sunflower seed processing market

Sunflower seed processing in Ukraine is heavily localized: nearly all sunflower seeds harvested by local farmers are processed domestically. While combined profitability of farmers (producers of seeds) and crushers (processors of seeds) is determined by global prices, the exact split of earnings between farmers and crushers depends on supply of seeds (harvest) and demand for seeds (processing capacities).

In FY2020, sunflower seed processing capacities in Ukraine increased by 2% y-o-y to 19.2 million tons, following the construction of new small crushing plant and capacity increase for several existing players. At the same time, sunflower seeds harvest in the season increased by 9% y-o-y, to 16.5 million tons, driven by crop yield improvement on the back of supportive weather conditions. As a result, the gap between crushing capacities and supply of seeds reduced, positively impacting the crushing margin over the season.

Outlook for FY2021

Market fundamentals for the next season looks rather mixed.

We expect sunflower seed harvest to reduce to 14.2 million tons in FY2021. Although the area under sunflower is estimated at a record 6.7 million hectares, we envisage a sharp reduction in crop yield due to an August drought.

Prices for sunflower oil, on the contrary, are quite supportive at the beginning of the season, crossing the 5-year maximum. Price momentum might be a balancing factor against the weakness coming from sunflower harvest setback.

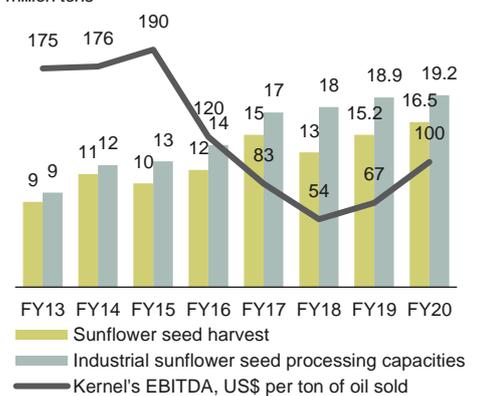
The competitive landscape is not expected to change – we do not envisage any new projects entering the market, so the effective sunflower seed processing capacities are likely to remain unchanged at 19.2 million tons.

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



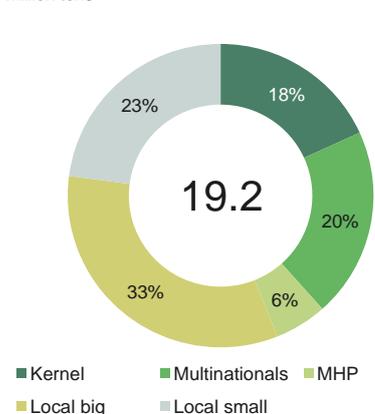
Source: Bloomberg

Supply and demand for sunflower seeds in Ukraine
million tons



Source: Kernel's data, Kernel's estimates.

Processing capacities as at MY 2019/20
million tons



Source: Kernel's estimates

¹ Source: USDA, September 2020

Oilseed Processing continued

Our business model

Market leader in oilseed processing

Kernel is the largest global sunflower oil producer and exporter, with annual capacity to process 3.5 million tons of sunflower seeds at owned facilities. In FY2020, we produced ~7% of global production of sunflower oil and exported ~12% of global export¹.

Asset base

We own eight oilseed processing plants in Ukraine with a total annual capacity to process 3.5 million tons of sunflower seeds, corresponding to 18% of country's total industrial crushing capacity and making us 2.3 times bigger than the second-largest crusher in Ukraine. In FY2020, we produced 21% of total sunflower oil in Ukraine.

Most of our crushing plants are multi-seed and able to switch to soybean or rapeseed processing if needed.

All the assets are located across the sunflower seed production belt in Ukraine in close proximity to farmers, ensuring the high utilization rates and profitability, as the low density of sunflower seed negatively impacts the economics of transporting seeds to the long distances.

In the season FY2021, we will also be processing sunflower seeds under tolling agreement on the Chuhuiv oil extraction plant in Kharkiv region in Ukraine, which has a capacity to process 0.2 million tons of sunflower seeds per year.

In autumn 2021, we plan to commission the largest oilseed processing plant in Ukraine with 1 million tons of annual sunflower seeds crushing capacity.

Our crushing plants are modern facilities constructed or fully renovated recently, granting us processing cost advantages over most of the other players. Our scale also allows us to benefit from more efficient usage of our country-wide origination network and allocation of overheads over larger volumes.

Since February 2019, we also own 5.85% stake in ViOil – one of the largest independent sunflower oil producers in Ukraine. A customary shareholder agreement in relation to ViOil grants us certain rights gaining a favorable position to further increase our stake.

Origination and production

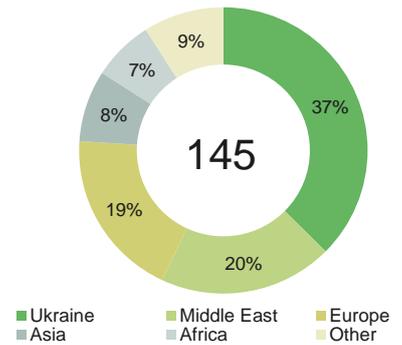
The vast majority of processed sunflower seeds is originated from third-party farmers, with up to 15% produced by our own farming business.

Sunflower seed processing yields two major products: sunflower oil and meal, which we export globally mostly through third-party terminals, with only a minor portion transhipped through our own TransBulkTerminal. Sunflower seed husk, a biomass, is either burnt in-house to generate steam for production purposes, or pelletized and sold to third parties. We are currently constructing co-generation heat and power units adjacent to five of our crushing plants to burn all the husk produced and generate electricity. Our Kropyvnytskyi plant already has a similar facility with a

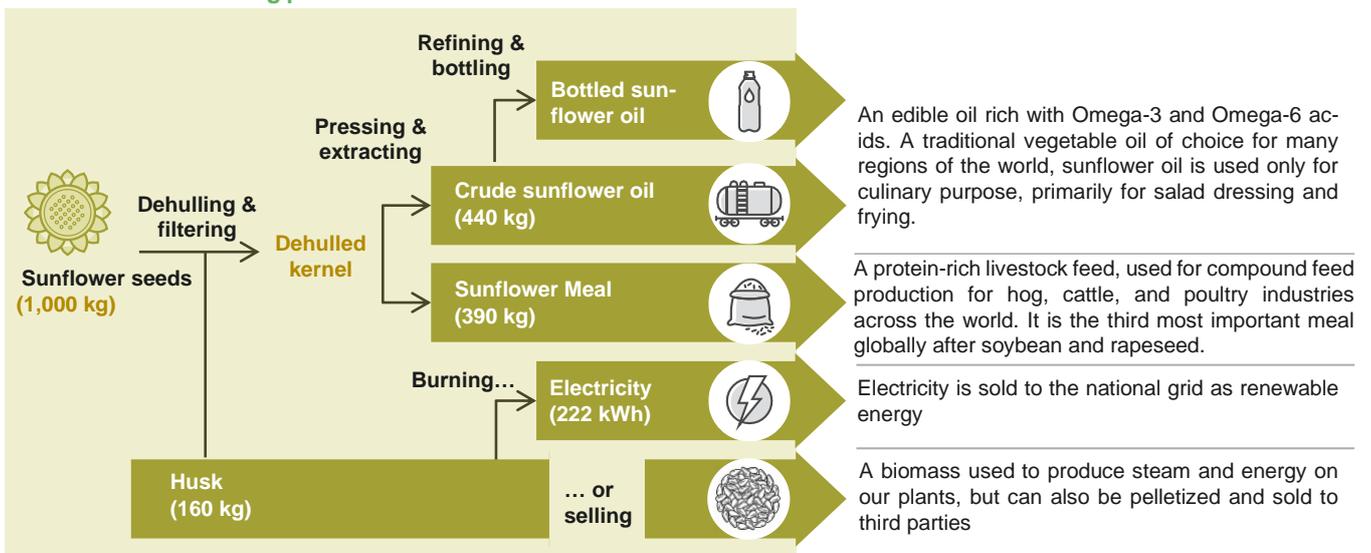
Sunflower oil sold in bulk destinations FY2020
thousand tons



Bottled sunflower oil destinations FY2020
million liters



Sunflower seed crushing process



¹ USDA, Kernel analysis.

Oilseed Processing continued

7.5 MW installed turbine capacity, supplying the electricity generated to national grid. A state-owned enterprise “Guaranteed Buyer” is obliged to buy all such renewable energy produced at feed-in tariff fixed in EUR by 2030.

Up to 10% of produced crude sunflower oil is further refined and bottled on our Poltava and Prykolotne plants. Incremental EBITDA margin for such higher added value product exceeded US\$ 80 per ton of oil sold in FY2020.

Approximately 5% of oilseeds processed corresponds to high-oleic sunflower seeds, which provide higher margin than ordinary ones.

Sales

Most sunflower oil produced by our plants (82% in FY2020) is sold on the FOB basis to our Avere subsidiary, applying the arm’s length principle. Avere then sells it on the CIF-basis in export countries earning extra margin, and such operations are accounted in our Infrastructure and Trading segment.

In addition to marketing sunflower oil produced by our plants, Avere also buys sunflower oil from other producers in Ukraine, consolidating exports from Ukraine under its umbrella and building up the scale in global sunflower oil trading. With that volume, we kept ~16% of global sunflower oil trade in FY2020.

Sunflower oil is mostly sold through forward contracts. As of 30 June 2020, we had contractual commitments to sell 308 thousand tons of sunflower oil for US\$ 234 million.

Markets and customers

Oilseed processing is an export-oriented business. Over 90% of produced sunflower oil is exported in bulk, with EU, Iraq, India, China being our key markets. Our customers mainly include processors of soft commodities who refine and bottle sunflower oil, and big international traders. The largest customer in FY2020 was the Etihad Food Industries refinery in Iraq with a 25% share in our total bulk oil sales. Other big customers include ADM,

Sinopharm, and Cargill, taking 9%, 8% and 7% of our bulk oil sales volumes, respectively.

Up to 10% of crude sunflower oil produced on our plants is further refined and bottled. In FY2020, 62% of produced bottled oil was exported, mostly to Europe, Middle East, EU, and China, both under our own brands and private labels. We have 35% share in total refined bottled sunflower oil export from Ukraine, supplying products to such international retail chains as METRO, Auchan, Walmart, Maxima and others.

38% of produced bottled oil in FY2020 was sold in Ukraine to 18 nationwide retailers and 30 regional distributors, comprising 86% and 14% of domestic sales, respectively, under well-recognized brands “Chumak”, “Schedryi Dar”, “Stozhar” and others.

Key developments

In FY2020, we delivered a new record volume of sunflower seeds processed – 3.4 million tons, up 9% y-o-y, translating into 99% capacity utilization of our oil extraction plants. This achievement is a result of record sunflower seeds harvest in Ukraine in the reporting period, and a proper procurement strategy which targeted buying as much oilseeds as practically possible right after the harvesting and processing seeds produced by our Farming segment at the end of the season.

In December 2019, we completed an **acquisition of assets of Ellada oilseed processing plant**, which the Company operated since 2016 under tolling agreement. The plant is located in Kropyvnytskyi in Central Ukraine and has a processing capacity of 274 thousand tons of sunflower seeds per year.

At the end of FY2020, we reached an exclusive **tolling agreement to process sunflower seeds on Chuhuiv oil-extraction plant** (Kharkiv region, Ukraine) in FY2021 season. Constructed in 2015, this plant has the capacity to process 0.2 million tons of sunflower seeds per year, but historically was heavily underutilized due to the working capital deficit.

Over the course of FY2020, we substantially progressed in the **construction of our new oilseed processing plant in Western Ukraine**. However, we are behind schedule, as supply of the equipment was delayed because of various COVID-19 impacts and restrictions. Currently we expect the final commissioning of the plant in autumn 2021 (FY2022), and the full-year EBITDA contribution from this asset starting from FY2023. The plant will be the largest in Ukraine, with annual processing capacity of one million tons of

Construction site of Kernel new oil-extraction plant in Western Ukraine, August 2020.



Oilseed Processing continued

sunflower seeds, also accommodating soybeans and rapeseed crushing. The plant will be equipped with an integrated 22 MW combined heat and power generation unit ("CHP unit") selling electricity to the national grid. Western Ukraine has the promising fundamentals for sunflower seed processing business, so we expect EBITDA margin on this facility to be above the company average.

Within our renewable energy investments pipeline, our first co-generation heat and power unit commissioned in Kropyvnytskyi oil-extraction plant sold over 20 GWh of renewable energy to the national grid in FY2020.

In the bottled sunflower oil business, we reduced sales in Ukraine by 3%, at the same time increasing the export of bottled oil by 20% to 91 million liters. For export sales, we increased shipments to Europe, Africa and Asia (including entering a new retail network Jumbo in Netherlands), while lost in sales in Middle East.

Headcount in this business reduced to the lowest ever 2.2 thousand employees, from 2.3 thousand a year ago.

Performance overview

We sold 1.5 million tons of sunflower oil in FY2020, just in line with production volumes. Of that, bottled sunflower oil sales amounted to 133 thousand tons, up 8% y-o-y to an all-time high, driven by growth in export sales.

EBITDA generated per ton of oil sold further improved in FY2020, to US\$100, implying 49% growth y-o-y. All profitability drivers supported this growth:

- **Global sunflower oil prices** in FY2020 were on average 7% **higher** than in FY2019, improving the combined profitability of farmers and crushers in Ukraine.
- Ukraine achieved **the largest ever harvest of sunflower seeds**, estimated at 16.5 million tons, up 9% y-o-y, which boosted domestic oilseeds supply.
- Industrial crushing capacities in Ukraine

increased by only 2% in FY2020, with **no visible impact on the oilseeds demand landscape**.

Driven by the margin improvement, segment EBITDA in FY2020 increased by 39% y-o-y, to US\$ 152 million. Sales of renewable energy produced from biomass (sunflower seed husk) generated US\$ 1.2 million EBITDA in FY2020.

We also secured strong volumes of sunflower seeds to crush in Q1 FY2021, which is the last quarter before a new harvest of sunflower seeds starts.

FY2021 outlook

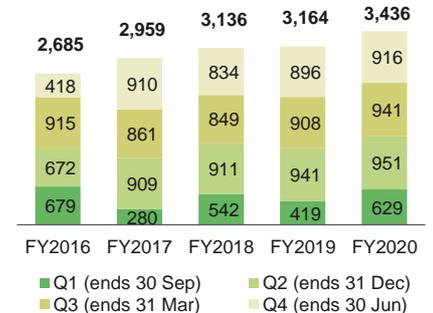
We set an ambitious target to process more than 3.5 million tons of sunflower seeds in FY2021, including seeds to be crushed on the Chuhiv oil-extraction plant under the tolling agreement. It will be a challenging task for our procurement team, as the harvest in Ukraine is expected to reduce by 14% from FY2020 level.

As in the previous season, we aim to buy as much sunflower seeds as possible right after the harvesting, which normally secures better margins, but results in higher leverage as of 31 December.

We envisage a slight reduction of the crushing margin in the upcoming season, as the setback in the harvest of sunflower seeds may not be compensated by stronger sunflower oil prices. At the same time, we expect US\$ 10-15 million incremental EBITDA contribution from co-generation heat and power units to be commissioned on our Poltava, Bandurka and Black Sea Industries oil-extraction plants in December 2020, which shall be supportive to total segment earnings.

Oilseed processing volumes

thousand tons



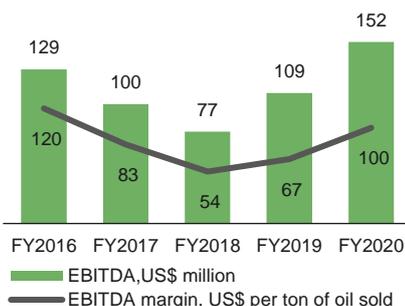
Kernel bottled oil selected customers



Kernel bottled oil core brands



Oilseed Processing segment EBITDA



Oilseed Processing segment performance

		FY2019	FY2020	y-o-y
Oilseeds processed	thousand tons	3,164	3,436	9%
Sunflower oil sales	thousand tons	1,619	1,518	(6%)
Revenue	US\$ million	1,493	1,547	4%
EBITDA	US\$ million	109	152	39%
EBITDA per ton of oil sold	US\$ / ton	67	100	49%
EBITDA margin	% of revenue	7.3%	9.8%	2.5pp

Oilseed Processing continued

Non-financial performance

Occupational health and safety

Regretfully, we had two recordable work-related injuries in Oilseed Processing segment in FY2020, one of which with high consequence.

Our crushing business was first in the focus of our occupational health and safety management system transformation exercise (see [case study](#)). As a result, all but one our oilseed processing plants successfully completed certification under ISO 45001:2018 "Occupational health and safety" conducted by Bureau Veritas in FY2020.

For more details on our health and safety performance, please refer to page 64 of this report.

Employee training and development

We dedicate a lot of effort to the training and professional growth of our people. Over the course of FY2020, 770 participants employed by our Oilseed Processing segment invested a total of 24 thousand hours in development of their hard and soft skills.

Energy consumption and emissions intensity

Oilseed Processing is our most eco-friendly segment, as 81% of energy consumed comes from renewable fuel (sunflower husk).

In FY2020, we continued the trend of energy intensity improvement, consuming the lowest ever 1,285 MJ per ton of sunflower seed crushed. We reduced total consumption of electricity and sunflower husk while increasing oilseed processing volumes.

Greenhouse gas emissions of the segment amounted to 441 thousand tons of CO₂ equivalent in FY2020, slightly up y-o-y on more natural gas consumed. GHG emissions intensity remains at the lowest-ever level of 128 kg of CO₂ equivalent per ton of sunflower seed crushed.

Product quality and safety

As the largest global producer of sunflower oil, we strive to set industry benchmarks in terms of product quality, guaranteeing the highest standards of goods we deliver to our customers.

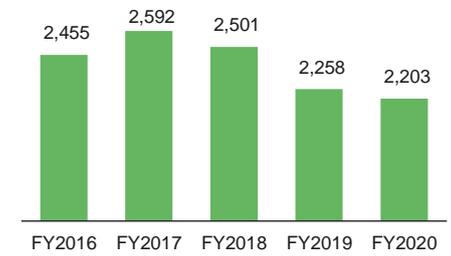
All our crushing plants are certified under ISO 22000, ISO 9001 and GMP+B1. Our bottling facilities have FSSC 22000 certificates. Beyond that, our crushing plants have numerous other quality certificates which are required to sell products across the globe (please see "Customer health and safety (GRI 416)" on page 74).

We supply bottled sunflower oil to reputable international retail chains (Auchan, Metro, Walmart, Maxima etc.), which serves as proof of the quality of our produce.

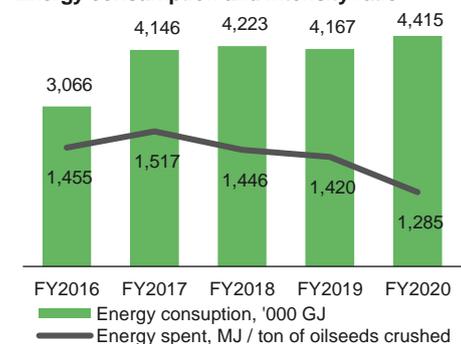
Our food safety and quality system is regularly tested by independent third-party auditors and constantly overseen by our internal food safety team. The audits' scope includes production, storage, distribution and supply processes. In FY2020, we passed 97 independent audits, conducted over 100 days.

Number of segment employees (FTE)

As of 30 June of the respective year

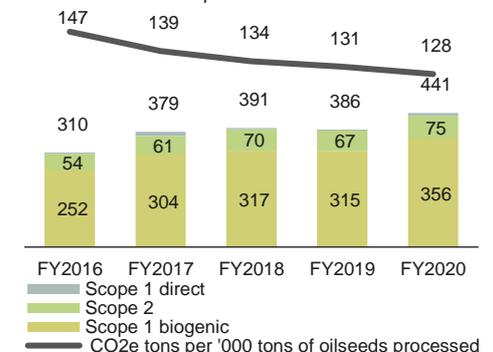


Energy consumption and intensity ratio



GHG emissions and intensity ratio

thousand tons of CO₂ equivalent



Infrastructure and Trading



Connecting Ukrainian farmers with global markets



Exported 7.9 million tons of grains and oilseeds from Ukraine

Our **Infrastructure and Trading segment** went through **significant transformation** over last few years. We added new business lines (railcars and proprietary trading operations), divested numerous non-core assets (18 storage facilities, port assets in Ukraine, and a 50% stake in the Taman grain export terminal in Russia), and debottlenecked the core business line by constructing new grain transshipment terminal in the Chornomorsk port and two new highly efficient silos.

Besides streamlining the assets base, we put a lot of effort into **establishing credible relations with farmers** who sell us grain and oilseeds. We provide them with pre-crop financing, share crop production technology we use in our own farming business, and provide numerous other services via our Open Agribusiness initiative.

As a result, the Infrastructure and Trading business made an unprecedented breakthrough over the last two years. In FY2020, we exported 7.9 million tons of grain from Ukraine, and just two years ago we were two times lower at 3.8 million tons. Effectively doubling the volumes, we **early achieved one of the targets of our Strategy 2021**, notwithstanding all the challenges we faced over the season: COVID-19 pandemic, USA-China trade tensions, and African swine fever in China.

We outperformed numerous multinational and local peers who export grain from Ukraine, delivering to export markets 14% of total grain from Ukraine, 67% more than the closest competitor.

Profitability-wise, we doubled our segment operating result in FY2020 as compared to FY2019, reaching US\$ 216 million EBITDA which is an all-time-high for this business.

Revenue

US\$ 3,426 million
+10% y-o-y

EBITDA

(before unallocated head office expenses)

US\$ 216 million
2.0x growth y-o-y

Agenda for FY2021

We set a new ambitious target to export 9.5 million tons of grain from Ukraine and transship through our terminals 9 million tons. We will undoubtedly benefit from full-season contribution from our new grain export terminal which launched operations in February 2020 and which we intend to keep fully utilized in July'20-June'21 season.

On the other hand, harvest of three key grains in Ukraine is expected to reduce from 73 million tons to 67 million tons, implying lower exportable surplus and more challenging competitive environment as compared to FY2020, which may reduce trading margin. Other expected downsides include the normalization of savings coming from railcars operations, which we already started to observe. Finally, we will not reckon anymore on earnings related to Taman (US\$ 7 million in FY2020), as we divested our 50% stake in this asset in March 2020.

While the season is expected to be challenging, we believe in the strength of our platform and its ability to create value for our shareholders.

Infrastructure and Trading continued

Market overview

Key market factors important to follow for our Infrastructure and Trading segment performance include the harvest of grains in Ukraine, competition among grain traders in Ukraine and competition among grain infrastructure assets, along with other factors.

Grain harvest in Ukraine

Ukraine hit a record high harvest of grain in 2019/20 season (the company's FY2020), amounting to 73 million tons¹, up 8% y-o-y. The growth was driven by strong production of wheat and barley thanks to higher acreage and beneficial growing conditions, while corn harvest improved just slightly from last year, setting yet another record.

With stagnating domestic grain consumption in Ukraine, grain export volumes accelerated in 2019/20 reaching 55 million tons, up 10% y-o-y, making Ukraine the second largest grain exporter globally with 15% of global grain trade².

In FY2021, after two consecutive record years, we expect an 8% setback in crop production, mainly corn and wheat. Reduced planted area under wheat and August drought for corn are the main reasons for lower harvests.

Competition among grain traders

In Ukraine, we compete with established multinational trade houses (COFCO, Cargill, ADM, Bunge, Louis Dreyfus, Glencore) as well as with numerous local peers, including Nibulon as the #3 exporter. While all the largest exporters have their own grain export terminals in ports, most of them lack a sufficient silo network and grain railcars fleet, not to mention the absence of own farming business. All those factors combined allow us to win this race.

Grain infrastructure trends

Grain export terminals

We estimate current capacity of big specialized grain export terminals in Ukraine at ~66 million tons per year. On top of that, there are ~22 million tons of capacity for small and unspecialized players, which are not efficient, often lacking the depth at berth and therefore being heavily underutilized.

With 48 million tons of grain export expected for FY2021 and 4 million tons of annual oilseed export expected, port transshipment capacities are underutilized, which keeps the **transshipment business margin under pressure**.

Grain railcars business

After three years of intensive private investments into grain railcars fleet, the historical **deficit of railcars was eliminated** by FY2020. Going on, we expect railcars lease costs to normalize from overheated historical levels, implying lower returns from investments in such business.

The next important step in the railway logistics will be an introduction of **private traction** to eliminate the deficit of locomotives on the market. A winner of the pilot project on admission of private locomotives to work on public railway will operate nine routes, six of which are very important for our own grain export business.

Silo business

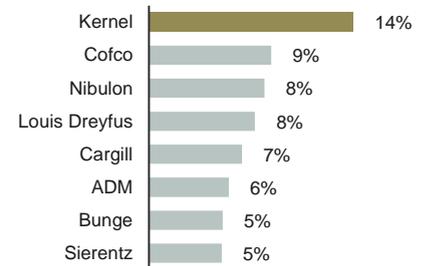
The most important trend in the silo business also involves railway logistics. Aiming to improve the turnover of rolling stock, Ukrainian Railways provides preferential treatment to high-productive grain storages. Silos with capacity to load a full shuttle train (54 grain railcars) per day are primarily allocated with railway wagons during the high season. Therefore, numerous unproductive and inefficient grain storages face difficulties with getting access to railcars, and market players started investing in construction of new silos and debottlenecking of existing ones.

Kernel is one of the largest operators of modern high-loading-speed silos in Ukraine.

Global picture

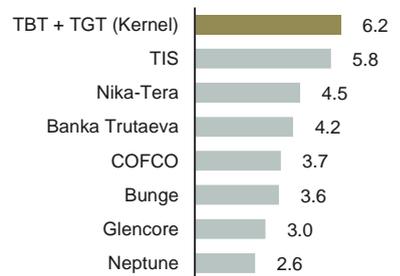
Ukraine is well-positioned to remain an important player in the international grain market, owing to both its large farmland area and strategic location on the Black Sea. Ukraine is ideally positioned for exports to the Mediterranean market as the closest major grain producer with a developed grain transshipment infrastructure offering logistics and cost advantages. There are deep-water commercial seaports connected to an extensive railway network serving most of the grain elevators in the country.

Top grain exporters from Ukraine in FY2020
% of total grain export



Source: STARK

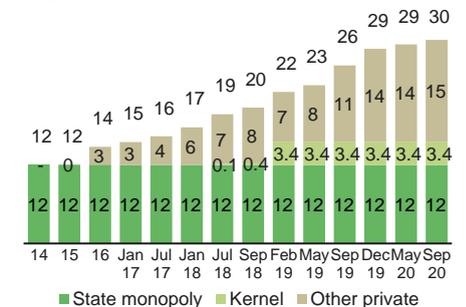
Top export terminals in Ukraine in FY2020
million tons of grain throughput



Source: STARK

Grain railcars fleet

of grain railcars



Source: UZ, Kernel



¹ Three key grains: corn, wheat, and barley. Source: Company estimates as of September 2020.
² Three key grains: corn, wheat, and barley. Source: USDA.

Infrastructure and Trading continued

Our business model

The Infrastructure and Trading segment comprises several interdependent business units serving as a supply chain connecting Ukrainian farmers with global markets: silo services, grain railcars, export terminals, grain export business in Ukraine, and Avere operations (offshore physical and proprietary trading).

Grain export business

Kernel is the largest grain exporter from Ukraine and one of the largest from the Black Sea region. We are involved in buying grain from local farmers (including own farming division) and exporting it from Ukraine. In FY2020, we exported 7.9 million tons of grain from Ukraine, or 14% of the country's total grain export. We successfully navigate in this low-margin high-volume business by effectively combining the following pillars:

- **Experienced procurement team** with country-wide presence and deep understanding of local trends and regional peculiarities;
- First-hand access to unique in Ukraine **own infrastructure** – the largest private silo network, the largest private fleet of grain railcars and the second largest deep-water grain transshipment capacities in ports;
- **Prudent risk management**: locking up the margins by selling grain through forward contracts in a similar time frame as when we purchase it from farmers on the spot market;

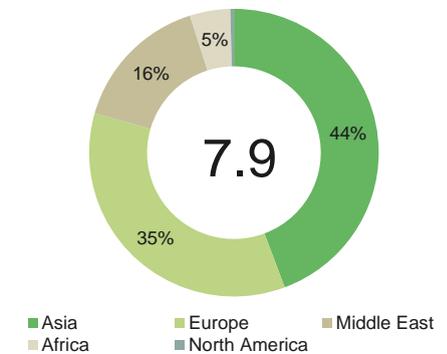
- **Relationship with farmers** managed through centralized CRM system and supported with numerous value-added initiatives. In Ukraine, we are one of the largest **providers of pre-crop financing** to farmers, investing over US\$ 105 million in farmer loans for the harvest 2020 both for grain and sunflower seeds. With our Open Agribusiness initiative, we **share our know-how** and provide various services to third-party farmers. Finally, we operate an advanced **electronic document flow system** which substantially simplifies paperwork for farmers and used it to purchase 2.3 million tons of grain and oilseeds in FY2020 (28% of total volumes).

Such a one-of-a-kind combination is our key competitive advantage which often makes us a partner of first choice for third-party farmers.

We sell grain mostly on the FOB-basis (78% in FY2020) in the ports of Black Sea to big international traders like Glencore (14% of Kernel grain export volumes in FY2020), OLAM (10%) and Cefetra (10%), as well as Cofco, Cargill, ADM and others. CIF/CFR sales achieved 20% of our grain export volumes in FY2020 – in that case we also transported goods by sea to a required port.

Exported grain is loaded to vessels either via our own two terminals in the port of Chornomorsk, or through third-party-owned deep

Kernel grain export from Ukraine destinations million tons



water facility in the port of Pivdennyi, where we lease a transshipment quota.

Silo services

We operate the largest private inland silo network in Ukraine of 31 silos with combined grain storage capacity of 2.4 million tons. Our assets include very productive silos able to load shuttle trains (54 railcars) in one day, but also smaller and less efficient floor-type storages of which we systematically divest.

Silos located across the key grain producing regions in Ukraine provide grain in-take, drying, cleaning, storage, and off-loading services to our farming segment and to third-party farmers countrywide. Grain drying service has the highest added value, so profitability of the whole business line materially depends on the weather when harvesting: more rain positively effects margins for silo business; less rain negatively so. Our silos start grain intake with wheat in July and end with corn in December, thus being able to do more than 1.0x storage capacity turnover over the season.

In addition to typical services provided, our **silo network serves as an important origination tool**, enabling our procurement team to purchase grain and sunflower seeds from farmers within a 100-kilometer range from the harvested land, thus being the first-choice buyer to consider. Our inland silo footprint enables us to maintain close contacts with farmers and have better visibility on the Ukrainian grain supply.

Export terminals

Kernel owns the **second largest grain transshipment port infrastructure in Ukraine**. Our two grain export terminals (TransBulkTerminal and TransGrainTerminal) allow us to handle 8.8 million tons of grain per annum. Both facilities are in the deep-water Chornomorsk port, Odesa region, and are capable of servicing over-Panamax-sized

Kernel newly constructed silo in Nizhyn, Chernihiv region

113 thousand tons storage capacity



- New facility commissioned in summer 2019
- 5% of Kernel's total silo storage capacity
- 14% of silo business EBITDA in FY2020
- 422 thousand tons grain in-take volumes in FY2020 (3.7x storage capacity turnover)

Infrastructure and Trading continued

vessels with deadweight of up to 100,000 tons and maximum loading at berth of 69,700 tons.

Our terminals transship mainly grain (93% of total throughput in FY2020), but also sunflower meal, sunflower oil, and sunflower husk.

Grain railcars

We are the largest private operator of grain railcars in Ukraine with ~11% market share of total grain hoppers fleet in Ukraine. We own 3.4 thousand railcars used to deliver grain from silos (owned by us and by other players) to the grain transshipment terminals in the ports. Owning the railcars allows us to save on lease payments, though we still pay for usage of railway traction and infrastructure. Kernel is among top-five largest railway consignors in Ukraine.

Avere operations

Avere is a 60%-owned¹ subsidiary of Kernel, with another 40% owned by Avere managing partners. It is a research and knowledge platform founded in FY2018 and headquartered in Switzerland, with representative offices in USA, Singapore, and China. Avere employs a highly qualified research, trading, and execution team of approximately 30 specialists. Avere sells 80% of sunflower oil produced by Kernel plants, purchasing sunflower oil from Kernel at market prices (FOB Black Sea) and paying Kernel a fee for that. Additionally, Avere helps to hedge Kernel's growing grain export volumes and farming produce. Finally, leveraging its expertise, Avere is involved in the merchandising and proprietary trading of grains, oilseeds, and related products in the key world markets.

As of 30 June 2020, we forward-sold 761,000 tons of grain for an amount of US\$ 146 million, including Avere volumes.

Key developments

In the second half of FY2020, we launched operations on our **new grain export terminal in the port of Chornomorsk** – TransGrainTerminal (see case study on this page). The new facility has a capacity to transship four million tons of grain per annum, and its launch allowed us to break the record in our grain transshipment volumes this season, handling 6.7 million tons in FY2020, a hefty 45% y-o-y growth.

New transshipment capacities and efficient work of our procurement team strengthened our positions as **the largest grain exporter from Ukraine** in FY2020, outperforming numerous local peers and international players.

Case study: construction of new TransGrainTerminal in the port of Chornomorsk

Debottlenecking of our grain transshipment operations in the ports was one of important pillars of our Strategy 2021. By FY2017, we reached almost full capacity utilization of our existing facility TransBulkTerminal, so in order to further increase grain export volumes from Ukraine, we initiated construction of a new 4.0-million-ton deep-water transshipment facility in the port of Chornomorsk, next-door to our existing terminal.

Construction started in FY2018, and already in FY2019 we launched grain in-take and storage capacities. In February 2020 we started grain transshipment operations through new facility, handling almost one million ton of grain in FY2020, still in test mode. For FY2021, we target to handle 4 million tons of grain, reaching the full capacity utilization.

By 30 June 2020, we invested US\$ 96 million in construction of this facility. Additional US\$ 42 million are to be invested in FY2021, mostly into intake productivity improvement (railways, truck intake, grain drying).

New TransGrainTerminal has a storage capacity of 300,000 tons and ship loading capacity of 4,000 tons per hour. Maximum vessel draft is 12.3 meters. Once fully completed, the intake capacity will amount to 250 railcars and 600 trucks per day, with maximum grain drying and cleaning volumes of 240 tons per day. Equipment is supplied by recognized global producers, including AGI, Bedeschi, Symaga, and Siemens.



We delivered 7.9 million tons of grain to foreign markets, a hefty 30% y-o-y growth. We kept 14% of total grain export from Ukraine in July'19-June'20 period, 67% more than the closest competitor. 69% of exported volumes comprised of corn, 26% - of wheat, and remaining of barley and other crops. 35% of exported grain was produced by our Farming segment.

In FY2020, we expanded the scope of our **Open Agribusiness** project. Beside sharing our knowledge and crop-production technology (the initial scope of the project), we launched a **new type of cooperation with small farmers in Ukraine**. We buy 10% of farmer's equity at market valuation with a buy-back clause granting us a 15% annual return in US\$, the right to get dividends, and the right for us to buy a minimum 80% of produced crop. Instead, we provide farmers with:

- extensive agronomic support and sharing our experience and technology (including precision farming), which results in cost saving;
- possibility to buy crop inputs (seeds, fertilizers, crop protection agents), machinery and equipment at prices available to Kernel;
- working capital financing;
- access to our currency and forward programs.

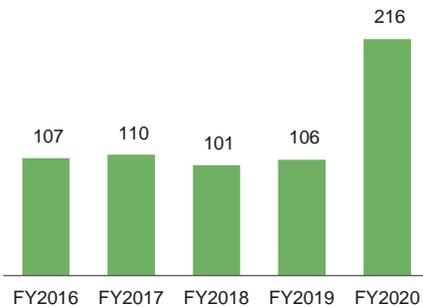
Since the launch of the project in FY2020, we partnered with 10 farmers who operate in total over 32,000 hectares, investing in equity purchase US\$ 2.7 million. We plan to further expand this project in FY2021.

In FY2020, we have developed and implemented **CRM system IBuyMore**, which allows us to improve the quality of our procurement planning and execution. As of September 2020, IBuyMore covers more than 6,000

¹ 72.5%-owned as of 30 June 2020

Infrastructure and Trading continued

Infrastructure and Trading segment EBITDA US\$ million



our existing grain and oilseed suppliers in Ukraine operating over 4 million hectares.

Over the reporting period we started to sell more grain with delivery to the destination country. In FY2020, 20% of total volumes exported from Ukraine were sold on CIF/CFR basis, as compared to 10% in FY2019.

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.

In the reporting period, we further progressed in **optimization of our asset base**, disposing of small floor-type grain silos, which are inefficient with high costs and low capacity turnover, and do not fit our business model. As a result, our one-time grain silo storage capacity reduced to 2.4 million tons as of 30 June 2020. Since the launch of the optimization program, we sold 18 silos with 541 thousand tons storage capacity for US\$ 21 million and intend to sell 9 more silos having a combined storage capacity of 390 thousand tons. Driven by the portfolio optimization, the **headcount of the segment reduced 9% y-o-y**, to 2,718 employees as of 30 June 2020.

Performance overview

A stellar performance of Infrastructure and Trading segment secured US\$ 216 million EBITDA in FY2020, a 104% y-o-y growth after four seasons of flat earnings. The key tailwinds came from:

- a tremendous growth in scale of our operations. We profitably increased grain export volumes from Ukraine by 30% y-o-y, to 7.9

Infrastructure and Trading segment performance

		FY2019	FY2020	y-o-y
Grain export volumes	thousand tons	6,094	7,902	30%
Export terminal's throughput (Ukraine)	thousand tons	4,606	6,666	45%
Grain and oilseeds received in inland silos	thousand tons	4,276	4,158	(3%)
Revenue	US\$ million	3,108	3,426	10%
EBITDA	US\$ million	106	216	104%
EBITDA margin per ton of grain exported	US\$	17	27	57%

million in FY2020, generating almost US\$ 5 per ton EBITDA margin from trading operations;

- a launch of operations on our newly constructed grain transshipment terminal in the port of Chornomorsk. The new facility allowed us to increase transshipment volumes in FY2020 by 45% y-o-y, to 6.7 million tons, with average margin exceeding US\$ 8 per ton of grain transshipped;
- a full-year contribution of our railcar business acquired in February 2019. Total savings in grain transportation costs on FY2020 amounted to US\$ 38 million, up from US\$ 13 million a year ago;
- an outstanding Avere performance.

Margins for our infrastructure business lines (export terminals, grain storages) and grain export from Ukraine remained relatively stable in FY2020 as compared to FY2019.

Additionally, over the reporting period we recognized US\$ 7 million proceeds from assignment of our transshipment quota on Taman grain export terminal to a third-party, which are accounted in the EBITDA of this segment. We will no longer be eligible for getting such proceeds in the future, as we divested our 50% stake in Taman grain export terminal in March 2020.

As a result, EBITDA margin per ton of grain exported through our value chain increased to US\$ 27.

FY2021 outlook

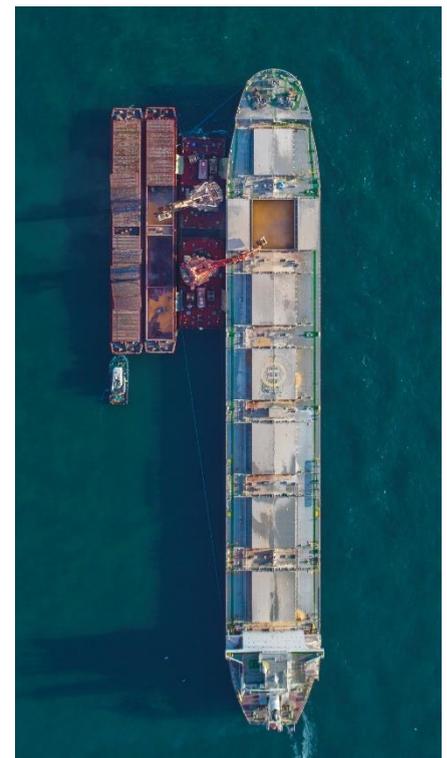
In FY2021, Infrastructure and Trading segment will benefit from full-season operations on our new grain export terminal in the port of Chornomorsk, which launched grain handling in February 2020. The new facility is expected to add 2.3 million tons of incremental grain transshipment volumes to our FY2020 actuals to achieve 9 million tons target for upcoming season. Based on that, we have 9.5 million tons target for grain export from Ukraine during FY2021.

Grain trading and transshipment **margins may face a downward pressure** in FY2021, as the grain harvest in Ukraine is likely to decline. In FY2020, Ukraine harvested 73 million tons of key grains (corn, wheat, and barley)

according to our estimates, and for FY2021 we expect crop size to reduce to 67 million tons.

FY2021 will be a year of **normalization of earnings in the railcars business** in Ukraine. Following the historical deficit of railcars, the market is now saturated, so railcars lease costs are expected to reduce, as well as EBITDA contribution from this business.

Finally, we cannot reckon anymore on proceeds from assignment of our Taman transshipment quota in Taman terminal, Russia.



In FY2020, Kernel made its first shipment of grain through river port in Ukraine. A river barge was loaded with our grain in third-party-owned Svitlovodsk river port (Kirovohrad region) and off-loaded to a larger sized vessel at Chornomorsk sea port anchorage.

Infrastructure and Trading continued

Non-financial performance Occupational health and safety

Unfortunately, we had one fatal accident in our Infrastructure and Trading segment. The driving accident happened with our employee who transported goods to port. Although we will implement additional control measures for our drivers leaving our facilities, such accidents are beyond our full control and cannot be fully avoided in the future.

The number of non-fatal injuries over the reporting period reduced to seven from 16 a year ago. Four such cases are trivial injuries which happened occasionally in its majority, but three incidents caused grievous bodily harm.

We remain committed to fully eliminate such accidents in the future, organizing health and safety trainings, workshops, and regularly inspecting our assets for compliance with health and safety requirements. By FY2023, we aim to have all our assets certified under ISO 45001:2018 (Occupational health and safety). The ultimate goal is to have no work-related injuries among our employees.

Employee training and development

We remain committed to the professional development of our employees. 1.7 thousand participants from Infrastructure and Trading segment were involved in our training and development activities in FY2020, investing more than 17 thousand hours in total for training and professional development. The activities were focused on the development of hard and soft skills, various competencies, and managerial abilities.

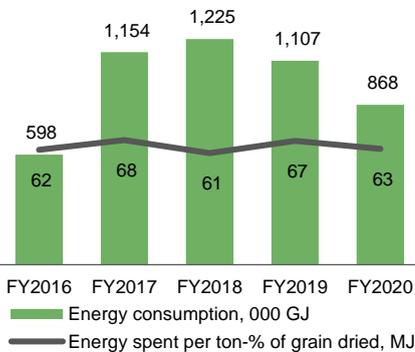
Energy consumption and emissions intensity

Our energy consumption within the infrastructure and trading division decreased by 22% y-o-y to 868 thousand gigajoules in FY2020, mainly due to the reduction of natural gas consumption given less demand for grain drying services in silo business line. At the same time, energy efficiency increased by 6% in comparison to the previous year, with 63 megajoules spent for each percentage of moisture removed from one ton of grain dried, compared to 67 megajoules a year ago.

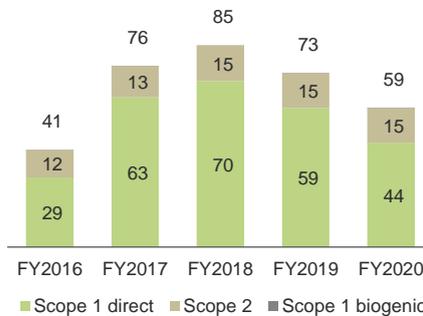
The factors driving energy consumption also impacted emissions of the division, which decreased to 59 thousand tons of CO₂ equivalent in FY2020.

For the full group disclosure of energy consumption, emissions and intensity ratios, see page 53 of this report.

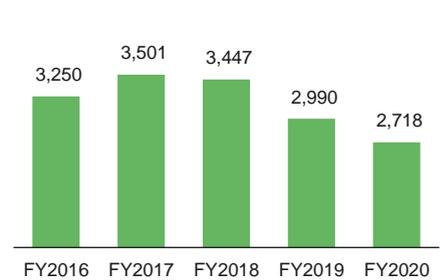
Energy consumption and intensity ratio



Infrastructure and Trading GHG emissions thousand tons of CO₂ equivalent



Number of segment employees (FTE) As of 30 June of the respective year



Farming



Advancing in crop production efficiency



Produced 3.1 million tons of key grains and oilseeds in FY2020

#DigitalAgriBusiness
Kernel creates future

Kernel is the **largest crop producer in Ukraine**, operating 514 thousand hectares of prime farmland. Six times during last 10 years we increased our landbank under operations and 14 times increased the harvest size. We completely transformed our crop production technology, boosting productivity to set industry benchmarks and became **one of the most technologically advanced farmers in Ukraine**. We experienced in successful integration of a new landbank and can easily replicate our crop production approach on new assets at low integration cost.

Ukraine enjoys **strong fundamentals for farming business**, including top-quality soils globally and proximity to key markets. At the same time, profitability in this business is extremely sensitive to the level of global grain prices and weather conditions in Ukraine. Given that we cannot control such exposure, we focus on what we can actually impact: costs and productivity.

Among the achievements in FY2020 in our Farming segment, we further increased the labor productivity, streamlined crop mix, and substantially progressed in the roll out of high-oleic sunflower seeds cultivation. We reached the highest-ever crop yields for sunflower and wheat, which could not be possible without application of our **best-in-class crop production technology**.

At the same time, externalities took their toll in FY2020. We contracted on average lower prices for corn and wheat, as compared to FY2019. Additionally, less supportive weather for corn resulted in crop yield normalization from 9.9 tons per hectare in FY2019 to 8.5 in FY2020. On top of that, land lease, fertilizers, and labor costs inflation enhanced by Ukrainian currency appreciation further eroded the margin in this business.

Consequently, **profitability** of our Farming

Revenue

US\$ 604 million

+0.4% y-o-y

EBITDA

(before unallocated head office expenses)

US\$ 134 million

-26% y-o-y

segment **expectedly normalized** in FY2020 from an extremely high FY2019 base. We generated US\$ 134 million EBITDA, of which US\$ 51 million stands for positive impact from IFRS 16. Additionally, segment EBITDA includes negative IAS 41 impact (revaluation of biological assets) of US\$ 21 million, which reflects rather pessimistic sentiments towards the next year's performance. Adjusting for those two factors, we generated US\$ 128 million "cash" EBITDA in FY2020, which is above our guidance for the season and implies US\$ 250 EBITDA per hectare, being within our long-term sustainable US\$ 250-260 expectation.

Next year might be rather challenging for farming business, as we anticipate crop yields to decline for all key crops. On the other hand, global prices at the beginning of the season leaves some room for mitigation of the yield factor. Finally, on the cost side, we may feel some relief as well, accounting also for the weakening of UAH against US\$.

Farming continued

Market overview

Global grain prices

Despite a rather challenging market environment in FY2020, grain prices managed to hold at decent levels. Overall, FY2020 wheat prices performed better than those of corn thanks to a slightly tight world wheat supply and demand, while corn prospects remained somewhat heavy throughout the season.

Among the major factors influencing grain market were the following:

- US-China trade dispute. The tension eased when the two countries signed the phase 1 deal in January, yet China is still far behind the pace needed to meet its commitment to buy agricultural products;
- COVID-19 induced lockdown measures in spring 2020 resulted in substantial feed demand destruction and provoked a US ethanol crisis as transportation fuel consumption collapsed;
- Second in a row crop failure in Australia, concerns about EU and Black Sea wheat crops and fears about export availabilities amidst the pandemic triggered spikes in consumer demand for Ukrainian wheat.

FY2021 market outlook remains comfortable due to still good crop prospects in the northern hemisphere and very sluggish economic recovery. We already observe appreciable demand improvements, notably from China, but full-scale global demand revival depends a lot on the progress with COVID-19 situation.

Agricultural land market reform

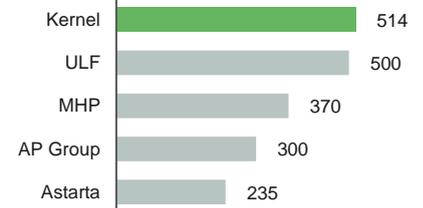
Reform design

In March 2020, Ukrainian Parliament adopted a bill on opening the country's agricultural land market. The bill will come in force on 1 July 2021, allowing citizens of Ukraine to acquire agricultural land, but not more than 100 hectares per one individual. Starting from 1 January 2024, legal entities incorporated in Ukraine are allowed to buy agricultural land, and concentration limit increases from 100 hectares to 10,000 hectares both for private individuals and legal entities. Foreign individuals and corporations, and legal entities set up under the Law of Ukraine, but with foreigners among the shareholders, are prohibited from buying the land unless the nation-wide referendum decides otherwise.

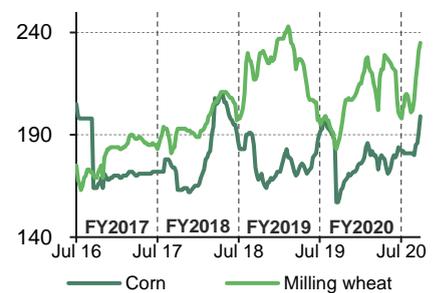
Implications for Kernel

Although we recognize the quite limited format of the reform adopted, we welcome the changes, highlighting all the long-term advantages for the Ukrainian agricultural sector. With the current reform design, we do not expect any investments into land purchase for Kernel by 2024. After 2024, opportunities for us to still be a participant of the land market may appear, although Kernel is de-facto treated as a foreign-owned entity. At the same time, we do not expect any material shifts in the market structure by 2024, as private individuals are not likely to create a substantial demand in order to change the general market landscape.

The largest farmland operator in Ukraine
thousand hectares



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



Source: Bloomberg

We expect no implications from agricultural land market reform in Ukraine for our operations by 2024



Farming continued

Our business model

Large-scale farming

Kernel is the largest crop producer in Ukraine, operating 514 thousand hectares of leasehold farmland including 498 thousand hectares under 2020 harvest. In FY2020, we produced 3.1 million tons of key crops. We operate in western, central and northern regions of Ukraine, rich with black soils and enjoying sufficient precipitation. The land bank is divided into six production clusters, with operational decision-making sufficiently decentralized to ensure quick reaction of production teams for any types of externalities. Central office is responsible for the overall business strategy, procurement of key inputs and control over operations. Healthy competition between clusters stimulates constant efficiency improvements.

We produce non-GMO products, which is the only legally allowed option in Ukraine.

We retain a simple crop mix, with 51% of acreage attributable to corn, 30% to sunflower, 15% for wheat, and the remaining spread across other minor crops (for 2020 harvest, which will be sold over FY2021).

Farming business is characterized by a **long working capital cycle** (~18 months), with details presented on "FY2020 crop production cycle" figure below.

Leasehold land operations

Close to 25% of agricultural land in Ukraine is owned by the state, municipalities and state-owned enterprises. Another 75% are small land plots (4-10 ha depending on the region)

owned by private individuals, who obtained the ownership rights during the land distribution process in 1990s following the collapse of Soviet Union.

All farmland in Ukraine has been under a sale moratorium for the past 19 years. First adopted in 2001, it was then extended by the parliament several times, suppressing the development of farming business in Ukraine. As a result, crop producers lease lands from current owners, and since 2015, the minimum land lease term for new agreements is seven years, securing business operations for farmers. In March 2020, Ukrainian parliament voted for the land market reform, although in quite limited design (see case study on the next page).

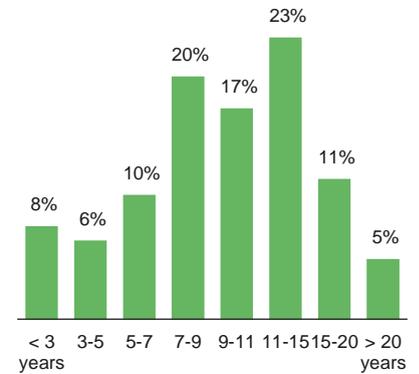
Kernel leases land through contracts with an average maturity of 12 years. All lease contracts provide for the right of first refusal to prolong leases or to buy the land in case of the moratorium lifting in the future. For 19 thousand hectares of land we operate, we signed long-term (>70 years) land lease ('emphyteusis') agreements, whereby we paid all rent payments to the lessor in one installment at the signing of the agreement. It allows us to secure our operations for a much longer period compared to typical farmland lease contracts.

90% of the landbank we lease is owned by private individuals, and 10% is owned by state.

Efficient and sustainable production technology

We take great care to ensure our operations

Kernel's farmland lease rights maturity
as % of total landbank

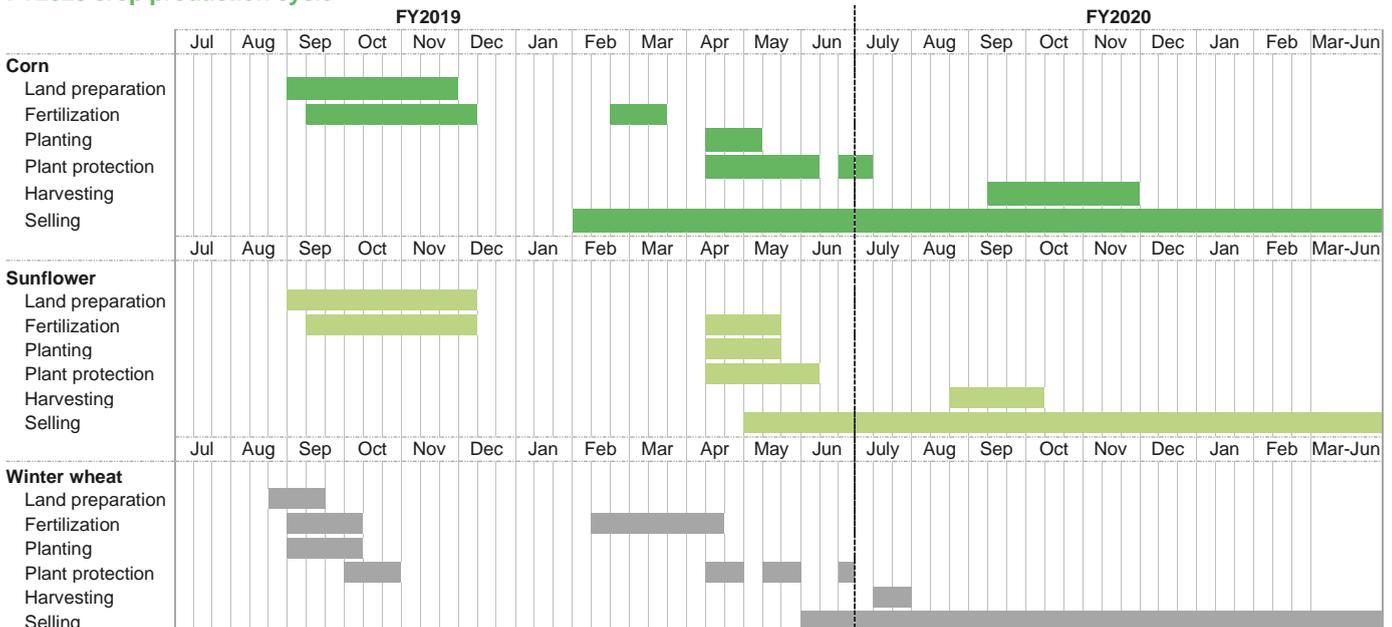


maintain long-term productivity of soil by applying sustainable agronomy practices.

We do the significant portion of tillage and soil leveling in autumn, thus completing our spring planting campaign within a shorter time frame. We apply mostly differentiated tillage, rotating mini-till and deep-till technologies. We operate modern high-productive machinery and equipment with relatively low consumption of fuel and low level of emissions, driving energy efficiency.

Save for 2,300 hectares of irrigated land used for in-house seed production, all our farmland is rain-fed, with all the weather risks arising from that.

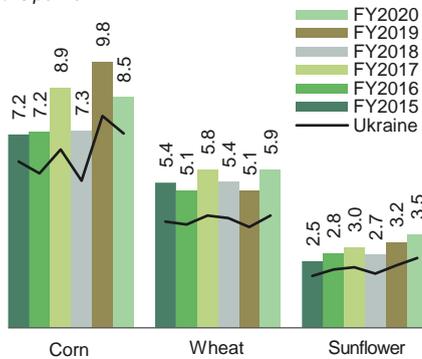
FY2020 crop production cycle



Farming continued

Kernel's crop yields¹

tons per ha



Note 1: For comparison purposes, yields for FY2018 are provided for Kernel's initial lands (prior to land bank expansion in summer 2017) to avoid dilution effect.

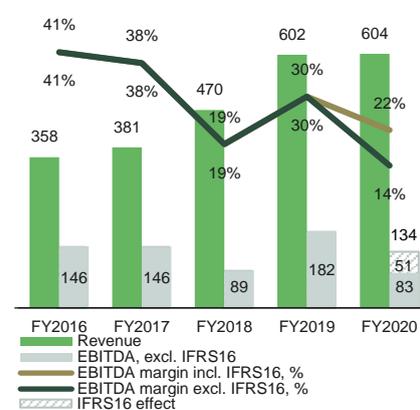
We apply balanced **fertilization** to enrich our soils, utilizing both organic and mineral fertilizers. Unlike the majority of farmers in Ukraine, we apply most of our fertilizers in autumn, ahead of the spring planting campaign. Autumn application provides for a longer time for fertilizers to be absorbed by the land, allows us to use liquid fertilizers that are more digestible compared to dry fertilizer, and results in faster completion of the spring planting campaign. For several years, we apply deep fertilizer placement (ca. 15-20 cm under the ground), thus concentrating around the plants' root system ensuring faster absorption and improving nutrient use efficiency.

We apply best-quality non-GMO seeds. Most of it is grown in-house from premium parent seeds, sometimes jointly with established global seed producers, and the remaining is supplied by recognized global players. Our crop rotation cycle is designed to prevent the expansion of pathogens and pests and improve the soil structure.

We use only crop protection agents produced by established international companies and registered by the Ministry of Ecology and Natural Resources of Ukraine. Before wide application, we observe the pesticides in action on

Profitability dynamics

US\$ million



our test fields for at least three years. We widely use drones for crop monitoring to improve the quality of decisions about fertilizing and crop protection.

Innovation-driven approach

We are entering a new era in farming business, when digital technologies and modern farming techniques will have a key role advancing operational excellence.

We have five specialized R&D centers with 1,500 test fields and 60 employees, conducting over 2,000 tests annually. Additionally, each of our clusters is free to use up to 10% of acreage under control for experiments to test various new crop production techniques focused on productivity improvements.

Our crop yields are well above the country averages, and we share our know-how with other farmers in Ukraine through the **OpenAg-rubusiness** initiative to improve their productivity and minimize environmental impact.

Key developments

In FY2020, we achieved the **record crop yields for sunflower and wheat**: 3.5 and 5.9 tons per hectare, respectively. While such outstanding result would not be possible without

supportive weather conditions, a large portion of success also comes from our constant advancements in crop production technology.

Although farming segment remains our most labor-intensive business, we are focused on constant **labor productivity improvement**. Segment headcount reduced 16% y-o-y in FY2020, to 6,232 full-time employees, or 12.5 employees per thousand hectares. Our business processes have additional potential for staff optimization, and we will focus on that in next several years.

In FY2020, we have been actively resigning land lease agreements, relying on credibility we have among our lessors. By 30 June 2020, the **average tenor of land lease agreements reached 12 years**.

One of the ways to improve the profitability of farming segment is a production of **high-oleic sunflower seeds** instead of ordinary. High-oleic sunflower oil is a more premium product as compared to traditional oil, and therefore high-oleic sunflower seeds have a higher price. In FY2019, we initiated a transition to production of high-oleic sunflower seeds instead of ordinary seeds and in FY2020 31% of produced sunflower seeds was high-oleic. For FY2021 we expect more than half of sunflower seeds harvest to be high-oleic.

Over the reporting period, we further **streamlined our crop rotation practice**. Share of corn in total acreage for FY2021 harvest reached 51%, sunflower increased to 30%, and wheat reduced to 15%. We consider such production technology as optimal for long-term sustainable farming.

In FY2020, we achieved a **record fast speed of our harvesting campaign**. We harvested all crops by 15 November, managing to get grain to storages before the rainy season and thus saving costs on grain drying services. By implementing several technological and organizational improvements, we also minimized the impact and probability of one of Kernel's historical top-10 risks: crop loss due to late harvesting. We do not recognize it as a significant threat to our business any longer even considering unfavorable weather conditions during harvesting.

We continue the development of our **Digital AgriBusiness** farming management ecosystem. In FY2020, we rolled out the **mobile application** to be used by our agronomists for fields inspection, upgraded the inventory management system including real-time monitoring of fuel consumption and machinery route control using BigData. We launched the development of several new modules, including

Farming segment performance

		FY2019	FY2020	y-o-y
Revenue	US\$ million	602	604	0.4%
EBITDA	US\$ million	182	134	(26%)
EBITDA, excl. IFRS16	US\$ million	182	83	(54%)
EBITDA, excl. IFRS16 and IAS 41	US\$ million	173	128	(26%)

Volumes sold	thousand tons	3,294	3,271	(1%)
Acreage harvested	thousand ha	529	513	(3%)
Revenue per hectare	US\$ / ha	1,137	1,178	4%
EBITDA per hectare, incl. IFRS16	US\$ / ha	344	262	(24%)
EBITDA per hectare, excl. IFRS16	US\$ / ha	344	187	(46%)

Farming continued

Plant Protection Agents Combinator and Field Datasheet. Our data scientists developed models to evaluate sprouts quality and estimate the number of kernels per ear of corn.

Performance overview

Our farming segment financials this year are slightly distorted by the introduction of IFRS 16 accounting standard. Namely, we no longer recognize land lease payments as rental costs, but rather as amortization of right-of-use assets and finance expenses attached to lease liabilities. This results in significant increase of farming EBITDA, meaning US\$ 51 million in FY2020 and US\$ 70 million expected for FY2021.

Farming segment EBITDA (if excluding IFRS 16 impact) ended up at US\$ 83 million, a 54% decline y-o-y. Key factors determining this decline were as follows:

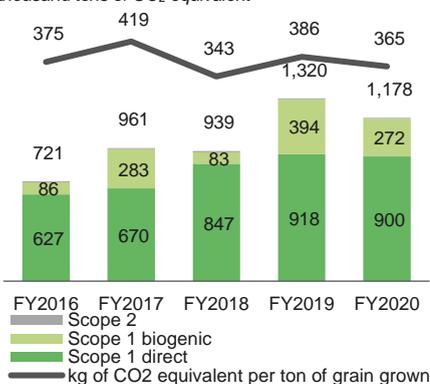
- **Normalization of corn yields** to 8.5 t/ha in FY2020 from unusually high 9.9 t/ha in FY2019 achieved on the back of extremely supportive weather conditions;
- **Lower grain prices.** Average contracted corn farm-gate price declined 5% y-o-y, and milling wheat price reduced by 11% y-o-y.
- **Growing production costs**, comprising mostly a surge in land lease, salary, and fertilizers costs. These are our largest farming cost categories, corresponding to 19%, 16% and 14% of total costs, respectively;
- **Loss from revaluation of biological assets**, which amounted to US\$ 21 million (or US\$ 45 million if excluding IFRS 16 impact) and reflects negative sentiment towards FY2021 harvest.

With 513 thousand hectares harvested in FY2020, our farming segment generated US\$ 163 EBITDA per hectare (excluding IFRS 16 impact).

FY2021 outlook

Farming division GHG emissions

thousand tons of CO₂ equivalent



Profitability of farming segment in FY2021 will be suppressed by **crop yields decline** for all three our major crops: corn, sunflower, and wheat. Dry spring weather undermined crop yield potential for wheat, and lack of rains during summer negatively impacted corn and sunflower yields.

For the cost side, further growth is not likely, while even some cost reduction may happen driven by Ukrainian hryvnia weakening and lower energy costs.

Finally, **prices** at the beginning of the season are quite supportive.

Non-financial performance

Occupational health and safety

Our approach to work-related injury prevention resulted in the lowest number of accidents in our Farming segment over the last five years. We had seven non-fatal injuries in FY2020, compared to eight injuries years ago. Since it is still above our target of zero accidents, we are paying special attention to minimize such cases in the future by training our health and safety specialists, organizing labor safety trainings and informing all employees about each accident immediately after it occurs.

Employee training and development

Envisaging the highest potential in labor productivity improvement in farming as compared to other our segments, we pay special attention to professional development and training of our farming employees. In FY2020, 2.3 thousand participants employed by our Farming segment attended our training and development activities, investing in total 58 thousand hours for improving their professional and managerial skills, developing knowledge and competencies. A major portion of our professional education program is targeted on our farming personnel. We run

fully equipped modern training facilities located in several of our farming clusters, where we organize module-based practical training programs taught by local and visiting trainers for our agronomists, engineers and other agribusiness specialists. Since 2013, we have organized a corporate MBA program for our agri-managers and key specialists and also arrange numerous experience-exchange programs, crop tours and site visits. Finally, we conduct regular in-person meetings for representatives of our clusters, which are spread all over Ukraine, to share their experience and best practices.

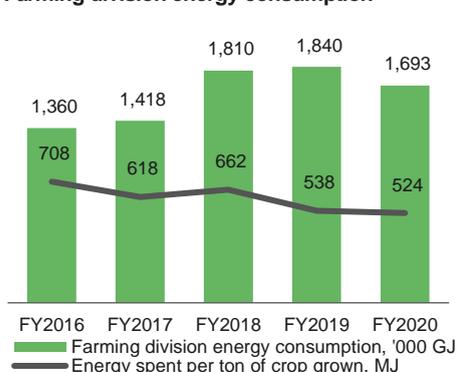
Energy consumption and emissions intensity

Our practice in farming business is sustainable intensification of the farming: produce more food with less inputs.

We continued the trend for energy intensity improvement: it took us 524 megajoules of energy to produce a ton of crop in the reporting period, a 2% decline y-o-y, to a new record.

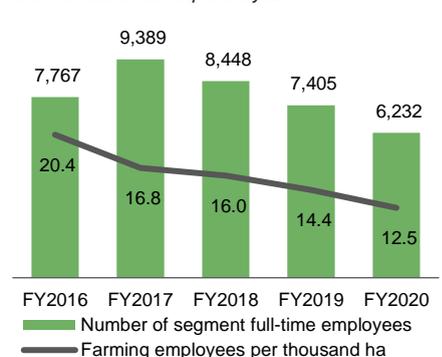
Emissions intensity in FY2020 reduced 5% y-o-y, to 365 kg of CO₂e per ton of grain grown. To reduce emission volumes, we apply differentiated mineral fertilization that prevents excessive volumes of nitrogen ending up in N₂O emissions, and decrease of the field machinery mileage through optimized routing. Regular modernization of the machinery fleet reduces specific fuel consumption. Other mitigation measures include application of nitrification inhibitors, and cover crops cultivation.

Farming division energy consumption



Number of segment full-time employees

As of 30 June of the respective year



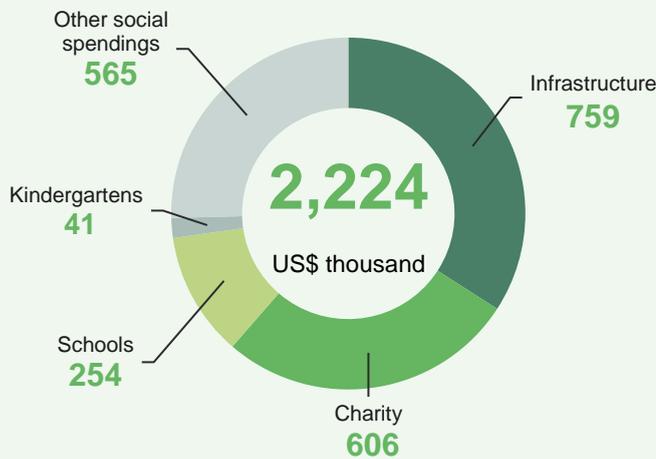
Farming continued

Giving back to local communities

Rural communities within the scope of our farming operations are a key focus of our company's social and charity activities. More than two hundred of our employees serve as relationship managers with their respective communities, some working full-time in this role while others are part-time. Direct contact with local residents allows us to plan and execute our social activities in the most efficient way and receive direct feedback on the impact of our operations on communities.

Over the course of FY2020 our agribusiness social expenses totaled US\$ 2.2 million, comprising mostly investments into infrastructure (US\$ 759 thousand, excluding spending related to our business needs), schools and kindergartens, as well as charity donations and other social spending facilitating sport, art and leisure activities. All of our support of local communities is structured through the charitable foundation 'Together with Kernel', which runs its own [website](#) aimed at promoting our social activities and serving as a point of contact with local stakeholders.

Local communities' social spendings in FY2020



477

communities that received support



84

schools that received support



203,255

pupils who have the opportunity to study in improved conditions



60

kilometers of repaired roads



18

organizations that were provided with financial support for the implementation of initiatives



1,688

people who received targeted material support

Risk management

Risk management system

At Kernel Holding S.A., management defines risk as an event, action or lack of action, which can lead to non-achievement of the Company's objectives.

Kernel has an evolving system of risk management aimed at **preserving the stability and solvency of the Company under extreme conditions to preserve long-term sustainable value for shareholders.**

Based on **Risk Management Policy** (adopted by the Board of Directors in November 2018) and underlying policies and procedures, Kernel monitors and assesses its risk exposures on an ongoing basis and takes steps to minimize their impact.

Key roles

The Company's risk management is realized by the Board of Directors, executive management team and other management and staff, which starts from the strategy development and impacts all activities and processes of the Company. These activities aim at risk identification and risk management, in order to provide reasonable assurance of the Companies' goals achievement. Please see details at [Key roles and duties in the risk management process chart](#).

Risk management cycle

The risk management cycle includes five stages: risk identification; risk assessment and prioritization; planning of risk management actions; actions implementation; measurement, control and monitoring.

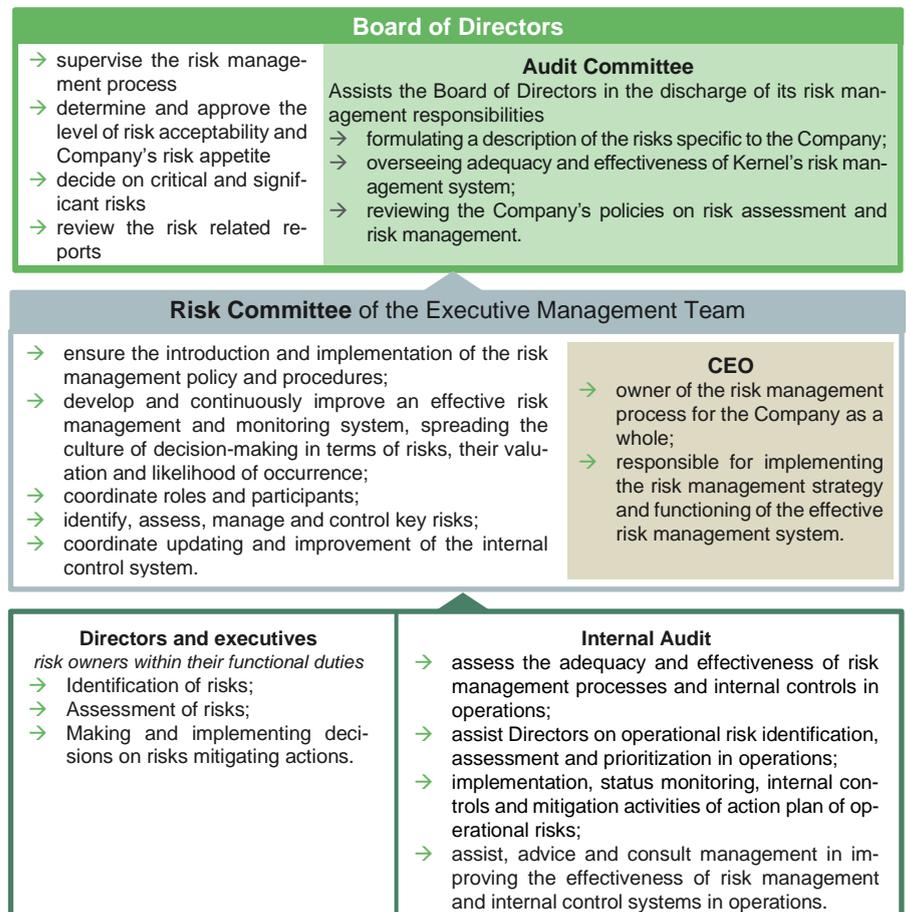
Risk categories

The management classifies all risks under five categories:

1. Strategic (Business)
2. Operational
3. Financial
4. Regulatory
5. Sustainability

Top-10 risks identified for FY2021 includes risks from Strategic (Business) and Operational categories.

Key roles and duties in the risk management process



Kernel's risk identification and mitigation system



Risk management continued

Top-10 risks

This section includes a summary of the main risks that Kernel may face during the normal course of its business. However:

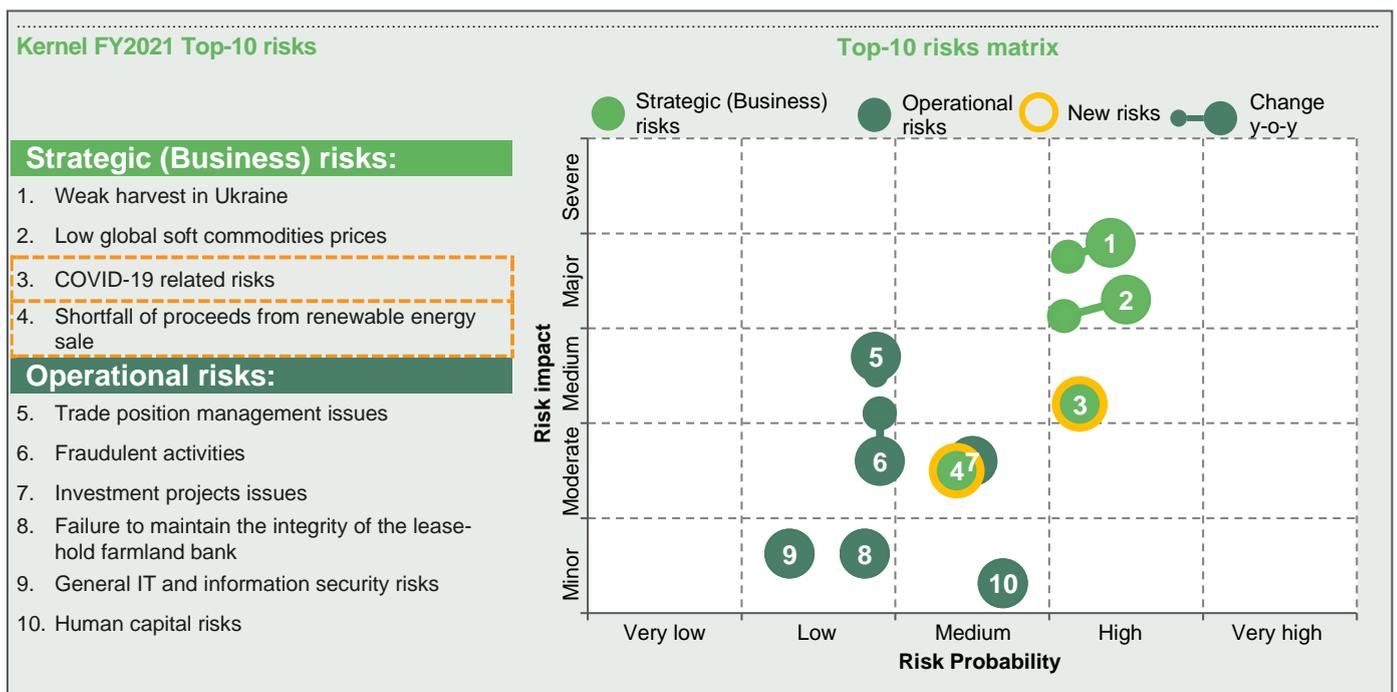
- this section does not purport to contain an exhaustive list of the risks faced by Kernel and Kernel may be significantly affected by risks that it has not identified or considered not to be material;
- some risks faced by Kernel, whether they are mentioned in this section or not, may arise from external factors beyond Kernel's control;
- where mitigations are mentioned in this section, there is no guarantee that such mitigations will be effective (in whole or in part) to remove or reduce the effect of the risk;
- investors may face other risks when dealing with Kernel securities (shares and bonds).

As a result of the latest review cycle, the Board approved Top-10 risks faced by the Group for FY2021 as depicted on chart below.

Key changes for FY2021 Top-10 risks against FY2020 Top-10 risks are:

- Increased impact and probability of risks related to **Weak harvest in Ukraine** given the weather patterns year-to-date;
- Higher estimated risk probability and risk impact for **low global soft commodity prices** due to uncertainty related to COVID-19 and low global oil prices;
- Higher estimated risk impact for **trade position management risk** due to expected increase in grain and sunflower oil export volumes;
- Lower impact of **fraudulent activities** risk;
- **New top-10 risks: COVID-19 related risks** (logistics disruptions, strict quarantine in regions of our operations and for

some of our assets, and difficulties with access to financing) and **Shortfall of proceeds from renewable energy sales** due to possible reduction of feed-in tariff for energy produced from biomass and non-fulfillment of obligations by the Guaranteed Buyer regarding payments for the supplied renewable energy.



Other risks identified by the Company's management include (but are not limited to):

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

Risk management continued

Kernel FY2021 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
1. Weak harvest in Ukraine: low crop yields for Kernel farming business	<ul style="list-style-type: none"> • Subdued Farming segment EBITDA as a result of reduced total harvest size due to unfavorable weather conditions while unchanged cost base. 	<ul style="list-style-type: none"> → Diversified land bank (in northern, central and western regions of Ukraine) reduces to some extent the overall Farming segment exposure to weather risks; → Insurance of winter crop related costs, and insurance against limited rainfalls and soil moisture content on some of our fields. Decision on the necessity of each type of insurance is taken separately for each year.
1. Weak harvest in Ukraine: sunflower seeds	<ul style="list-style-type: none"> • Low capacity utilization of Company's oilseed processing plants due to physical deficit of the oilseeds on the market; • Low crushing margins due to higher competition among crushers for the limited supply of oilseeds. 	<ul style="list-style-type: none"> → Diversified origination base: <ul style="list-style-type: none"> • Our oilseed processing plants are spread from the north-east to the south of Ukraine, with origination areas covering the whole sunflower seed growing belt in Ukraine, thus reducing our exposure to weather volatility in any particular region. We are also entering Western Ukraine by constructing greenfield oilseed processing plant there; • Our grain procurement network cover most of the regions of Ukraine; → Comprehensive data-driven procurement strategy based on regional supply-demand balances composed from the official statistics, market consensuses, inputs from our farming and procurement teams, examination of crop conditions by monitoring of the satellite images, analysis of competitors and logistics bottlenecks; → Pre-crop financing of third-party farmers conditional upon obligatory sale of future harvest (sunflower seeds and grain) to Kernel, thus covering part of our needs; → Volumes provided by our own farming production (up to 15% of sunflower seeds we process and 35% of grain we export); → "Open Agribusiness" platform serves to share our farming know-how with third-party farmers (thus increasing their productivity) and to provide various services to crop producers (improving in such a way their loyalty to Kernel as grain and oilseeds originator); → Improved control over logistics (own railcars) provides additional flexibility in accessing crop producers across the whole country; → Insurance against low crop yields in key our procurement regions. Decision on the necessity of insurance is taken separately for each year.
1. Weak harvest in Ukraine: grain	<ul style="list-style-type: none"> • Low profitability of grain export value chain (underutilized infrastructure capacities or depressed margins) given that major portion of our grain export volumes is originated from third-party farmers. 	<ul style="list-style-type: none"> → Hedging grain prices: we use various hedging tools, including CME corn and soybean futures and options, forward contracts for Black Sea origin premium and direct forward contracts. Physical delivery forward contracts are typically used for shorter duration hedging, normally within six months. → Long period of crop sales: we start selling next year's crop as soon as we have the initial understanding of the next year's production costs, considering also the entire value chain margin. → Detailed analysis of global soft commodity fundamentals: our subsidiary Avere provides the insight on the global soft commodity market, assisting us with the selection of timing and pricing of our hedging operations.
2. Low global soft commodities prices: grain	<ul style="list-style-type: none"> • Undermined profitability of our Farming segment (which is always in naturally long position as a typical upstream business) in case of low global grain pricing environment. 	<ul style="list-style-type: none"> → Hedging grain prices: we use various hedging tools, including CME corn and soybean futures and options, forward contracts for Black Sea origin premium and direct forward contracts. Physical delivery forward contracts are typically used for shorter duration hedging, normally within six months. → Long period of crop sales: we start selling next year's crop as soon as we have the initial understanding of the next year's production costs, considering also the entire value chain margin. → Detailed analysis of global soft commodity fundamentals: our subsidiary Avere provides the insight on the global soft commodity market, assisting us with the selection of timing and pricing of our hedging operations.
2. Low global soft commodities prices: sunflower oil	<ul style="list-style-type: none"> • Compressed margins in Oilseed Processing segment: low prices for sunflower oil reduce combined earnings shared by farmers and crushers in Ukraine in the short-term, and discourage farmers from expansion of acreage under sunflower in the long-term. 	<ul style="list-style-type: none"> → "Balanced book" policy to mitigate short-term price weaknesses. As we buy sunflower seed on a spot basis, within a similar time-frame we enter into forward contracts to sell sunflower oil, thus fixing the selling price and volumes in advance and locking our margin. While this policy allows us to mitigate some portion of the risk, a certain seasonality mismatch between sunflower seed procurement and demand for edible oils could cause our exposure to price volatility to rise during some periods; → More intense procurements at the beginning of the season, (when a huge supply of seeds post-harvest allows for negotiating more attractive sunflower seed prices) to partially mitigate long-term sunflower oil price weakness.

Risk management continued

Kernel FY2021 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
3. COVID-19 related risks	<ul style="list-style-type: none"> • Losses due to disruptions of logistics (inland and oversea); Losses due to non-fulfillment of obligations under existing forward contracts; 	<ul style="list-style-type: none"> → Development of alternative logistics routes; → Assessment of the possibility to create an operational reserve of grain and oilseeds in storages with minimum distance to export terminals and oilseed processing plants to cover inland logistics disruptions → Negotiations of alternative / backup delivery ports with regular customers to ensure proper execution of contracts
		<ul style="list-style-type: none"> → Company's assets are in various regions of Ukraine, which minimizes the risks of simultaneous quarantine on several assets; → Prevention of the COVID-19 spread among employees: <ul style="list-style-type: none"> • Special management units in the Central Office and regions were created for constant control of the situation and coordination of efforts; • Employees are supplied with personal protective equipment and antiseptics; • Preventive controls at the entrances to the offices / production facilities: temperature screening, hand disinfection, mask mode; • Constant health monitoring of employees and non-admission to work of employees with signs of SARS; • Enhanced disinfection measures (UV lights, hand disinfection, disinfection of premises); • Special action plan developed in case of COVID-19 outbreak among employees; • Introduction of additional shifts of employees on all our production assets to ensure the continuity of production in case of the COVID-19 outbreak. → Remote work mode introduced for all administrative staff with full IT support and productivity trainings to ensure required efficiency.
		<ul style="list-style-type: none"> → Reduction in available working capital financing opportunities / growth in financing costs due to general global economy slowdown. → Negotiations with existing creditors on terms of access to credit opportunities and provision of irrevocable financing → Search for opportunities for additional reserve financing of working capital with existing and new creditors → Maintaining the operational cash reserve considering the availability of credit financing and current account balances
4. Shortfall of proceeds from sales of renewable energy	<ul style="list-style-type: none"> • Longer-than-expected payback period of our renewable energy investments due to reduction in the feed-in tariff for energy produced from biomass; 	<ul style="list-style-type: none"> → Maintaining direct sales to third parties as an alternative sunflower husk distribution channel; → Analysis of opportunities to insure against the change in the feed-in tariff.
		<ul style="list-style-type: none"> → Investigation of opportunities on active claim work against the Guaranteed Buyer on fulfillment of its obligations
5. Trade position management issues	<ul style="list-style-type: none"> • Losses arising from our trade position mismanagement. For example, an open position in sunflower oil may have adverse effect on the Company's earnings in case of significant movements in sunflower oil price. 	<ul style="list-style-type: none"> → Trade position control system. We set limits on the position (long / short) and control it on daily basis, limit Value at Risk and drawdown to control the position of traders. We have daily reporting on traders' positions/results. Contract execution and scheduling of shipments is centralized; → "Balanced book" policy (as described above).
6. Fraudulent activities	<ul style="list-style-type: none"> • Losses from external frauds (e.g. theft of company's grain stored on third-party silos); • Losses from internal frauds (e.g. theft of company's inventories by employees, conflicts of interests etc.). 	<ul style="list-style-type: none"> → Diligent analysis of suppliers and counterparties; promotion and implementation of the Code of Interaction with Suppliers; → Misappropriation assets insurance; → Zero fraud tolerance approach is widely communicated to employees and counterparties, as an anti-corruption clause is a must in our contracts with counterparties;

Risk management continued

Kernel FY2021 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
		<ul style="list-style-type: none"> → Annual declaration of the conflicts of interest → Continuous improvement of business processes: <ul style="list-style-type: none"> • centralization of a warehouse system in the Farming division; • improvement of a procurement model with additional controls; • development of analytical procedures aimed to fraud risk identification; • automation of processes (including electronic documents flow); → Improvement of access and authorization system in accounting; → Update of the confidentiality agreement with all employees; → Risk verification for new employees and for those to be appointed for managing positions; → Counterparties risk verification.
7. Investment projects issues	<ul style="list-style-type: none"> • Extra spending beyond budgets. Our key investments include US\$ 180 million investments into construction of greenfield oilseed processing plant in Western Ukraine, US\$ 169 million renewable energy projects investments, and US\$ 137 million investments into new grain export terminal. Of that, US\$ 183 million to be invested in FY2021-FY2022. • Lost profits due to execution delays (including delays caused by COVID-19). 	<ul style="list-style-type: none"> → Strong in-house expertise in greenfield projects execution (including Bandurka greenfield processing plant, Balyń, Vesnianka and Lazirky silos etc.) with dedicated team of experienced professionals to manage new projects; → Rigorous project management. All projects are carefully analyzed and properly documented. Each project is organized by a charter of the investment project, which defines goals, budget, delivery milestones, schedules, deadlines, project team, definition/evaluation/response to the project risks, assessment of business case and feasibility study. In case of necessity, we organize quality control of project documentation for investment construction projects by an independent expert company. Technical specifications for new construction projects are evaluated, amended and approved by all related business segments; → Proper oversight: we have the deep involvement of the Investment Committee and supervision from the Strategic Committee; → Conducting open and closed tenders to determine the best offers; → Involvement of suppliers with high credibility rating.
8. Failure to maintain the integrity of the leasehold farmland bank.	<ul style="list-style-type: none"> • Reduction of Farming segment EBITDA due to lower acreage under operations. The Company leases the land it farms from 144 thousand counterparties across Ukraine for an average term of 12 years, but it may fail to prolong certain land lease agreements due to growing competition for the land plots with other land operators, or due to willingness of landowners to cultivate the land themselves. 	<ul style="list-style-type: none"> → Paying market price for land lease; → Maintaining the excellent reputation of the Company in the regions of operations. We try to positively differentiate ourselves from competitors through reliability, active support of the communities, and promoting the sustainability of our farming practices. We employ dedicated teams of relationship managers to the villages where we operate, who allow us to keep direct contact with our land lessors and respond to community needs; → Emphyteusis agreements. For almost 19 thousand hectares of land we operate, we signed long-term land lease ('emphyteusis') agreements, whereby all rent payments are paid to the lessor in one installment at the signing of the agreement. It allows us to secure our operations for a much longer period compared to typical farmland lease contracts; → Rights of first refusal to extend leasehold contract (or to buy the land once this option is available) embedded in all our land lease agreements; → Public support of farmland market reform in Ukraine and acting as an active market participant once the reform is completed.
9. General IT and information security risks	<ul style="list-style-type: none"> • The loss or disclosure of key information may threaten business operations and development of business; • Interruption of business processes and decisions which are dependent on the continuity of IT applications and infrastructure. 	<ul style="list-style-type: none"> → Implemented IT business continuity and data recovery policy; → Multifactor authentication and Rights Management System is being implemented to reduce the risk of documents, correspondence, and other confidential data leakage; → Password policy, access control for external users to company IT systems; Privileged access management solutions. → IT recovery plan which is regularly tested; regular vulnerability testing from inside and outside; → Backup data center, constant modernization of data backup system; → Patch management policy – regular installations of critical and

Risk management continued

Kernel FY2021 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
		<ul style="list-style-type: none"> → security patches on servers and workstations; → Special solution to combat the APT and 0-day virus attacks; → Regular training and testing of employees for knowledge and compliance with information security rules.
10. Human capital risk	<ul style="list-style-type: none"> • Interruptions in business and support processes due to general staff shortage and inability to replace key employees given low qualification of new candidates. 	<ul style="list-style-type: none"> → Competitive compensation: the level we pay matches or exceeds the benchmark in our industries. We aim to increase further compensation levels to successfully compete with neighboring countries along the way; → Housing repayable loans to young employees in the regions; → Talent management, professional development and education of our employees. We have numerous education programs with extensive coverage (page 70) and system of individual development and career planning (page 66); → Safe and convenient working conditions. Improving working conditions and infrastructure for staff; → Employee involvement through effective KPI system, responsibility delegation, rewards for operation efficiency improvement, and team-building events; → Effective recruitment: we use various tools and channels to recruit the best people on the market. We actively work with universities and the business community and have a separate Kernel Chance program to develop and solicit new associates; → Labor productivity improvement through processes automation and optimization, job versatility and employees fungibility increase; → HR brand development, creating a sustainable employer reputation.

Alternative Performance Measures

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

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

- **EBITDA;**
- **EBITDA margin;**
- **Segment EBITDA;**
- **Segment EBITDA margin;**
- **Investing Cash Flows net of Fixed Assets Investments;**
- **Net Fixed Assets Investments;**
- **Operating Cash Flows before Working Capital Changes;**
- **Free Cash Flows to the Firm;**
- **Debt Liabilities;**
- **Net Debt;**
- **Readily Marketable Inventories;**
- **Adjusted Net Debt;** and
- **Adjusted Working Capital;**

(together, the ‘Alternative Performance Measures’) provide investors with a supplemental tool to assist in evaluating current business performance.

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

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

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

EBITDA and EBITDA margin

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

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

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

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

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

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

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

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

<i>in thousand US\$ except the margin</i>	FY2019	FY2020
Profit from operating activities	269,207	337,276
<i>add back:</i>		
Amortization and depreciation	76,303	105,742
EBITDA	345,510	443,018
Revenue	3,960,231	4,106,780
EBITDA margin	8.7%	10.8%

¹ In other documents (e.g. listing particulars) the Group could use the term Adjusted EBITDA, which is calculated as profit before income tax adding back net finance costs, net foreign exchange gain, net other expenses, share of income/(loss) of joint ventures, and amortization and depreciation, and coming to the same result as EBITDA

Alternative Performance Measures continued

Segment EBITDA and Segment EBITDA margin

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

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

Calculation of Segment EBITDA and Segment EBITDA margin:

<i>in thousand US\$</i>	FY2019	FY2020
Oilseed Processing		
Profit from operating activities	92,598	134,102
<i>plus</i> Amortization and depreciation	16,419	17,662
Segment EBITDA	109,017	151,764
Segment revenue	1,493,272	1,547,007
Segment EBITDA margin	7%	10%
Trading and Infrastructure		
Profit from operating activities	92,601	193,014
<i>plus</i> Amortization and depreciation	13,134	22,787
Segment EBITDA	105,735	215,801
Segment revenue	3,108,014	3,426,289
Segment EBITDA margin	3%	6%
Farming		
Profit from operating activities	136,813	71,168
<i>plus</i> Amortization and depreciation	45,069	63,079
Segment EBITDA	181,882	134,247
Segment revenue	601,585	604,029
Segment EBITDA margin	30%	22%
Other		
Loss from operating activities	(52,805)	(61,008)
<i>plus</i> Amortization and depreciation	1,681	2,214
Segment EBITDA	(51,124)	(58,794)

Investing Cash Flows net of Fixed Assets Investments

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

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

Net Fixed Assets Investments

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

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

<i>in thousand US\$</i>	FY2019	FY2020
Net cash used in investing activities	(241,404)	(202,691)
<i>Adding back:</i>		
Purchase of property, plant and equipment	(166,988)	(215,651)
Proceeds from disposal of property, plant and equipment	9,754	5,533
Investing Cash Flows net of Fixed Assets Investments	(84,170)	7,427

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

<i>in thousand US\$</i>	FY2019	FY2020
Purchase of property, plant and equipment	(166,988)	(215,651)
Proceeds from disposal of property, plant and equipment	9,754	5,533
Net Fixed Assets Investments	(157,234)	(210,118)

Operating Cash Flows before Working Capital Changes

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

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

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

<i>in thousand US\$</i>	FY2019	FY2020
Net cash generated by operating activities	198,650	269,356
<i>Less:</i>		
Changes in working capital, including:		
Change in trade and other accounts receivable	(131,516)	(43,070)
Change in prepayments and other current assets	(13,706)	(26,137)
Change in restricted cash balance	538	(1,771)
Change in taxes recoverable and prepaid	441	(19,130)
Change in biological assets	18,779	113,403
Change in inventories	(24,160)	(15,070)
Change in trade accounts payable	60,055	(51,120)
Change in advances from customers and other current liabilities	(4,328)	32,797
Operating Cash Flows before Working Capital Changes	292,547	279,454

Alternative Performance Measures continued

Free Cash Flows to the Firm

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

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

<i>in thousand US\$</i>	FY2019	FY2020
Net cash generated by operating activities	198,650	269,356
Net cash used in investing activities	(241,404)	(202,691)
Free Cash Flows to the Firm	(42,754)	66,665

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.

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

<i>in thousand US\$</i>	As of 30 June 2019	As of 30 June 2020
Sunflower oil & meal	124,797	96,464
Sunflower seed	103,661	121,402
Grains	63,239	33,840
Other	65,914	51,696
Total	357,610	303,402
<i>of which: Readily Marketable Inventories</i>	293,437	251,929

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.

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

<i>in thousand US\$</i>	As of 30 June 2019	As of 30 June 2020
Bonds issued	496,051	793,777
Interest on bonds issued	17,949	21,945
Long-term borrowings	63,680	172,403
Current portion of long-term borrowings	1,233	6,871
Short-term borrowings	183,692	44,581
Obligations under finance lease	5,230	-
Lease liabilities	-	265,128
Current portion of lease liability	-	44,872
Current portion of obligations under finance lease	2,484	-
Debt Liabilities	770,319	1,349,577
less: cash and cash equivalents	76,801	369,117
Net Debt	693,518	980,460
less: readily marketable inventories	293,437	251,929
Adjusted Net Debt	400,081	728,531

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;
- current portion of lease liabilities;
- lease liabilities and
- obligations under finance lease (for FY 2019)

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 (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).

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

<i>in thousand US\$</i>	As of 30 June 2019	As of 30 June 2020
Total current assets	1,256,432	1,531,017
less:		
Cash and cash equivalents	76,801	369,117
Assets classified as held for sale	2,079	432
Total current liabilities	479,760	412,593
add back:		
Short-term borrowings	183,692	44,581
Current portion of long-term borrowings	1,233	6,871
Current portion of lease liabilities	-	44,872
Current portion of obligations under finance lease	2,484	-
Interest on bonds issued	17,949	21,945
Adjusted Working Capital	903,150	867,144

Alternative Performance Measures continued

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

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

Sustainability



We aim to unlock the Ukrainian food production potential to feed the growing world population in a sustainable manner

Our approach

One of the major challenges the world faces is to feed a constantly growing population (+2 billion of people 2050) while envisaging arable land per capita reduction by 25% from 2020 to 2050, as per FAOSTAT expectations. We aim to contribute to the solution of this challenge in a sustainable way.

Our approach here is underpinned by principles from our [Code of Conduct](#). We aim to efficiently produce best quality products with the lowest possible consumption of resources and in strict compliance with regulatory, safety and product quality standards, thus minimizing our environmental footprint. As the largest crop producer in Ukraine, we not only follow the best sustainable long-term agronomy practices ourselves, but also seek to move the whole industry into a sustainable direction by sharing our valuable experience with other farmers. Finally, we strive to remain the best employer for our people and a reliable contributor to local communities in the regions of our operations.

FY2020 performance

In FY2020, we reduced energy and emissions intensity for all our segments as compared to FY2019, reaching an all-time-low levels in oilseed processing business.

Kernel as a Signatory joined the world's largest corporate sustainability initiative, the UN Global Compact, and set our first ESG-related goal – to reduce GHG emissions intensity by 5% over a five-year horizon in our oilseed processing business. Our shares have been included in the WIG ESG index. Starting from FY2020, sustainability-related matters regularly appear in the Board of Directors' agenda, including oversight of Group's ESG progress. We launched an ambitious group-wide strengthening and standardization of environmental and OHS management systems, which resulted in our first assets being certified under ISO 14001 and ISO 45001 during the reporting period.

Social spending in FY2020

US\$ 7.7 million

3.3x growth y-o-y

Energy consumption in FY2020

7,298 terajoules

+6% y-o-y

We also successfully transformed our processes to minimize COVID-19 impact and donated US\$ 4.7 million to support healthcare system in the regions of our operations.

In FY2020, we topped numerous national charts as the most sustainable company in Ukraine. Kernel scored among Top-3 companies in [Sustainable Ukraine](#) – first professional rating of corporate sustainability in Ukraine and was recognized among the best employers in Ukraine in rating composed by Vlast Deneg business magazine and in the [Best Employer Survey](#) conducted by EY Ukraine. Kernel ESG approach was included in the first [Voluntary business progress review of achieving sustainable development goals in Ukraine](#), prepared by UN Global Compact Network in Ukraine.

In FY2020, Baker Tilly provided independent limited assurance of our Sustainability section of annual report.

Agenda for FY2021

For the next year, we plan to focus our efforts on the promotion of our environmental and social sustainability approach through our supply chain, commissioning of five biomass CHPs, and further strengthening of our environmental, health and safety management system.

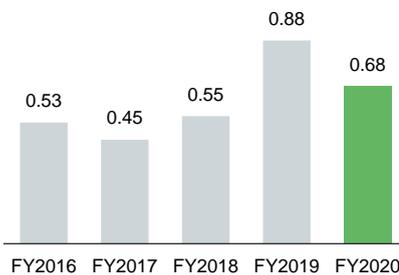
This sustainability report has been prepared in accordance with the GRI Standards: Core option

Sustainability highlights

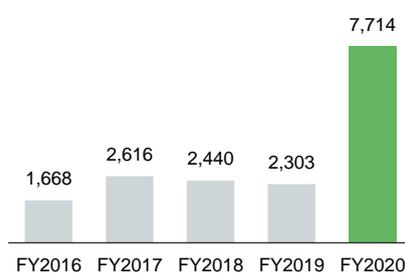
Key non-financial KPIs

	FY2016	FY2017	FY2018	FY2019	FY2020
Total number of full-time employees	14,075	16,103	15,116	13,397	11,928
Oilseed processing	17%	16%	17%	17%	18%
Grain and infrastructure	23%	22%	23%	22%	23%
Farming	55%	58%	56%	55%	52%
Headoffice and other	4%	4%	5%	6%	6%
Total injury accidents incl. fatalities	16 1	14 -	16 4	25 1	17 1
Injury frequency rate <i>accidents / million worked hours</i>	0.53	0.45	0.55	0.88	0.68
Total training expenditures <i>thousand US\$</i>	194	445	474	456	637
Total social spending <i>thousand US\$</i>	1,668	2,616	2,440	2,303	7,714
Direct (Scope 1) GHG emissions <i>thousand tons of CO₂ equivalent</i>	662	748	922	981	955
Gross indirect (Scope 2) GHG emissions <i>thousand tons of CO₂ equivalent</i>	73	83	94	90	96
Total energy consumption <i>thousand gigajoules</i>	5,049	6,743	7,282	7,139	6,998
incl. renewable <i>thousand gigajoules</i>	2,566	3,096	3,231	3,215	3,628
Energy spent per ton of sunflower seeds processed <i>megajoules</i>	1,455	1,517	1,446	1,420	1,285
Energy spent per ton-% of grain dried <i>megajoules</i>	62	68	61	67	63
Energy spent per ton of grain grown <i>megajoules</i>	708	618	662	538	524

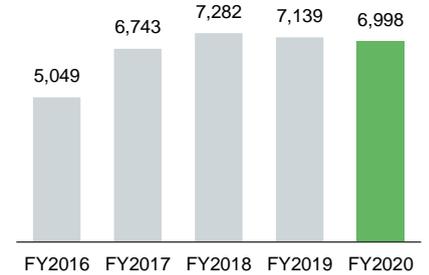
Rate of recordable work-related injuries *accidents / million worked hours*



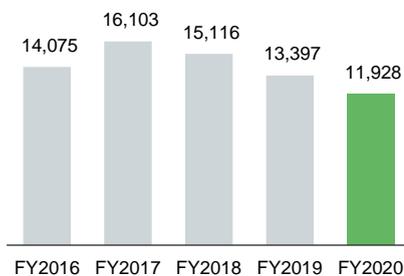
Total social spending *US\$ thousand*



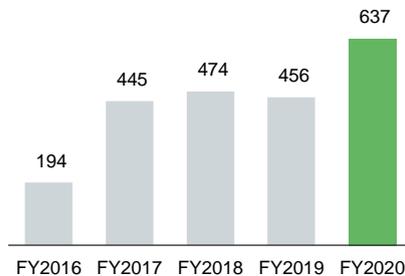
Total energy consumption *thousand gigajoules*



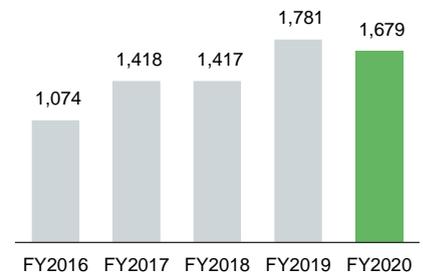
Total number of employees *Full-time equivalent, as of 30 June*



Total training expenditures *US\$ thousand*



Total GHG emission *thousand tons of CO₂ equivalent*



Sustainability continued

Our approach to materiality and report content

Stakeholder inclusiveness

Based on management's view, media monitoring and constant interactions with stakeholders, the company has identified 12 stakeholder groups (please see figure "[Key stakeholder groups and engagement channels](#)"). Management periodically reviews the list of stakeholder groups.

We regularly engage with all identified stakeholder groups through various means: directly at meetings and events, and via media, including the corporate website, social networks, messengers applications and press. The public Facebook group "We are Kernel!" allows us to engage with over 10,000 people, and the corporate Telegram channel communicates information to over 1,000 subscribers.

Apart from the listed communication channels, the Group operates a Hotline intended for collection of any type of input from any stakeholder. This instrument works also as a grievance mechanism. The Group informs both internal and external stakeholders on availability of the Hotline and encourages everyone to use it, as appropriate. Corporate Compliance Manager is responsible for the Hotline functioning. Almost 1,500 inputs have been collected through the Hotline in FY2020.

The Company engages with all the identified stakeholder groups, but for the purposes of this report, management considers capital providers (shareholders and debt providers), regulatory authorities, employees and NGOs active in environmental and social issues to be key target audiences, while engagement with other stakeholder groups is primarily done

Our core values and principles:

- Efficient use of resources
- Openness to change and innovation
- Integrity
- Responsible leadership
- Entrepreneurial spirit
- Mutual respect and trust

through other communication channels.

Report content

In selecting the content of this section, we pursued an overall goal of demonstrating Kernel's material economic, environmental, and social impacts to key target audiences, using the common language of GRI Standards.

As a result of the stakeholder engagement process, we identified interests, expectations and information needs of stakeholders we engage with through this sustainability report. This report focuses on material issues determined based on feedback obtained from employees and capital providers and a managerial assessment of the aspects' importance for the sustainable development of the company.

Additionally, when defining the report content, we considered regulatory obligations we are imposed to, including the Luxembourg Law of 23 July 2016 on disclosure of non-financial and diversity information (the "Law of 23 July 2016"), implementing the European Directive 2014/95/EU.

Environmental and social policies and standards of our lenders are another valuable source of guidance on materiality and

governance of the Group's sustainability aspects. Our recent capital investments into oilseed processing, grain storages and transshipment, and renewable energy infrastructure, envisaged by Strategy 2021, are co-financed by the European Bank for Reconstruction and Development and European Investment Bank, thus all the planned developments had to be structured to meet the requirements of Environmental and Social Policies of both institutions¹. Binding measures required to align the Strategy 2021 activities with the policies, as well as to improve the Group's overall environmental and social management practices, have been identified in the course of a robust due diligence process, that provided us with external insights on both our strengths and areas for improvement in terms of sustainability.

Based on the analysis of inputs collected from internal and external stakeholders, we developed a shortlist of sustainability topics. The materiality of such topics has been assessed against two criteria: 1) influence on stakeholder assessments and decisions; and 2) significance of economic, environmental, and social impacts. The topics with the highest combination of scores for both criteria were defined as material.

Key stakeholder groups and engagement channels

	Kernel reports	Website	Hotline	Social networks	Direct engagement	External media	Corporate newspaper	Intranet	Events
Internal									
Employees	✓	✓	✓	✓	✓	✓	✓	✓	✓
Management	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shareholders	✓	✓			✓				✓
External									
Debt providers and rating agencies	✓	✓			✓				✓
Suppliers (incl 3 rd party farmers)		✓	✓	✓	✓				
Customers		✓	✓	✓	✓				
National media		✓			✓				
Local media		✓			✓		✓		
Local communities		✓	✓		✓	✓	✓		✓
Local officials		✓			✓	✓	✓		✓
Regulatory authorities	✓	✓			✓				
Environmental NGOs					✓				

¹ EIB Environmental and Social Standards; EBRD Environmental and Social Policy

Sustainability continued

Derived from the materiality exercise, executive management approved the list of topics subject to disclosure in the sustainability report, as presented on the figure “[Topic boundaries](#).” If not stated otherwise, boundaries for material topics includes Kernel subsidiaries where company has operating control.

This year we added **new disclosure topics for our environmental impact**, namely “Water and Effluents”, “Waste”, “Environmental Compliance” and “Supplier Environmental Assessment” which are material both for us and for our stakeholders. At the same time, we are not disclosing anymore our approach to Materials given the low revealed interest from our stakeholders to this topic.

To disclose our **social impact**, we initiated reporting on four **new topics**: “Diversity and equal opportunity”, “Freedom of association and collective bargaining”, “Human rights assessment” and “Supplier social assessment”. Our impacts in such areas are important for assessment by ESG scoring systems, which, in turn, are considered by investors when taking investment decisions.

[GRI content index](#) (see on page 76) summarizes disclosure of the listed topics in this report.

Topic boundaries				
Impact	Material topics	Material within Kernel	Material outside Kernel	Topic boundary
Economic	Economic performance	✓	✓	All business units
	Indirect economic impacts	✓	✓	All business units
	Anti-corruption	✓	✓	All business units
Environmental	Energy	✓	✓	All business units
	Water and Effluents	✓	✓	All business units
	Biodiversity		✓	Farming
	Emissions		✓	All business units
	Waste	✓	✓	All business units
	Environmental Compliance	✓	✓	All business units
	Supplier Environmental Assessment	✓	✓	All business units
Social	Employment	✓	✓	All business units
	Occupational health & safety	✓	✓	All business units
	Training and education	✓	✓	All business units
	Diversity and equal opportunity		✓	All business units
	Freedom of association and collective bargaining	✓	✓	All business units
	Human rights assessment	✓	✓	All business units
	Local communities		✓	Farming
	Supplier social assessment	✓	✓	All business units
	Customer health and safety	✓	✓	Oilseed Processing

Notwithstanding the fact that the topic of soils does not match exactly with the available topic-specific Standards, we have chosen to disclose it, as soil properties are crucial for crop production, and can be largely influenced by the Group’s farming operations. Since the

topic relates to *provision services* of ecosystems, GRI 304: Biodiversity Standard has been applied for reporting on it.

Independent auditor’s limited assurance report

To the Management of Kernel Holding S.A.

We have performed an independent limited assurance engagement on the sustainability information based on the Global Reporting Initiative (GRI) Standards and indicated in the “[GRI Content Index](#)” section of the Annual Report of Kernel Holding S.A. (hereinafter also the “Company”) for the year ended 30 June 2020.

Limitations of the engagement

Our engagement was limited to the information listed above. We have not assessed the following information disclosed in the Annual Report:

- All information contained in other sections of the Annual Report for the year ended 30 June 2020.
- The financial information in scope of the statutory audit of the financial statements has not been additionally reviewed to obtain limited assurance. Our engagement was limited to the presentation of the information in line with the GRI Standards requirements.
- Forward-looking statements.

Management Responsibility

The management of the Kernel Holdings S.A. is responsible for the preparations of the sustainability information in accordance with the principles and standard disclosures of the GRI Standards. This responsibility of the management includes the selection and application of appropriate methods to prepare the assured information and the use of assumptions and estimates for individual sustainability disclosures, which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the information in a way that is free of – intended or unintended – material misstatements.

Audit Firm’s Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board of Accountants, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

In accordance with International Standard on Quality Control 1, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner’s Responsibility

Our responsibility is to express a conclusion based on our work performed within a limited assurance engagement on the abovementioned

Sustainability continued

information. Our assurance report has been prepared in accordance with the terms of engagement.

We performed limited assurance engagement in accordance with International Standards on Assurance Engagements, hereinafter referred to as "ISAE", that apply to assurance engagements, in particular, the ISAE 3000 "Assurance engagements other than audits or reviews of historical financial information". This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that above mentioned sustainability information in the Annual Report for the year ended 30 June 2020, has not been prepared, in all material respects, with the aforementioned Standards of the Global Reporting Initiative.

In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Our work consisted of, amongst others, the following procedures:

- Interviewing of senior management of the Company, responsible for environmental policies, gathering and interpretation of sustainability information within Annual Report preparation regarding the following:
 - approaches to defining sustainability information contents (identification and selection of Material Topics);
 - principles and processes of the sustainability information gathering and preparation.
- Site visit for interviewing of personnel in regard of gathering and preparation of sustainability information stated in Annual Report.
- Testing of accuracy and completeness of the qualitative and quantitative sustainability information provided in Annual Report on sample basis.
- Obtaining evidence of reliability and lack of material misstatement in sustainability information provided in Annual Report.
- Review of compliance of the declared contents of sustainability information indicated in [GRI Content Index](#) of Annual Report with requirements of Standards of the Global Reporting Initiative (Core version).

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the sustainability information indicated in the "[GRI Content Index](#)" section of the Annual Report of Kernel Holding S.A. for the year ended 30 June 2020 has not been prepared, in all material respects, in accordance with the Standards of the Global Reporting Initiative.

Limited Liability

We issue this report on the basis of the engagement agreed with the Company. The independent limited assurance engagement on the sustainability information has been performed for purposes of the Company and is solely intended to inform the Company about the results of the engagement. The report is not intended for any third parties to base any (financial) decision thereon. We do not assume any responsibility towards third parties.

Partner
Alexander Pochkun
"BAKER TILLY UKRAINE" LLP
02 October 2020
Kyiv, Ukraine

Sustainability continued

Key developments

Since FY2020, the Board of Directors of Kernel Holding S.A. started to regularly review company sustainability performance.

In June 2020, **Kernel as a Signatory joined the UN Global Compact** – the world's largest corporate sustainability initiative, declaring the company's commitment to implement 10 universal principles on human rights, labor, environment and anti-corruption, and to take steps to support UN sustainable development goals.

We are also proud of being recognized as a **Top-3 corporate in the Sustainable Ukraine** – the first professional rating of corporate sustainability in Ukraine. The rating accounts for over 100 ESG indicators, benchmarking 50 companies which are among the largest taxpayers in Ukraine. Kernel was scored particularly high in the areas of corporate governance, financial results, supply chain management, anticorruption, resource and energy efficiency, biodiversity, emissions in atmosphere, labor relations, health and safety, HR management and development, and confidentiality of information. We consider this achievement as a proper recognition of all our efforts to build the sustainable business.

Kernel ESG approach was included in the first [Voluntary business progress review of achieving sustainable development goals in Ukraine](#),

prepared by UN Global Compact Network in Ukraine. Every 3-5 years, the report is submitted by UN member countries to the UN Policy Forum on Sustainable Development.

Since September 2019, Kernel shares have been added to the [WIG ESG index](#) of the Warsaw Stock Exchange. The index includes socially responsible companies which comply with sustainability principles in environmental, social, economic, and corporate governance areas. Index methodology accounts for ESG ranking prepared by Sustainalytics and the assessment of application of corporate governance principles contained in the "Good Practices of WSE Listed Companies 2016".

Our commitments

The Kernel [Corporate Social Responsibility and Sustainable Development Policy](#) adopted in FY2019, defines the Company's goals as follows:

- **Social:** development of people's potential, giving back to local communities, and ethical and responsible labor practices;
- **Environmental:** keeping the integrity of the ecosystems the Company operates in, and minimization of the environmental footprint;
- **Economic:** reaching maximum profitability with the optimal usage of natural resources.

The measures taken to achieve these goals shall be disclosed each year in the annual

report, including the Sustainability section.

We are also committed to take practical actions to implement UN Global Compact 10 principles with a measurement of outcomes and integrate sustainability throughout our businesses.

Under the financing agreements entered with international financial institutions (the European Bank for Reconstruction and Development, the European Investment Bank, the Black Sea Trade and Development Bank), we are committed to comply with numerous provisions related to environmental and social aspects of facilities financed by lenders, as well as to the overall Group sustainability. We provide lenders with regular updates on our progress on implementation of these provisions.

Following our contractual obligations, we have developed the Roadmap to enhance environmental & labor safety governance at a corporate level, that has been agreed with our lenders and approved for implementation. The Roadmap defines measures aimed at unifying EMS approaches on a group-wide level through centralization of the EHS reporting lines and ISO 14001+45001 certification of Kernel's subsidiaries.

UN Global Compact Initiative

In June 2020, Kernel as a Signatory joined United Nations Global Compact – the world's largest corporate sustainability initiative, uniting about 11,000 companies from 157 countries. We took the obligation to promote the UN sustainable development goals and develop corporate social responsibility by introducing the "10 Principles of the UN Global Compact" in four areas: human rights, labor, environment and anti-corruption:

Human Rights

- Support and respect the protection of internationally proclaimed human rights;
- Not to be complicit in human rights abuses;

Environment

- Support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility;
- Encourage the development and diffusion of environmentally friendly technologies

WE SUPPORT



Anti-Corruption

- Work against corruption in all its form, including extortion and bribery

Labor

- Uphold the freedom of association and the effective recognition of the right to collective bargaining
- Eliminate of all forms of forced and compulsory labor;
- Effectively abolish of child labor;
- Eliminate discrimination in respect of employment and occupation

We support all the 17 UN Sustainable Development Goals (SDGs), and actively contribute to achieve the following SDGs:

- **SDG 2:** End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- **SDG 7:** Ensure access to affordable, reliable, sustainable and modern energy for all
- **SDG 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- **SDG 12:** Ensure sustainable consumption and production patterns
- **SDG 13:** Take urgent action to combat climate change and its impacts
- **SDG 15:** Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Sustainability continued

Economic impacts (GRI 200)

Economic performance (GRI 201)

The ultimate goal of our strategy is to maximize shareholders' value, which we aim to achieve through outstanding economic performance. Key strategic pillars behind that are a strong asset base, operational discipline and a geographic focus. We are currently undergoing CapEx-heavy cycle, which is expected to substantially improve the Company's economic performance. Economic performance is the most important KPI for the management performance-based part of compensation.

Direct economic value generated and distributed

Total economic value retained in FY2020 amounted to US\$ 102 million, calculated as direct economic value generated (US\$ 4,093 million) less total economic value distributed (US\$ 3,991 million). This resulted in a 36% drop compared to the total economic value retained in FY2019.

Economic value is mainly generated via export sales to almost 100 countries, and mainly distributed in Ukraine via operating costs.

Being a diversified agro-industrial business in Ukraine with leading positions across all business segments, we have significant direct economic impact on our stakeholders in areas of all our operations. Direct economic impact includes our purchasing of goods from suppliers, dividends paid to shareholders, wages and benefits paid to our employees, financial expenses paid to creditors, income taxes paid to the public sector, and community investments, as well as economic value retained for investments to increase the capitalization of the company.

Financial implications and other risks and opportunities due to climate change

Globally, agricultural sector is responsible for around 10% of GHG emissions that contribute to the greenhouse effect by absorbing infrared radiation, and by that to the climate change. Yet, the sector in its turn is intrinsically impacted by the climate change. Such **impacts on the Group's operations**, that are already occurring but expected to intensify, include downward pressure on crop yields and quality, increased spread of crop diseases and pests. These impacts stem from changes in surface temperatures, the timing of seasons, and in the frequency and magnitude of severe weather events, such as droughts, floods, storms, and heatwaves.

Besides harvest levels, **climate change contributes to operational risks** through hindered road transportation (asphalt roads closed during high temperatures) and

Economic value generated, distributed, and retained (GRI 201-1)

US\$ million	FY2016	FY2017	FY2018	FY2019	FY2020
Direct economic value generated	2,053	2,207	2,481	4,011	4,093
Revenue	1,989	2,169	2,403	3,960	4,107
Net IAS 41 effect	20	(3)	19	9	(21)
Other operating income	45	41	59	42	7
Economic value distributed					
Operating costs	(1,766)	(1,942)	(2,341)	(3,742)	(3,756)
of which employee wages and benefits	60	67	103	126	164
Finance costs	(57)	(62)	(65)	(82)	(147)
Community investments	2	3	2	2	8
Other costs	16	(8)	(27)	1	(53)
Total charges	(1,805)	(2,009)	(2,431)	(3,821)	(3,948)
Income tax	(4)	(19)	6	(12)	(22)
Dividends paid	(20)	(20)	(20)	(20)	(21)
Total economic value distributed	(1,829)	(2,048)	(2,445)	(3,853)	(3,991)
Economic value retained	224	158	35	158	102

Data presented is calculated based on GRI recommendations using IFRS metrics on an accrual basis.

maritime navigation (increased storms frequency and intensity), and increased risk of fires.

To respond to the abovementioned risks, we:

- launched in November 2018, the **#DigitalAgriBusiness** project. Embracing field records for the past five years, climate and soil conditions, market and agronomic inputs, biochemistry and biophysics rules enhanced with the artificial intelligence solutions, machine learning and advanced analytics, it converts data into a single system assisting us in making smarter decisions. This unique planning tool enables us to more precisely model profitability scenarios, optimize resources and predict expenses;
- capture weather data using 49 real-time stationary weather stations;
- expand our land bank and operations in Northern, Central and Western regions of Ukraine that are less exposed to climate change risks;
- insure against winter crop related costs, limited rainfalls and soil moisture content on some of our fields;
- prepare GHG inventories that help us to understand the Group's exposure to related risks, identify emissions reduction opportunities, and communicate performance to internal management and external stakeholders;
- in FY2019, invested in purchase of grain railcars to become the largest private operator in Ukraine. The investment will contribute to lower CO₂ emissions by reducing the volume of grain transported by truck;
- in FY2020, set a target to reduce emissions intensity per ton of processed oilseeds by 5% till FY2025.

Nevertheless, our active contribution to climate action presents an **opportunity of entering the ever-growing market of**

renewable energy. To grasp this opportunity, Kernel invests US\$ 169 million in development of six biomass-fired CHPs (combined heat and power plants) using the sunflower seed husk (subproduct of the oil production) as a fuel. While thermal energy will be utilized for vegetable oil production, over 700 GWh of electricity will be sold to the grid.

We are also active in production and **exports of corn that is widely used for bioethanol production.** To strengthen our position on this market we have chosen to certify our corn and some other farming products using the ISCC - the world's leading certification system contributing to sustainable production and use of biomass in global supply chains. Certification, *inter alia*, assures that crops' carbon footprint is accounted and meets the threshold established for biofuels in EU (RED). In FY2020, sales volumes of ISCC certified Kernel's products amounted to 890,000 tons of corn and 86,000 tons of soybeans. Along with opening new markets, certification brings a price-premia to Kernel. For instance, in FY2020 Kernel's customers were ready to pay up to US\$ 2 extra for a ton of certified biofuel crops compared to the price of uncertified products of the same quality.

Sustainability continued

Indirect economic impact (GRI 203)

Given the scale of our operations, we have a large indirect economic impact on some of our stakeholders.

We have an ambitious target in our sustainability approach: contribute to an increase of global food security by improving productivity and reducing costs along the food supply value chain we have impact on. We aim to unlock Ukraine's potential in agriculture, thus increasing the number of people in the world fed in a sustainable way.

Significant indirect economic impacts

Our most significant indirect economic impact happens in **boosting productivity of other farmers in Ukraine**. Kernel farming business achieves 20-40% higher key crop (corn, sunflower and wheat) yields than country averages, and since 2018 we widely share our knowledge in crop production with other farmers in Ukraine through the special program **Open Agribusiness**, designed to help farmers to increase their yields. We share our knowledge: results of our agrochemical laboratories; our practices in precision farming, differentiated fertilizing and planting, satellite and GPS-monitoring; research results from our R&D center, access to our RTK-stations, etc. We also provide farmers in Ukraine with a range of high-quality services, like working capital financing, solutions through Kernel's #DigitalAgriBusiness platform, high-quality infrastructure services and trainings. We organize site visits to our assets and meetings with farmers in our fields to demonstrate our

farming approach. In this way we contribute to the increase of their productivity and reduction of costs of food produced. In FY2020, we:

- organized a PRO 100 AGRO conference – our flagship event for 580 farmers (2 million hectares landbank in operations) to share best agricultural practices between small and medium farmers;
- held three field workshops for 508 participants in total (1.4 million hectares) to demonstrate our farming approach on practice;
- held nine round tables for 120 farmers (0.4 million hectares) to promote efficient sustainable farming; and
- met 140 farmers bilaterally to engage them in our project.

As of the date of this report, third-party farmers shared information on over 480 thousand hectares of land with each other to make benchmarking within **Open Agribusiness** program.

A larger impact happens for farmers, where we buy 10% of equity, but provide more intense support in cost reduction and productivity improvement. Currently we engage with 10 such farmers who cultivate 32,000 hectares in total, and we plan to further expand the scope of this program.

Secondly, we **improve grain railway logistics in Ukraine**. Other players in grain infrastructure are widely adopting new approach "Strict schedule shipments" to grain transportation, which was first introduced by Kernel together with the national monopoly Ukrainian

Railways in 2019. The approach increases fleet turnover and thus reduce grain transportation costs. Additionally, we are an active participant of working groups to transform the railway logistics market and introduce private traction, which shall benefit all other players.

Combined with our efforts in **food supply value chain optimization**, it reduces the total cost of food, thus making it more affordable and contributing to the achievement of #2 UN Sustainable Development goal: Zero Hunger.

We also contribute to the **development of rural areas in Ukraine**, which suffer from high poverty rates, by investing in infrastructure (roads, schools, hospitals, kindergartens), simplifying access to medical services, and contributing to local budgets as a responsible taxpayer (see "[Local communities](#)" for details).

Finally, an important indirect economic impact happens when we **provide access to our IT solutions for our counterparties**. An outstanding example is our electronic document flow system, as described in case study below.

Saving time, saving money, saving environment

Case study on the implementation of electronic document flow

In September 2016, we initiated an electronic document flow (EDF) project, pioneering among the corporates in this field in Ukraine.

In the first stage, begun in 2017, we started to expand EDF for our internal operations. Today, over 20% of our employees can sign electronic documents, in particular via smartphones. Remarkably, EDF today covers the 68% of the company's silos document flow, 51% of documents in circulation for oilseed processing plants, and 28% and 26% for farming and transshipment terminals, respectively. The project allowed us to reduce workload and accelerate timing for accounting period closing. We aim for EDF to cover 85-90% of Kernel's total document flow by the end of 2021.

After successful in-house testing of the project, in December 2018 we moved to a second step: offering the system to external counterparties. Firstly, we added **logistics services providers**, and today 100% of carriers (except for "field-silo" leg) use EDF. Time to receive payment for such partners reduced from 3-5 days to 0-1 day. Secondly, we started engaging **farmers who sell us grain and sunflower seeds**. For them, we launched a special "Partner's cabinet" on our Open Agribusiness portal, where they can use various digital services, including electronic agreements and invoices. Time to sign corresponding documents reduced from 1 week to 30-40 minutes, and time to receive the payment shortened from 4-6 to 1-2 days. More than 68% of our partners regularly enter such standardized electronic contracts. In FY2020, **Kernel purchased 28% of grains and sunflower seeds** (almost 2.3 million tons) using EDF. Cost of signing one document reduced 6-8 times, to just US\$ 0.03.

Our next milestones are the introduction of EDF for three-party contracts and digitalize document flows for grain intake and laboratories at plants and silos. By the end of FY2021, we plan to achieve 80-90% partner farmers involvement in EDF.

With this project, we create a huge **indirect economic impact**. As a first mover among the corporates in this field in Ukraine, we proactively helped the government to develop respective EDF regulatory acts, so that other companies can easily benefit from it as well. Secondly, we promote administrative efficiency for our partners. Additionally, there is the **environmental impact** – we saved almost 380,000 paper sheets (or ~2 tons of paper).

Sustainability continued

Anti-corruption (GRI 205)

Operating in a region with high fraud and corruption risks and poor compliance practices, we understand such negative impacts of corruption as poverty, undermining the rule of law, misallocation of investments and the danger to the environment. We are dedicated to imposing proper control and prevention mechanisms to reduce the risks of misconduct in all areas of our operations and promote anti-corruption principles externally.

Our approach in this area is presented in the box "How we prevent fraud, corruption and other types of misconduct." Over the last several years, we managed to create a comprehensive compliance system to minimize the risks of misconduct, which was recognized by our financing providers EIB and EBRD and by independent compliance auditor Baker Tilly.

Our anti-corruption efforts are led by a Compliance officer who reports directly to the CEO and to the Audit Committee of the Board of Directors, with close coordination between legal and economic security teams and engagement of managers of various business lines.

Operations assessed for risks related to corruption

All company's operations have been assessed for risks related to corruption, and company identified 19 risk areas, assigning each a specific inherent risk level. The most significant risks include:

- obtaining undue benefits, which leads to financial losses and may affect the reputation of the Company;
- conflict of interest;
- combination of work in the Kernel Group of Companies with work for another company or entrepreneurial activities.

Communication and training about anti-corruption policies and procedures

Kernel anti-corruption policies and procedures have been communicated to:

- all Kernel governance body members (Board of Directors and Executive Management Team);
- all employees;
- all business partners. We have a mandatory [anti-corruption clause](#) in all agreements with business partners, and all counterparties are required to comply with our [Code of interaction with suppliers](#).

Employees engaged in the 19 business processes with the highest compliance risk regularly receive trainings on anti-corruption. Consequently, 837 employees in Ukraine (7% of total Kernel number of employees) received physical and e-learning trainings on anti-corruption in FY2020, including all Kernel governance body members. Included among those

are 12 members of the executive management team, 10 heads of departments and structural subdivisions, 20 heads of lines and functions, 49 employees of departments / lines / functions, and 747 other employees.

In FY2020, we substantially upgraded two topic-related e-learning courses: the one about code of conduct, and the one on anti-corruption, anti-fraud and managing conflict of interest. When onboarding, all new employees shall reach a minimum 80% pass rate.

Confirmed incidents of corruption and actions taken

We faced 58 confirmed incidents of corruption (69 our employees-violators) and 104 confirmed cases of theft (with 132 our employees being involved) in FY2020. As an ultimate punishment measure for fraudulent and corrupt activities, we dismissed 161 employees and disciplined remaining employees over the same period, disclosing such cases to other employees as a preventive measure. Equal treatment here is applied to all employees: top-managers, white and blue collars.

Over the reporting period, we had 64 confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption.

We are not aware of public legal cases regarding corruption brought against the Kernel group and its employees during FY2020.

Collective action to combat corruption

Since 2018, Kernel is an active member of [Ukrainian Network of Integrity and Compliance \(UNIC\)](#), supporting all the UNIC principles, including zero tolerance to corruption. We exchange experiences with other members and share our best practices in preventing fraud and corruption. Within the UNIC, our experts prepared a Business Integrity Digest, a major portion of which relates to establishment of proper compliance system in agricultural business in Ukraine, including fraud and corruption prevention. The digest was shared with other agricultural companies in Ukraine through UNIC.

Additionally, we participate as speakers in compliance forums in Ukraine and publish articles in media, sharing our expertise in combating corruption and developing compliance system.

By joining the UN Global Compact initiative in FY2020, we became publicly committed to work against corruption in all its forms, including extortion and bribery.



Business Integrity Digest on compliance in agriculture, prepared by Kernel specialists and shared with business community in Ukraine (including other agricultural companies) through UNIC



Practical compliance trainings for Kernel employees

Sustainability continued

How we prevent fraud, corruption, and other types of misconduct

What we adhere to

- **Zero tolerance** to any fraudulent/corrupt activities within the Company and its subsidiaries. Immediate dismissal of employees and immediate ban on cooperation with partners suspected in prohibited practices;
- Proper **framework in place**:
 - **Code of Conduct** (since 2015);
 - **Corporate Governance Charter** (since 2018) also covering compliance issues;
 - **Anti-corruption policy**, fundamental document for our compliance system developed in accordance with the requirements of the anti-corruption legislation of Ukraine, the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the 'OECD Convention'), as well as the anti-corruption legislation of the countries in which Kernel operates;
- **Tone at the Top** initiative coming from the Board of Directors and Executive Management Team;

How we do it

- **Anti-corruption clause** in all Kernel agreements and tendering processes (since 2017);
- **Code of Interaction with Suppliers** (since 2019). We require our counterparties to respect human rights, ensure occupational safety, comply with environmental regulations, and maintain sustainable business practices. When signing agreements with Kernel, counterparties consent to comply with provisions of the code;
- In-depth documented **due diligence during KYC** procedure, conducted by a security service and compliance officer;
- Annual **conflict of interest** declaration procedure completed by more than 3,600 managers and specialists with high potential risks in FY2020. Workers do not complete declarations, but rather are informed about potential conflict of interest situations;
- **Business gifts and hospitality rules** (since 2018) prohibiting presents and attendance of events that may influence business decision-making; e-register of business gifts and hospitality implemented;
- **Channels for informing** on misconduct:
 - 24 / 7 / 365 toll-free hotline (0-800-501-483) allowing anonymous calls. We received 109 calls reporting possible misconduct in FY2020, almost the same number as in FY2019;
 - Form on company's **website** (since June 2019)
 - Special e-mails: dovira@kernel.ua and compliance@kernel.ua;
 - Telegram-chatbot KernelHotline as a more convenient hotline alternative (since June 2020)
 We have a **whistleblower protection** mechanism in place, managed by our compliance officer.
- Diligent additional **screening** during the **employee selection process** (including Compliance officer involvement if needed), with specific attention paid to the employment of former government officials;
- **Regular assessment of risks** covering conflicts of interest, bribes, charitable contributions and sponsorships, gifts, hospitality.
- Increasing compliance-culture awareness among employees:
 - **Trainings and e-courses** (837 employees attended off-line and online trainings in FY2020; all new employees go through on-line trainings);
 - **Regular** e-mail distributions;
 - **Promo materials and warnings** on the company **website**, intranet portal (with FAQ on the topic), corporate media, information boards at company's assets, 5,000 printed anti-corruption manuals;
 - **Surveys among employees** on compliance understanding. According to the results of internal survey conducted in FY2020, all our employees are informed about rules and principles of Code of Conduct and Anti-corruption Policy, and 99.9% them know how to report fraud and corruption;
 - **Compliance promo-activities** in external and internal media, conferences, and social networks.
- Compliance officer always available for providing assistance in case of disputable situations.

Sustainability continued

Environmental impacts (GRI 300)

Operations and products of farming, grain storage, crushing, and transportations have inherent elements that interact with the natural environment. Maintaining this interaction in a way that prevents material harm to the atmosphere, water, land, biodiversity and climate is essential for Kernel's ability to operate in a long-term perspective. Furthermore, environmental performance substantively influences the assessments and decisions of nearly all groups of Kernel's stakeholders. Therefore, Kernel chooses a proactive approach to managing its environmental aspects.

The topics of Water and Effluents, Biodiversity, Emissions, Waste, and Environmental Compliance are covered by a groupwide environmental management system (EMS). The Group's highest-level policy document - the [Code of Conduct](#) recognizes environmental sustainability among the Kernel's key values and provides guiding principles for its implementation. These principles are cascaded down to operational level by a dedicated [Environmental Protection Policy](#) (adopted in June 2020) that spells Kernel's environmental goals, approaches, and responsibilities that are applicable to every company of the Group. The Policy also contains an acknowledgement of the EBRD Performance Requirements – a framework for structuring projects and operations of the bank's client's in compliance with good international sustainability practices.

Compliance with national legislation is the very basic goal set by the Policy. To achieve this goal Kernel allocates significant resources for essential activities as follows:

- functioning and professional development of the Group's **team of Environmental Specialists**. Eleven full-time employees are permanently placed at assets of Storage, Oilseed Processing, and

Transshipment businesses. In FY2020, two dedicated environmental professionals joined Farming segment.

- **Environmental impacts assessments (EIA)**. The Law of Ukraine regulating EIA is harmonized with EU legislation and requires an EIA for planned activities capable of making a substantial impact to the environment. In FY2020, Kernel undertook 14 fully transparent EIA procedures along with obligatory public consultations for construction of the new crushing plant, five CHPs, and new grain transshipment terminal. All pertaining materials are available at the official [EIA Register](#).
- **Permitting**. National legislation requires permits for emissions to the atmosphere, withdrawal of freshwater and discharge of wastewater to water bodies. Permit applications, containing calculations that quantify and justify planned impacts, are being prepared both by in-house environmental specialists and external contractors. In FY2020, 21 emission permits and 21 water permits were obtained by Kernel subsidiaries.
- **Onsite (pre-)treatment**. To secure permitted level of impact, emissions and effluents often require onsite treatment prior to discharge. Where appropriate, Kernel sites operate filters (mainly cyclones and electrostatic precipitators) and wastewater treatment systems (physical, chemical, and biological).
- **Monitoring of environmental quality**. To control sufficiency of treatment and compliance with permit conditions, monitoring programs are being developed and executed where appropriate. The scope includes sampling and analysis of air, soil and water quality.

Besides Kernel's internal controls, environmental compliance is regularly inspected by competent authorities. In FY2020, we had seven such inspections, including four

unscheduled, which resulted in no major violations discovered, no significant fines, and no non-monetary sanctions. All violations have been resolved, with corrective and preventive actions being taken. One case was brought through the dispute resolution mechanism (litigation). A lawsuit has been filed by our crushing plant to appeal violations of the inspection procedure committed by the State Environmental Inspectorate.

We also promote **environmental responsibility** outside our organization. In FY2020, we organized an "Eco? Logically!" competition among pupils. 64 teams from 22 regions of Ukraine presented their environmental projects, and Kernel presented winners with waste sorting containers and other prizes.



Transformation of Kernel environmental management system (EMS)

Given a vigorous historical company growth through M&As within all business segments, substantial differences in EMS approaches among subsidiaries and business segments have been historically observed. In FY2020, we launched an ambitious program for group-wide standardization, that goes far beyond regulatory compliance and aims at unifying EMS approaches through centralization of the environmental reporting lines and ISO 14001 (environmental management systems) certification.

Firstly, we created corporate Environmental Service in order to develop the Group's environmental strategy and policies, control its implementation, secure availability of resources and competence for the establishment, maintenance and continual improvement of the management systems in line with best international practice. The Head of the Service reports directly to the Kernel's CEO, which helps in keeping environmental issues at the top of management's agenda. The team includes 11 experienced environmental specialists. The new organizational setup enables more efficient and centralized approach to environmental management.

Secondly, we conducted a group-wide self-evaluation of the management approach. Based on responses by the environmental personnel, an actual status of environmental management systems has been tested for over 50 Kernel's subsidiaries, representing all business segments. The provided scores have been validated by the Head of Environmental Service through random site visits. In fact, the assessment was an initial preparation step to subsequent certification of the management system.

Finally, we launched ISO 14001 certification for the first cohort of our entities – Kernel-Trade LLC (the managing company) and six oilseed processing plants, that have successfully passed ISO 14001 certification audits at the end of FY2020. For FY2021, we plan to proceed with certification for our new oil-extraction plant in Western Ukraine, two export terminals, 15 silos and the largest farming entity. All other companies are to be certified by the end of FY2023.

Since FY2020, our highest decision-making body (Board of Directors) regularly review company progress on the sustainability path, including environmental topics.

Sustainability continued

Energy (GRI 302)

While business volumes grew, net energy usage by Kernel in FY2020 reduced by 2% y-o-y, to 6,998 terajoules. The vital importance of energy for all Kernel's businesses, along with the nexus between energy environment and economy, bringing the sustainability context, make the topic material, and thus eligible for disclosure.

As an agro-industrial holding, Kernel has a significant impact on the environment and economy through energy consumption. By boosting the energy efficiency of our operations and producing renewable energy we minimize our adverse impacts and contribute to the global climate change mitigation effort.

Kernel's commitment to energy efficiency is stated in the corporate [Code on Conduct](#) and in [Environmental Protection Policy](#). The implementation is evaluated through energy intensity metrics evaluated for each segment. An Energy Management Service of eight specialists serve as the primary caretaker of the topic within Oilseed Processing and Infrastructure and Trading segments, supported by engineers based on sites. In Farming, where energy resources are predominantly used as motor fuels, energy efficiency is managed mainly by the Engineering Service that is in charge for fuel savings.

Oilseed Processing

Although the largest share of consumed energy (63% of Kernel total use) came from **Oilseed Processing**, >80% of this energy was secured by renewable biomass fuel (sunflower seed husk). In FY2020, over 235 thousand tons of sunflower seed husk have been converted into 3,627 terajoules of thermal energy with biomass boilers at our plants. Over 80% of the produced steam was utilized by the plants onsite for their production needs. The remaining energy was further converted into 18 GWh of electricity at our renovated 7.5 MW CHP (combined heat and power) unit in Kropyvnytskyi and sold to the grid, saving over 19,000 tons of CO₂.

In FY2020, transition to biomass enabled us to achieve one important milestone: for the first time in Kernel history the **company consumed more of renewable energy than of fossil-fuel energy**, bringing the share of renewable energy to a record 51% in total energy consumed.

Additionally, after the acquisition of Ellada crushing plant in FY2020, which historically supplied our Prydniprovskyyi plant with heating, we no longer purchase heating from third parties. This actually increased the segment energy consumption in FY2020 by 6% y-o-y

Energy consumption within the organization (GRI 302-1)

terajoules	FY2016	FY2017	FY2018	FY2019	FY2020
Non-renewable fuel consumed	1,874	2,600	2,879	2,798	2,531
Natural gas	549	1,108	1,044	899	805
Diesel, gasoline	1,324	1,492	1,835	1,899	1,726
Other non-renewable	0.0	0.0	0.1	0.0	0.0
Renewable fuel consumed	2,566	3,096	3,231	3,215	3,628
Electricity consumed	652	798	853	844	903
Heat consumed	3	292	354	319	3
(less) Renewable energy produced and sold	46	42	34	37	65
Electricity	35	41	34	37	65
Heating	10	1	-	-	-
Total energy consumption (net)	5,049	6,743	7,282	7,139	6,998
by division					
Oilseed Processing	3,066	4,146	4,223	4,167	4,415
Infrastructure and Trading	598	1,154	1,225	1,107	868
Farming	1,360	1,418	1,810	1,840	1,693
Other	25	26	25	25	23

Energy intensity (GRI 302-3)

megajoules	FY2016	FY2017	FY2018	FY2019	FY2020
Energy spent per ton of sunflower seed crushed	1,455	1,517	1,446	1,420	1,285
Energy spent per ton-% of grain dried	62	68	61	67	63
Energy spent per ton of grain grown	708	618	662	538	524

Only energy purchased from external suppliers is included in energy consumption.

The volumes of natural gas and diesel fuel used for energy production are measured by equipment installed at each point of consumption. The volumes of diesel fuel, petroleum and liquefied natural gas used in automobiles and agricultural machinery are calculated based on the actual fuel consumption by each unit of machinery. The volume of sunflower seed husk used to generate steam and electricity is accounted based on raw materials movement balances or using scales installed at husk consumption points. Electricity purchased and used is measured by metering devices.

Energy sold includes heating and electricity produced from sunflower seed husk burned at boilers located at our oilseed crushing plants. The volume of electricity sold is measured by equipment connected to the country's electricity grid. Heating sold is measured based on the volume of hot water supplied to external consumers and is measured by equipment installed at the point of consumption. All noted measuring equipment is certified and regularly checked for accuracy by independent external experts. The conversion of energy into joules is made using conversion factors sourced from GHG Protocol; Collection of emission indicators (specific emissions) of pollutants into the air by different productions (tome 1) prepared by Ukrainian Research Center for Technical Ecology (Donetsk, 2004); Methodology of the State Statistic Service of Ukraine.

but allowed to reduce the energy intensity. As a result, a new record was achieved in our crushing business in FY2020, when we spent just 1,285 megajoules of energy to crush 1 ton of sunflower seeds.

To upscale the renewable electricity generation, we initiated in 2018 a US\$ 169 million investment project to make us the largest producer of renewable energy from biomass in Ukraine. Upon the completion of the project, Kernel will run seven CHPs with total installed electric capacity of 95 MW, which are expected to produce over 700 GWh of biomass-based electric energy annually. That will be over three times higher than the total annual electricity consumption of all Kernel's crushing plants. The first 7.5 MW CHP unit is already up and running, 45 MW are expected to be commissioned in FY2021, and the remaining 43 MW are to be launched in FY2022. The project is in line with the Law of Ukraine on Alternative Energy Sources that prioritize renewable energy over other sources and defines incentives for its production (feed-in tariff). By producing renewable energy and substituting fossil-fuel based electricity in the grid, we minimize our adverse impacts and

contribute to the global climate change mitigation effort.

Farming

24% of total Group's energy use in FY2020 is attributable to our **Farming** business needs, reflecting mostly diesel and gasoline consumption by machinery for field works. We continued the trend for energy intensity improvement: it took us 524 megajoules of energy to produce a ton of crop in the reporting period, a 2% decline y-o-y, to a new record.

Such achievements are possible in consequence of our continuous upgrade of our machinery fleet every 5-6 years with more powerful and larger size vehicles from recognized global suppliers, providing higher productivity at lower fuel consumption.

Along with hardware improvement, we constantly raise the efficiency of our operations. Precision farming approaches, GPS trackers installed in all our fuel-intensive fleet, and fuel consumption remote monitoring system allow us to optimize fuel consumption and execute the same production technology at lower fuel intensity.

Sustainability continued

Infrastructure and Trading

Finally, the **Infrastructure and Trading** businesses consumed 12% of total energy, using natural gas for grain drying services and electricity for machinery and equipment powering. Energy consumption by this segment in FY2020 reduced by 22% y-o-y, to 868 thousand gigajoules, mainly driven by lower natural gas consumption in our silo business. FY2020 harvesting campaign appeared to be rather dry, so silos provided less grain drying services and therefore consumed less natural gas. On top of that, we decreased energy intensity of grain drying operations by 6% to 63 megajoules per ton-%.

Our approach to energy consumption is underpinned by applying **best-in-class energy solutions on new assets we are constructing** under our Strategy 2021 CapEx program. Our new TransGrainTerminal export facility is more energy efficient than the old TransBulkTerminal, and two greenfield silos we constructed in FY2019 apply more advanced energy efficiency technology than other silos in our portfolio.



It took us 524 megajoules of energy to produce a ton of crop in FY2020, down from 708 in FY2016

Sustainability continued

Water and Effluents (GRI 303)

We report this topic for the first time, considering the feedback from our stakeholders on topic importance. An initial mapping of water use within Kernel's value chain revealed that major volumes are associated with **Farming** activities (estimated annual water withdrawal of ~4.2 million m³) and **Oilseed Processing** (1.9 million m³). **Infrastructure and Trading** business withdrawn relatively negligible 16,000 m³ of water, although a significant water-related impact is associated with crops produced by third-party farmers and exported through this our segment.

This year we limit disclosure of our approach in the Oilseed Processing and Infrastructure and Trading segments. In Farming business, we are still improving our water use accounting methodology to make a proper disclosure in the next report.

We work towards an overall goal of rational use of natural resources, including water, and keep in line with applicable legislation and permit conditions. Following the first reporting cycle that provided us with a baseline, next year we will look closely into setting measurable goals on a corporate level. We also plan to improve reporting on our Farming segment's water-related impacts, and to continue mapping those associated with our supply chains.

Oilseed Processing

Water withdrawal and effluent discharges in this segment are concentrated at 8 oilseed processing plants. A typical water use pattern

along with the segment's aggregated figures on annual withdrawal and discharge for oilseed processing are presented on the figure below.

Water withdrawal

Three of our crushing plants withdrawing in total 32% of water in this segment in FY2020 operate in areas with high water stress¹, three plants (48% of total segment water withdrawal) are located in medium, and two plants in low water stress areas.

In FY2020, the segment withdrawn >1.9 million m³ of water, with 43% originated from underground aquifers, 51% purchased from municipal water supply companies, and 6% accumulated using surface water. All withdrawn water belongs to the freshwater category.

Two of our plants located in high water stress areas provide local communities with access to water supply and wastewater treatment, supplying in total 18,038 m³ of water to 316 households in FY2020. Wastewater from all households returns to the plants for treatment.

Water use

At a crushing plant, water is mainly used for technological needs (such as production of steam), and housekeeping. An emergency volume is reserved for firefighting. Part of the consumed volume evaporates, while the remaining water after use proceeds to treatment. In case of available connection to municipal wastewater treatment plant (WWTP), a crushing plant may just pre-treat its

Water withdrawal and discharges (GRI 303-3, 303-4)

	FY2020	
	All areas	Areas with water stress
Water Withdrawal	1,919	619
ground water	831	503
municipal water suppliers	971	-
surface water	116	116
Water Discharges	1,226	381
to surface water	381	381
to municipal WWTPs	845	-

Discharge of substances with water

Dry residue (mineralization)	808	536
Sulfates	168	129
Chlorides	117	79
Suspended particles	34	2
Fats	5	0
Other substances	167	23

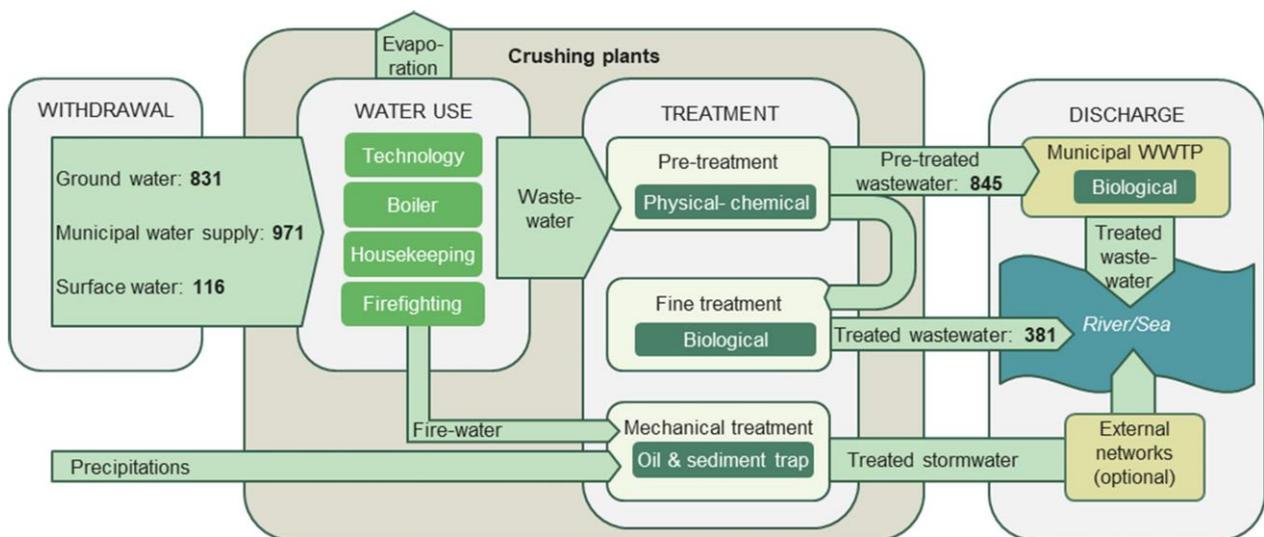
Presented data covers only the Oilseed Processing segment. Information on both withdrawn and discharged volumes have been obtained through direct measurements.

wastewater, to meet the WWTP requirements, while the final treatment is provided externally. Alternatively, a full onsite treatment that includes biological method is provided by crushing plants that have direct discharges to water bodies. Three crushing plants operate full cycle treatment systems.

Precipitations falling within the sites' territory form an additional water stream that must be managed to prevent water and soil contamination with residues of oil, and solid particles that might be present at an active production

Typical water use pattern for Kernel oilseed-processing plants

Aggregated figures on annual water withdrawal and discharge, thousand m³



¹ Baseline water stress measures the ratio of total water withdrawals to available renewable surface and groundwater supplies. Source: WRI Aqueduct 2019

Sustainability continued

site. Five of eight our plants are equipped with stormwater collection systems. Typically, stormwater is collected through wells, gets mechanical treatment to remove sediments and oils, and then is released to external networks or directly to water bodies. Due to food safety limitations stormwater cannot be widely applied in the production process. For the Vovchansk plant, we plan to develop such a system in 2022.

Water and effluents discharge

In FY2020, 844,559 m³ of pre-treated wastewater was discharged by five plants to municipal networks for further treatment; 381,000 m³ of treated wastewater, that met established standards, was discharged by three plants to freshwater water bodies.

The quality of treatment is permanently controlled by onsite laboratories and complies with requirements of municipal WWTP or national legislation (for discharges to water bodies). [Ukrainian law](#) defines a list of 10 controlled parameters (8 substances, BOD5, COD) that should be complemented with any other substance whose concentration in the wastewater exceeds its concentration in withdrawn water. Maximum values for every parameter are set by a Special water use permit.

All six plants that operate water wells (three of them also have direct discharges to water bodies) hold valid "Special Water Use Permits." Such permits set limitations to volumes of withdrawn water and/or on volumes and quality of effluents based on surveys that define hydrological conditions, baseline water quality and assimilation capacity of a water body. Permitting authority uses information on water use within a watershed or aquifer to set permit conditions in a way that balances interests of all users and keeps cumulative pollution levels within the national water quality standards. Regulatory requirements were the only criteria for setting permit conditions that define the quality of our effluents.

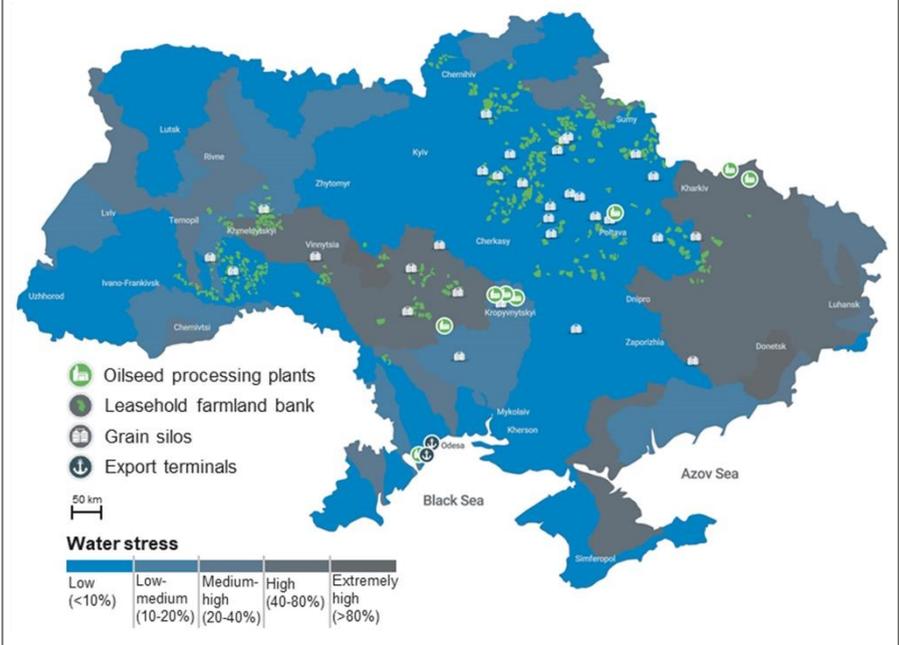
The [Water Code of Ukraine](#) prioritizes the needs of the population and allows revision of the permit conditions by the authority in order to secure people's drinking and housekeeping needs in case of low water levels.

In FY2020, we did not aggregated information on categories (freshwater/other water) of our entities' effluents to present it on the corporate level. Within the year we had one minor incident of non-compliance with limits for discharges to a water body. Three incidents were related to the quality of effluents sent to municipal WWTPs.

Investments to strengthen our approach

Kernel's presence in water stress areas

Source: [Water Risk Atlas](#)



For our investments under Strategy 2021, we apply best water-related solutions, while considering hydrological and hydrogeological surveys. For example, on two our CHP plants under construction (one of which is in a high water stress area) we opted for dry cooling systems. Selected solutions are three times more expensive than wet cooling (EUR 1.8 million total costs), increase CHPs' own electric consumption by 8 GWh/year, implying EUR 1 million of lost earnings annually, and reduce turbine energy output. On the other hand, it saves around 320,000 m³ of water annually.

Additionally, in FY2021 we are launching a two-year program for overhauling condensate returns systems at five crushing plants aimed at saving both thermal energy and freshwater. Once completed, the project will allow us to save nearly 60,000m³ of water annually.

Our new plant under construction which will be the largest such facility in Ukraine, is constructed in a region with low-medium water stress. Water impact was one of the decision factors when selecting the location.

Farming

Our farming business relies mainly on natural precipitations rather than on water withdrawal. Only 0.4% of our landbank is irrigated. Withdrawn water, predominantly from underground sources, is mainly used for technological purposes such as application of crop protection agents and liquid fertilizers. Annual volume of water withdrawn by the Farming

segment for crop production needs is estimated at ~4 million m³. The segment's volumes also include up to 230 thousand m³ of water withdrawn for the needs of our cattle business. Except for this volume, impacts of withdrawal and consumption were scattered all along the Kernel's land bank of over 0.5 million ha. Measures taken by Kernel to prevent pollution and excessive water use are as follows:

- application of precise quantities of fertilizers and pesticides, preventing their runoff to water bodies;
- ban on farming operations in buffer zones of water bodies;
- application of dry method (conveyor scrapers) for removing manure from cowsheds;
- ban on piling manure storages in buffer zones of water bodies.

Infrastructure and Trading

Kernel inland silos and transshipment terminal consumed nearly 15 thousand m³ of withdrawn water, that was used mainly for housekeeping. Also, around 1,000 m³ was used for the needs of the truck fleet, with water supply and effluents treatment services being provided by the municipal operator.

We realize materiality of water-related impacts associated with crops produced by third-party farmers and marketed through this segment. However, this year we have chosen to focus on direct impacts from Kernel's operations for disclosure purposes.

Sustainability continued

Biodiversity (GRI 304)

Modern agriculture has enabled food production to increase dramatically, contributing much to ending hunger, achieving food security and improving nutrition. However, these improvements often come at a cost of adverse impacts on the natural environment, specifically on biodiversity. Globally, deforestation and other forms of land-use conversion, driven by the expansion of farmlands, are key reasons for biodiversity losses. Other substantial threats stem from crop farming operations such as land cultivation and application of pesticides. Our stakeholders, including clients (see the case on ISCC certification below) express their interest in our potential contribution to these threats.

Kernel is strongly committed to sustainable long-term crop production practices as opposed to the short-term profit seeking. Managing the impacts of our operations on biodiversity is essential for realizing this commitment. Consequently, our [Environmental Protection Policy](#) prioritizes preservation of biodiversity. Our management approach starts with thorough due diligence of the landbank and follows through the entire farming cycle.

Our Land Bank Service specialists evaluate both physical conditions, and legal status of each land plot earmarked for lease. The former includes type and quality of soil, presence of vegetation, and general suitability for

farming; the latter - ownership rights, legal suitability for farming, and registered use limitations. The due diligence prevents us from renting land plots other than physically and legally eligible for farming.

We do not operate in areas with high biodiversity value, which we determine as:

- conservation zones of 8,512 protected areas in Ukraine recognized by national legislation¹; and
- wildlife and natural habitats located at 377 Areas of Special Conservation Interest (ASCI) constituting the Ukrainian part of the Emerald Network, introduced by the Berne Convention² for protecting habitats and species listed therein.

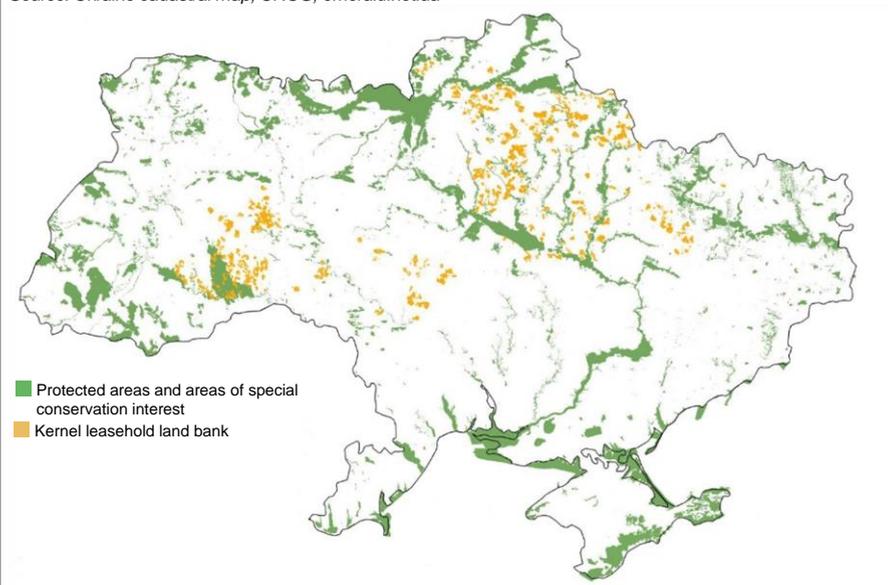
We mapped our 514 thousand ha leasehold lands under cultivation against the territory of protected areas and ASCIs (see map below). Revealed overlaps amount to 20,000 hectares (less than 4% of Kernel's land bank) located in two national parks - Podilski Tovtry and Dniistrovskiy Kanion, that are also encompassed by the Emerald Network as sites UA0000011 and UA0000122 respectively. However, all Kernel's operations within these areas take place at dedicated economic zones, and do not interfere conservation and other zones of the national parks where natural or wildlife habitats of special conservation interest are located. Such economic activity is allowed by the Law of Ukraine on Nature Reserve Fund.

Following the lease of a land plot, we carefully select and precisely apply farming techniques that minimize adverse impacts of our operations. This includes but are not limited with:

- **Seeds selection.** Kernel uses for sowing only breeds and hybrids of seeds listed in the State Register of Plant Species Eligible for Cultivation in Ukraine. The register does not contain GMO breeds and hybrids, so Kernel does not use them. All seeds, regardless of origin – produced internally or sourced from the market – are tested in Kernel's accredited laboratory prior to sowing.
- **Maintaining proper soil nutrients.** To ensure proper replenishment of nutrients in the soil, we follow the balanced crop rotation practice, developed for each geozone of our presence. We practice mainly three- and four-field rotations with alternations of row crops and seed crops. Monocultures are cultivated in line with scientifically substantiated principles. Rotations applied by Kernel comply with the Law of Ukraine on Soil Protection. At least once per crop rotation cycle (3-4 years) we analyze the quality of soils and adjust our crop mix plans, production technology and fertilization practices as appropriate. Test-based approach to application of fertilizers allows maintaining deficit-free balance of nutrients and thus prevents deterioration of the soil quality.
- **Preventing soil over-compaction.** Kernel realizes the importance of and pays attention to the mechanical properties of soils. Measures taken to prevent their deterioration are as follows:
 - control and limitation of machinery traffic within fields, use of caterpillars and reduced pressure in tires;
 - selection of optimal timing and soil conditions for cultivation works;
 - using deep loosening as the basic tillage technique, which is most favorable for preserving the soil structure;
 - alternation of different tillage techniques, their depth and direction, within a rotation cycle, based on results of annual compaction monitoring;
 - grinding and application of plant residues as a source of organic matter and basis of the soil structure. To optimize conditions for mineralization of residues and humus creation we complement them with biodestructors (microbiological products) and extra nitrogen;
 - planting of siderates brings supplementary organic matter and improve soil structure of fields where wheat was harvested before.
- **Prevention of soil erosion.** Kernel does not operate on slopes steeper than 7 degrees. On slopes of 3 to 7 degrees, only

Areas with high biodiversity value in Ukraine

Source: Ukraine cadastral map, UNCG, emerald.net.ua



¹ The law of Ukraine on Nature Reserve Fund defines several types of protected areas, incl. natural and biosphere reserves, national nature parks, regional landscape parks, etc.

² The Convention on the Conservation of European Wildlife and Natural Habitats, Bern, 19.IX.1979

Sustainability continued

deep loosening across the slope, with accumulation of plant residues on the soil surface are practiced.

- **Integrated pest management system**, which ensures thresholds are set for any pest control actions, and cultural methods aimed at reducing the exposure of plants to infection are applied prior to the use of pesticides. We comply with all applicable pesticides regulations and use only those crop protection agents which are authorized for the use in Ukraine. We do not apply products forbidden by the Stockholm Convention on Persistent Organic Pollutants and/or products listed in Annex 3 of the Rotterdam Convention. Beyond maintaining compliance with national legislation, we closely follow developments in pesticides regulations in other countries. We adjust our system by excluding most toxic pesticides banned internationally. For instance, since 2020 we have completely phased out organophosphorus-based products Chlorpyrifos and Chlorpyrifos-methyl. Since 2021 we plan gradual reduction of neonicotinoid products use. In a few years, their application will be limited with Thiacloprid and Acetamiprid that are used in certain EU countries and have lower toxicity for bees and other wild insects.

Any new substances are first tested on our inspection fields, and only then widely adopted in our production process, subject to strict limitation on minimal distance to sensitive recipients (300-500 m from

settlements). Pesticides are stored in certified storages, subject to annual inspection by the Sanitary Authority.

All self-propelling spraying machinery is equipped with positioning control system that deactivates sprayers when leaving the boundaries of an assigned field. The system also prevents doubling and re-application of pesticides at areas that have been already sprayed. Automatic remote control for weather conditions during application process minimize off-the-field releases of pesticides.

Inappropriate application of pesticides is also associated with risk of bee poisoning and causes conflicts between beekeepers and farmers. To bridge the gap between these parties and to increase profits for both businesses, Kernel, with several beekeepers' associations, has launched a largescale project "Pollination by Bees" aimed at testing an innovative business model of paid pollination services. The model suggests beekeepers being contracted and paid for placing beehives to farmers' fields with entomophilic crops such as sunflower, rape, buckwheat. Benefits for farmers include expected yields rise by 0.2-0.5 tons/ha. We believe that development of pollination services market will be beneficial for biodiversity as well through prevalence of safer pesticides and improved application practices.

As required by some our customers, 395,000 hectares of fields under our operations have been ISCC-verified in FY2020. ISCC (International Sustainability and Carbon Certification) is a globally leading certification system focused on securing traceable and deforestation-free supply chains, and protection of land with high biodiversity value. It confirms our commitment to the highest sustainability requirements.



Compliance with International Sustainability and Carbon Certification (ISCC)

ISCC is the world's leading certification system contributing to the implementation of environmentally, socially and economically sustainable production and use of all kinds of biomass in global supply chains. ISCC follows the principles of:

- **Ecological sustainability:** protection of land with high biodiversity value or high carbon stock; deforestation-free supply chains; environmentally responsible production to protect soil, water and air; monitoring of GHG emissions associated with production and processing of a product
- **Social sustainability** (safe working conditions, compliance with human, labor and land use rights)
- **Compliance with laws and international treaties**
- **Good management practices**

Kernel applies ISCC principles to its products – crops used for biofuels (corn and soybean), sunflower oil and meal. Since 2011 Kernel's compliance with the principles is being certified by independent auditors, with almost 90 employees involved in certification and audit processes.

The process starts in the fields where an auditor verifies land-plot history, property rights, cultivation techniques, control of soil properties, fertilizer and pesticide storage and application, OHS trainings, working conditions, etc. Notably, an audit scope includes a provision against onsite incineration of straw – a noxious practice that causes fire accidents and deterioration of air quality. For every primary producer its crops' carbon footprint (GHG emissions) is accounted and benchmarked against the threshold established for biofuels in EU (Renewable Energy Directive).

In FY2020, the total area of verified fields amounted to 395,000 ha (77% of Kernel's acreage harvested) that nearly doubles the results of FY2019. Crops from these fields are eligible for entering certified supply chains.

Certified crops proceed to Kernel's storage facilities and/or processing plants subject to subsequent ISCC certification process. In FY2020, compliance of all Kernel's grain elevators have been audited and confirmed; three oil crushing plants earmarked for production of biofuel have been certified. In this way Kernel ensures its products are in line with ISCC principles all along their supply chains.

Sales volumes of ISCC certified products amounted to 890,000 tons of corn and 86,000 tons of soybeans in FY2020.

Besides being "the right thing to do," producing and processing crops in an environmentally, socially and economically sustainable manner is also a commercially viable approach that matches an ever-growing market demand and brings a price-premia of up US\$ 2 per ton of ISCC-compliant crop and helps with expanding sales geographies.

Sustainability continued

Emissions (GRI 305)

Operations of each Kernel's segment are associated with emissions, including carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) - collectively referred as greenhouse gases (GHG), as well as particulate matters (PM), nitrogen oxides (NO_x), sulfur dioxide (SO₂), hydrocarbons and other substances.

While the impacts of GHG are mainly perceived indirectly, through manifestations of climate change, other emissions have more straightforward effect on human health and ecosystems. We acknowledge our share of responsibility for these impacts and strive to minimize emissions. That makes the topic of emissions material and eligible for disclosure.

All our emissions occur in Ukraine. A table below presents major sources of emissions.

All stationary sources of emissions in Ukraine are subject to a permitting procedure that encompasses emissions inventory, dispersion modelling, and public disclosure of the outcomes in the press. The modeling provides estimates on concentrations of emitted pollutants at neighboring sensitive receptors areas (housing, schools, hospitals, etc.). All Group companies operating stationary emission sources hold valid permits (covering GHG and other emissions), monitor emissions' parameters, and pay environmental tax (US\$ 196 thousand in FY2020, including US\$ 102 thousand of tax applied on CO₂ emissions) accrued based on actual emissions volume, waste management and water discharges.

In addition to the disclosure in this report, Kernel also reports under the CDP Climate Change initiative (see [CDP website](#)).

Improvements in calculation methodology

This year we improved the quality of our GHG reporting. Although our previous disclosures were guided by the GHG Protocol principles, this year we managed to report our emissions in full compliance with this standard and its

Greenhouse gas emissions (GRI 305-1, 305-2)

thousand tons of CO₂ equivalent

	FY2016	FY2017	FY2018	FY2019	FY2020
Gross direct (Scope 1) GHG emissions	662	748	922	981	955
by gas type					
CO ₂	129	174	200	192	174
CH ₄	34	32	33	25	22
N ₂ O	498	542	688	764	759
by division					
Oilseed Processing	4	14	3	3	9
Infrastructure and Trading	29	63	70	59	44
Farming ¹	627	670	847	918	900
Other	1	1	2	1	1
by source					
Fuel-sourced	138	184	211	203	186
Cattle Farming	38	35	37	28	25
Fertilizers application	486	529	673	750	744
Biogenic GHG emissions	339	587	401	710	628
Sunflower seed husk combustion	252	304	317	316	356
Changes in organic carbon stocks in soils	86	283	83	394	272
Gross indirect (Scope 2) GHG emissions	73	83	94	90	96
Electricity	73	83	94	90	96
Heat	0.2	0.2	0.5	0.1	0.2
Total GHG emissions	1,074	1,418	1,417	1,781	1,679

The company use financial control consolidation approach for emission. Emissions are calculated based on volumes of fuel consumed and conversion factors sourced from GHG Protocol (GHG Emissions from Stationary Combustion). Emissions from livestock farming are calculated based on the average headcount of cattle for the reporting period and established regional normative levels for emissions per head. The conversion factor is calculated as the ratio of total emissions from electricity production in Ukraine sourced from UN GHG Inventory to energy production itself sourced from Ministry of Energy and Coal Mining. We use IPCC 4th Assessment Report rates for global warming potential calculation.

¹ Emissions from agricultural soils are reported in the financial year, when the agricultural products were harvested, using data on mineral and organic fertilizers applied during the growth period in the previous financial year. In 2017 the Company significantly increased the land bank, which have been included in estimation of GHGs emission volumes starting from FY2018. Due to lack of information on actual fertilizers input by previous land users, the volumes were estimated using average fertilizers application rates for each crop type used by the Company discounted by 10% to reflect the difference in agricultural practices.

thematic supplements¹. Application of globally recognized accounting methodologies provided us with better understanding of processes and factors driving emission volumes that in turn makes our disclosures more accurate and supports future planning of GHGs management approaches.

Respectively, we recalculated emissions for previous periods to maintain consistency.

In FY2020, we expanded the scope of the disclosure with **N₂O emissions from soils** under our cultivation (mostly caused by application of fertilizers) and **biogenic emissions** caused by changes in organic carbon stocks in soils.

Direct (Scope 1) GHG emissions

Our farming segment produced 94% of Group's gross direct GHG emissions in FY2020. 83% of the segment's direct emissions is attributed to N₂O, caused directly by supply of available Nitrogen through application of mineral and organic fertilizers and plant's residues, and indirectly via Nitrogen leaching and volatilization. Other large contributors are CO₂ produced by combustion of motor fuels by machinery for field works and grain transportation (14% of total segment emissions) and CH₄ emitted via enteric fermentation from our cattle business (2%).

To reduce N₂O emission, we apply differentiated mineral fertilization that prevents excessive volumes of nitrogen ending up in the atmosphere. Based on crop monitoring data,

Major sources of emissions

Type of emissions	Segment	Process / Source	Emission	
			GHG	Non-GHG
Direct (Scope 1) emissions	Farming	Combustion of motor fuels by machinery	CO ₂	PM, NO _x , SO ₂
		Application of fertilizers and plant residues	N ₂ O	-
		Enteric fermentation from cattle farming, manure management	CH ₄ , N ₂ O	-
	Infrastructure and Trading	Combustion of natural gas for grain drying	CO ₂	CO, NO _x
		Combustion of motor fuels for crops transportation	CO ₂	PM, NO _x , SO ₂
		Grain handling (storage and transshipment)	-	PM
Oilseed Processing	Oilseeds handling	-	PM	
	Oil extraction	-	Hexane	
Indirect (Scope 2) emissions	All segments	Consumption of purchased electricity and heating		
Biogenic emissions	Oilseed Processing	Combustion of biomass fuels in boilers at crushing plants	CO ₂	PM, NO _x , SO ₂ , CO
	Farming	Land cultivation (organic carbon stocks in mineral soils)	CO ₂	-

¹ GHG Protocol. A Corporate Accounting and Reporting Standard; GHG Protocol. Agricultural Guidance; The Land Use, Land-Use Change, and Forestry Guidance for GHG Project Accounting

Sustainability continued

GHG emissions intensity ratios (GRI 305-4)

kg of CO₂ equivalent

	FY2016	FY2017	FY2018	FY2019	FY2020
GHG emissions per ton of sunflower seeds processed	147	139	134	131	128
GHG emissions per ton of grain grown	375	419	343	386	365

We use direct (Scope 1), biogenic and indirect (Scope 2) GHG emissions (all gases) as a denominator to calculate the ratios.

Other significant air emissions (GRI 305-7)

thousand tons

	FY2016	FY2017	FY2018	FY2019	FY2020
Carbon oxide	0.7	0.4	0.5	0.4	0.4
Sulfur dioxide	0.3	0.2	0.3	0.1	0.1
Nitrogen dioxide	n/d	n/d	n/d	n/d	0.1
Particulate matter	0.8	0.7	1.0	1.6	1.1

this technique allows to reduce the portion of fertilizer by 10-15%. Proper application timing is equally important. For corn, winter wheat, rape, and sunflower annual portion of N is applied in 2-3 phases. We apply stabilized liquid nitrogen fertilizer (urea-ammonia mixture) in spring to ensure minimum time between its application and consumption by crops. In autumn we use only ammonia-based fertilizer, after average daily soil temperature falls below 10°C. Additionally, we apply nitrification inhibitors, and cultivate cover crops.

To limit CO₂ emissions, we reduce both specific fuel consumption and mileage of the field machinery through regular modernization of the fleet, and optimized routing, respectively.

Infrastructure and Trading operations resulted in 5% of Kernel gross direct GHG emission in FY2020, mostly in silo business when burning natural gas for grain drying.

Additionally, our operations contribute to biogenic emissions, which amounted to 628 thousand tons of CO₂e in FY2020. 57% of that stands for emissions due to sunflower seed husk combustion in our **Oilseed Processing** segment, and 43% attributes to biogenic losses of soil carbon in our **Farming** business.

Another potential GHG source is hydrofluorocarbon refrigerants. Total amount R407c, R134a, and R507 refrigerants circulating in industrial cooling equipment operated at Kernel's 2 crushing plants and the cattle business is 555 kg (equivalent of 1,603 tons of CO₂). No refrigerants leakage occurred in FY2020.

In line with mitigation hierarchy, we prefer prevention over end-of-pipe treatment. Resource efficiency is our key preventive strategy. Since 38% of Group's GHG emissions stems from our energy consumption, we keep investing in measures for rising efficiency and corresponding decrease of emissions, as

described in [Energy consumption](#) above.

Indirect (Scope 2) GHG emissions

When consuming purchased electricity and heating, we indirectly cause GHG emissions occurred during energy generation. 77% of such emissions is associated with electricity consumed by our oil-extraction plants. We applied location-based method to quantify our Scope 2 GHG emissions.

Though, in parallel with consumption, Kernel invests in development of 7 sunflower husk-fired CHPs to produce biomass-based electric energy and sell it to the grid. Substitution of the fossil-based grid electricity with renewable energy contributes to decrease in GHG emissions. Upon project completion, annual savings will amount to >700,000 tons of CO₂e.

GHG emissions intensity

We achieved a new record GHG emissions intensity ratio in the **Oilseed Processing**: 128 kg of CO₂e per ton of sunflower seeds processed. Also, in the **Farming** segment, emissions intensity in FY2020 reduced 5% y-o-y, to 365 kg of CO₂e per ton of grain grown.

Though substantial progress was achieved by Oilseed Processing since FY2015, this year we have set a target for further reduction of the segment's energy consumption and associated emissions intensity per ton of processed oilseeds by 5% till FY2025 vs FY2020.

Other significant air emissions

Among all Kernel's processes, combustion of sunflower husk at 8 crushing plants is the one that emits the highest volume of non-GHG polluting substances, i.e. PM, NO_x, SO₂, CO. Volumes of these emissions were calculated by the sites' environmental specialists for statutory reporting purposes on a quarterly basis. Calculations are based on volumes of combusted husk and established specific emission factors.

Currently all Kernel's husk-fired boilers fall within the definition of Medium Combustion Plants (MCP) used in the EU for installations with a rated thermal input up to 50 MW. Following the completion of the abovementioned investment project, capacity of boilers at three plants will exceed the 50MW threshold, thus upgrading these boilers to the category of Large Combustion Plants (LCP), while three other new boilers will stay in the same MCP category. Ukrainian standards for emissions of LCPs¹ are synchronized with the EU Industrial Emissions Directive². However, national requirements on emissions of sunflower husk fired MCPs³ are less stringent compared to those set by the EU MCP Directive⁴. Yet, for all new boilers, we plan to comply with emission limit values set by the EU directives.

To prevent dust emissions associated with grain and oilseeds handling, we apply sophisticated design solutions and techniques that minimize contacts of material flows with the atmosphere. This includes closed type grain and oilseed unloading stations, conveyer lines, and ship loading machines with advanced dust control features.

Where prevention is not feasible, treatment equipment is applied. Our crushing plants operate 6 electrostatic precipitators (ESP) for removing PM from boilers' flue gases. These highly efficient (95-98%) filtration devices use electric energy to generate electrostatic charge that captures fine particles. In FY2020 the value of electricity consumed by ESP amounted to US\$ 380,000. All grain handling installations at silos and transshipment terminals are equipped with cyclone filters.

An ongoing investment project envisages development of 6 CHPs. Each of them will be equipped with ESP with total value of EUR 9.5 million. Annual operational cost will be around US\$ 1.4 million, attributed to the cost of 17.4 GWh electric energy. Two boilers will receive selective non-catalytic reduction equipment to lessen nitrogen oxide emissions by 2021.

Emissions of hexane – a solvent used for oil extraction, are strictly controlled and prevented throughout transportation, storage and application for both resource efficiency and safety reasons. All the equipment contacting with hexane at Kernel's plants follows **EU ATEX Directive**. The solvent is reused through multiple extraction cycles. In FY2020, 1,452 tons of hexane left the cycle by evaporating to atmosphere or with products.

¹ Emission Standards for Power Installations With Rated Thermal Input Over 50 MW, approved by the Order No. 541 of the Ministry of Environment of Ukraine, as of 17.11.2008

² Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on Industrial Emissions

³ Emission Standards for Sunflower Husk-Fired Boilers, approved by the Order No. 540 of the Ministry of Environment of Ukraine, as of 13.10.2009

⁴ Directive (EU) 2015/2193 of the European Parliament and of the Council of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants.

Sustainability continued

Waste (GRI 306)

We report our approach to waste management for the first time, given the increased interest in this topic by our stakeholders and review of our perception of waste. Fundamentally, we perceive waste as a resource that needs an application instead of disposal. This approach stems from circularity of natural systems, to a large extent embraced by agriculture and applied at crops handling and processing operations. Kernel's vertical integration that allows a variety of options for diverting waste from disposal makes this approach viable. However, we acknowledge that not all waste streams generated by Kernel are compatible with natural cycles, and thus should be accounted and managed with special care to prevent their negative impacts on environment.

This year we have chosen to focus on impacts related to waste generated in the Kernel's own activities. We present management's approach for every segment, while the disclosure of generated waste (GRI 306-3) excludes Farming segment's volumes due to differences in approaches to waste accounting observed among entities of the segment. We plan to standardize the approaches and to present volumes of waste generated by Farming next year.

Management approach

An overall goal of minimizing waste at all stages of our production is stated in the group's **Code of Conduct**. The **Environmental policy** prioritize modernization of technological process aimed reaching this goal, and sets controls on generation, storage and transportation of waste. These provisions are applicable to all segments of our business, as each of them has inputs, activities, and outputs that could lead to waste-related impacts. An overview of these elements and their interrelation is presented on a process flow below. The use of water and fossil fuels is disclosed in detail in other sections of this report.

With our approach, we contribute to **Sustainable Development Goal 12: Responsible Consumption and production**, by implementing environmentally sound waste management and preventing and reducing waste through reuse and recycling.

Farming

Production of crops is the segment's principal process. Fertilizers, seeds, and pesticides are its key inputs (excluding fuel and water). Pesticides are sourced exclusively from external suppliers, while significant shares of seeds (66%) and fertilizers (43%, mostly organic ones) are produced internally. As a side

business, we have a milking herd of 9,374 heads (milk cows and calves). Fodder for cattle is the key input of the production process. Over 85% of fodder comes from sub products and wastes of other segments' operations.

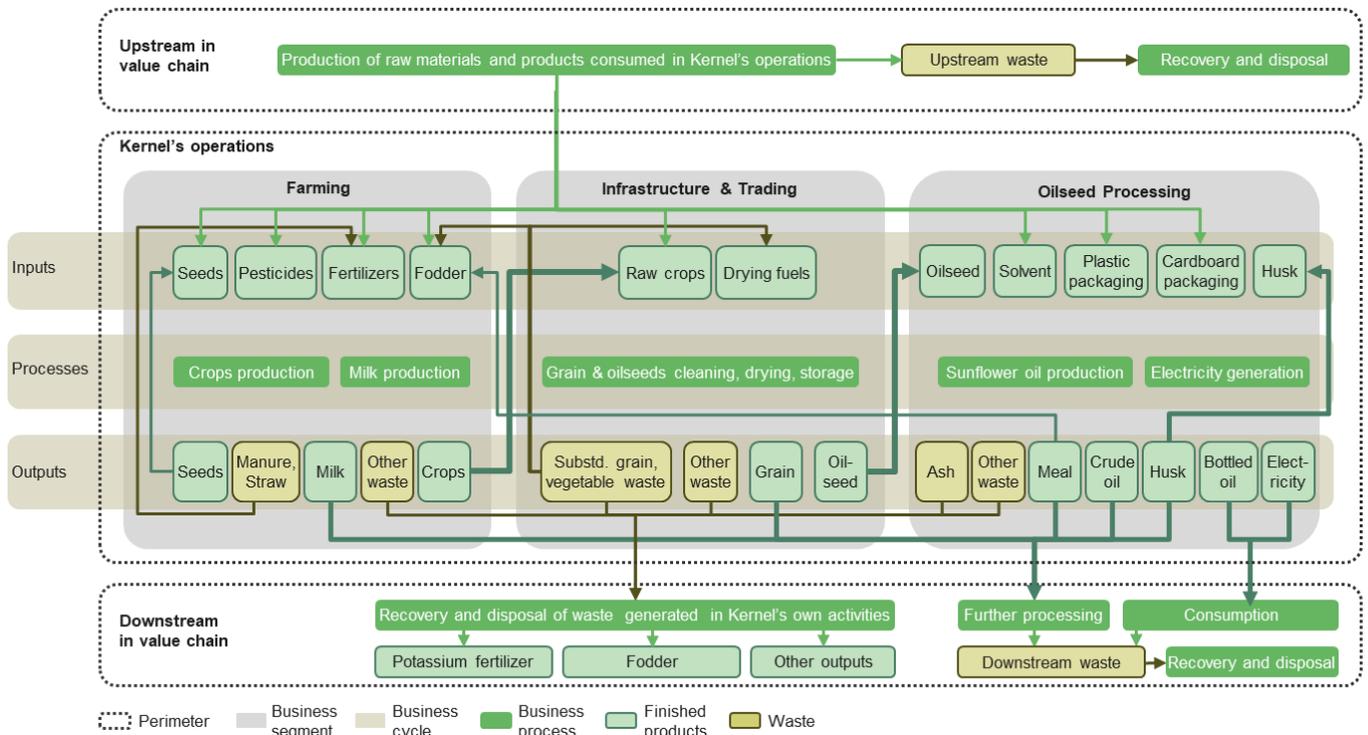
Key farming segment products include:

- **grain** (exported from Ukraine through our Infrastructure and Trading value chain) and **sunflower seeds** (consumed by our Oilseed Processing segment). A minor portion of crops serves as seeds for our next production cycle;
- **milk** produced by Kernel is sold in bulk with no packaging.

Key farming segment wastes include:

- **Straw**, which is mainly left in the fields after harvesting. Onsite burning of straw is strictly forbidden. Some straw is used by cattle business as a bedding for cows.
- **Manure**, after being removed from cowsheds with scraper conveyors, is transported to embanked storage sites, undergoes natural composting in piles, and finally gets applied to the fields and partly distributed among local people for their gardening needs. All the storages are located outside of settlements, on their leeward sides. None of storage locations fall within water protection buffer zones. Environmental quality is

A process flow of inputs, activities, and outputs that lead or could lead to significant waste-related impacts



Sustainability continued

regularly monitored. Over 170 thousand tons of composted cow manure mixed with straw, has been applied as organic fertilizer to the fields in FY2020.

- **Cows' carcasses** are disposed in registered bio-thermal pits in line with the rules set by the [State Veterinary Committee](#).
- **Pesticides packaging** are normally segregated by class of hazard and handled to licensed contractors.

Infrastructure and Trading

The segment's most waste-intensive operations are cleaning, drying and storage of crops both produced by the Farming segment (77% of total grain intake in FY2020), and produced by third parties (23%). Main outputs include grain sold in bulk to global markets and oilseeds that are subsequently crushed at Kernel's plants. Fractions of substandard grain and vegetable waste, separated from the products, are used as an input for fodder both internally by the cattle business and by external consumers. One of Kernel's grain drying installations applies vegetable waste as a biomass fuel for production of steam.

Oilseed Processing

Production of sunflower oil uses quality oilseed produced by Farming segment or originated externally. Other key inputs include hexane – a solvent for oil extraction, and packaging for bottled oil. Hexane is used circularly, though its minor fraction leaves the cycle with products and evaporates to the atmosphere. Thus, its waste related impacts are limited with upstream production process.

Around 91% of oil is crude, sold in bulk for further processing. While the remaining volume is refined, bottled and packed. Thus, plastic and cardboard packaging moves downstream to retailers for further distribution. Other valuable sub-products are meal and husk that are both supplied to the market and used in Kernel's operation as fodder and biofuel

correspondingly. Husk is the source of all thermal energy consumed by our crushing plants. Furthermore, an ambitious program for cogeneration is being implemented. Husk-fired CHP at one plant already supplies electricity to the public grid, while new CHPs are under construction at 6 plants. Another output of power generation is ash. Its favorable and stable chemical composition - potassium rich, no hazardous admixes, makes sunflower ash an in demand raw material for fertilizer production. In this way, nutrients harvested from fields are returned back.

Other waste

Some waste fractions are common for all segments. This includes waste related to «housekeeping», machinery maintenance, construction, and operating wastewater treatment installations. These types of waste, along with other wastes that have no direct application in Kernel's own operations or externally, are transferred to licensed contractors for recovery and/or disposal. The list of license holders with specified scope of their operations is available on the [official page of the Ministry of Environment](#). License conditions are set to secure operator's capacity for safe handling of collected wastes. The Ministry is responsible for verification of compliance of licensees' operations with these conditions. Violation leads to license revocation.

Besides actions taken to avoid and mitigate waste-related impacts associated with our own activities, Kernel puts controls on waste management practices by its contractors working at Kernel's sites. Standard contract clauses require contractors to prevent waste generation and mixing different types of waste. Upon Kernel's request, contractors are obliged to provide copies of their contracts for recovery or disposal of waste generated in the course of their work at a Kernel's site.

Waste generated (GRI 306-3) thousand tons

	FY2020
Waste generated	374.5
by hazard classes*	
1 st class (extremely dangerous)	0.1
2 nd class (highly dangerous)	0.2
3 rd class (moderately dangerous)	1.0
4 th class (low-hazard)	201.1
by division	
Oilseed Processing	123.3
Infrastructure and Trading	19.1

* According to the Law of Ukraine on Waste, all hazardous wastes are ranked in 4 classes, based on severity of their impact on the environment and on human health. 1st class includes, among other, power batteries, bulbs and other equipment containing mercury. 2nd class includes, among other, hydraulic oils, e-wastes, power batteries. 3rd class includes, among other, wastewater treatment sludge, oil filters, oiled rugs and sand, uniforms. 4th class includes, among other, husk, ash, scrap metal, construction waste, municipal solid waste, tires, rubber conveyor belts, grain cleaning waste.

Classification of certain types of wastes differs from region to region based on the judgement of local competent authority.

Waste related data is collected and monitored by the sites' environmental specialists for statutory reporting purposes. Initial data on waste volumes is obtained through direct weighing and counting.



Sustainability continued

Supplier environmental and social assessment (GRI 308, 414)

Our Vision is to become a leader in global agribusiness and make our region a key supplier of the agricultural products to the world market. We realize that sustainability of our business is a prerequisite for bringing the vision into life. Kernel's suppliers are an integral part of our business' overall success. Thus, our path to sustainability cannot be limited to our own operations. There are no global leaders who can dissociate themselves from environmental and social impacts of their value chains.

The topic is relevant for all our segments, especially for the **Infrastructure and Trading** and **Oilseeds Processing** that have cooperation with grain and oilseed suppliers at the core of its value creation. We see environmental and social sustainability of our suppliers as a safeguard against risks of business disruption and reputational losses, as well as an opportunity for cutting production costs through better resource efficiency. Besides that, several groups of our stakeholders, including lenders, investors, customers, and NGOs have expressed their interest regarding the topic. Therefore, we have chosen to start reporting on Supplier Environmental & Social Assessment.

Defining our expectations is the starting point in managing environmental and social performance of our suppliers. [The Code of Interaction with Suppliers](#) states our ethical principles and requests our suppliers to respect and follow them. Key areas covered by the Code include Human Rights and Environmental Protection. Formal obligations to comply with Code are taken by all Kernel's counterparts through signing the [Anti-Corruption Clause](#) that is a standard supplement of any Kernel's contract. According to the Code, Kernel reserves the right to verify whether suppliers comply with its terms. For any revealed violations, we apply business consequences up to termination of valid contracts.

Verification of compliance with Kernel's requirement is practiced both for new and running suppliers. Initial screening is an important stage in development of new relationships. In FY2020, 12,876 Kernel's counterparties have been screened by the corporate Economic Security Service against economic and compliance risks for cooperation. The revealed risk levels defined contractors' eligibility for supplying goods and services to Kernel. Though, for now, only anticorruption provisions of the Code are integrated in the screening process on a groupwide level, while environmental and social considerations are taken into account in segments' cooperation with

particular contractor groups.

Oilseed Processing segment assesses food safety, waste management, occupational health and safety, sanitary conditions at production premises and workplaces of its selected suppliers. The segment's approach is formulated in the Procurement Policy and the process is guided by the Procurement Procedure. The same approach is applied by Infrastructure and Trading segment for assessing suppliers contributing to development and operations of grain storage and transshipment infrastructure. In total, 20 suppliers were assessed using environmental and social criteria in FY2020. Based on the assessment result, cooperation with one supplier was terminated.

Environmental and social requirements of the Code are supplemented with activity-specific clauses in contracts. A standard contract template used by Kernel entities for involvement of onsite contractors (mainly for construction and maintenance works), contains detailed provisions on OHS and environmental protection. The contract clauses envisage measures to control onsite contractor's (and sub-contractors) performance, including, but not limited with conducting OHS drill for personnel entering Kernel's site, development of OHS management plans, subject to Kernel's approval, obligation to provide Kernel with copies of written evidence of proper waste handling.

In FY2020, all onsite contractors of **Oilseed Segment** and **Infrastructure and Trading** segments have been assessed by Kernel for compliance with OHS clauses. The exact number of assessed contractors will be disclosed next year after our record aggregation system is adjusted to the reporting needs. All assessed contractors (100%) received non-compliance notices or suggestions for improvements. In **Farming** segment, out of 17 assessed onsite contractors 7 contractors (41%) have been identified as having non-compliance. Key revealed OHS issues included lack of personal protective equipment, use of uncertified or damaged tools and equipment, dangerous storage of materials, and improper safety records. All onsite contractors have implemented agreed upon improvement measures, that enabled further cooperation with them. Thus, no business relations were terminated for the reason of poor OHS performance in FY2020.

Our efforts for controlling environmental performance of onsite contractors were concentrated at five crushing plants (Oilseed Processing segment) and two sea grain transshipment terminals (Infrastructure and Trading segment), where our major construction

projects are being implemented. Out of 61 assessed onsite contractors, 17 contractors have been identified as having non-compliance. All revealed issues were related to contractors' waste management practices. Corrective actions were agreed with 16 (94%) contractors, and with one contractor we are in process of defining appropriate measures. No business relations were terminated for the reason of poor environmental performance in FY2020.

Though, our approach to strengthening sustainability in our supply chains is not limited with spelled requirements, binding clauses, and sanctions for non-compliance. To boost Ukraine's positions of the key supplier of agricultural products to the world markets, Kernel shares its unique expertise in grain and oilseed farming with our key supply chain partners – crop producers. Through the dedicated Open Agribusiness program, Kernel provides farmers (mainly medium size farmers with an average landbank of 3,000 ha) with access to the state-of-the-art tools and techniques, contributing to the improvement of their production practices, efficiency, and crop yields. The program participants enjoy free or discounted access to Cropio – a productivity management system that facilitates remote monitoring of agricultural land and to Kernel's network of real-time kinematic (RTK) positioning stations, enabling high precision of machinery operations and corresponding resource efficiency.

Besides that, the program helps our suppliers to adapt to toughening food safety requirements applied by our customers. For instance, following the ban on the use of insecticides containing chlorpyrifos and chlorpyrifos-methyl imposed by EU in February 2020, Kernel has updated its requirement to the grain and oilseeds sourced from farmers. To maintain cooperation, Kernel has developed recommendations on techniques and crop protection products that allow meeting the EU requirements.

Finally, Kernel provides all interested parties, including suppliers' management and personnel with access to a grievance mechanism through the corporate Hotline. In FY2020 three complaints from suppliers' employees have been collected, registered, investigated, and resolved.

Sustainability continued

Social impacts (GRI 400)

The direction of our social impact is determined by our [Sustainable development and corporate social responsibility policy](#). Our social goal is in developing people's potential, ensuring safety and health security, creating conditions for self-realization and professional

development of employees, contributing to the solution of important social issues and the development of communities in regions of our presence.

Our social impact is structured by various directions as described in subsections below. In

FY2020, however, we faced a cross-directional impact: COVID-19 related business transformation together with support of public healthcare and local communities was one of the most important challenges for our social approach. Our full response is described in the case study below.

Our response to COVID-19

The pandemic outbreak in Ukraine forced us to quickly adapt our operations and support healthcare system in regions of our operations.

Impact on operations

The safety of our employees is our top priority. In March-May 2020, almost all our administrative staff was **working distantly**, returning to the partial remote mode only at the end of May. We successfully applied the work model, and all business processes have been properly transformed to reflect new realities.

All workers have been provided with means of personal protection. We developed a special **program to prevent pandemic** (instructions for employees and managers on the action plan in case of infection outbreak, regular disinfections of premises, hand sanitizers, timely informing about possible contacts of our employees with infected people outside the enterprises). Additionally, we set up **emergency response teams** in both the head office and the company's assets, which daily monitor the situation: from severe cases to those with symptoms similar to coronavirus. We prepared a **COVID-related instruction in our hotline** on prevention methods, emergency contacts of hospitals and within the company.

At the date of this report, 72 our employees have been tested positive for COVID-19. Infected employees are treated at the company's expense. We also test employees and their families. Luckily, we have no COVID-related fatalities among our staff.

In total, we spent US\$ 1.8 million on coronavirus prevention and control measures within the company in FY2020.

Our **business processes have not suffered**. All production assets are operating as usual, grain and sunflower oil logistics runs smoothly, supply chain experienced no major disruptions, and sowing/planting campaigns in the farming business are progressing in close-to-normal mode.

COVID-19 will cause a **few months delay in the execution of Group's CapEx program** under Strategy 2021, namely commissioning of CHPs (renewable energy investment) and new oilseed processing plant. COVID-19 imposed several business restrictions such as the inability of our contractors to deliver equipment in time and to launch pre-commissioning installation processes due to travel restrictions.

Social responsibility

Kernel was among the first corporates in Ukraine who launched external support programs to prevent pandemic. We donated US\$ 2 million to the national disaster relief fund organized by Ministry of Health, and US\$ 2.7 million to support hospitals in Poltava and Kropyvnytskyi regions – locations of our most significant footprint. We purchased 238 units of medical equipment (ventilators, PCR diagnostic apparatuses, oxygen concentrators, defibrillators, electrocardiographs, X-ray machines, heart rate monitors and other), as well as means of personal protection, disinfection, and medicine. In addition to financial support, we coordinated other businesses and local authorities in procurement and import of medical and personal protective equipment, especially at the beginning of pandemic, when there was a huge deficit of such.



Sustainability continued

Employment (GRI 401)

Kernel's [Code of Conduct](#) proclaims our professional team of leaders as one of three key values. Our goal is to find and attract the best people and develop and retain them to ensure sustainability of our operations.

At the end of FY2020, Group had 11,928 employees (full-time equivalent), down 11% y-o-y. While some portion of the decline is attributable to disposal of some entities because of assets base optimization, a major portion also came from our continuous labor productivity improvements. Although we expect further headcount optimization on the existing platform, our investments under Strategy 2021 will create over 600 new jobs by 2022.

Our impact on employment and working conditions happens not only within Kernel, but also in our supply chain. In our contracts, we oblige counterparties to comply with our [Code of interaction with suppliers](#), which requires to ensure fair working conditions for employees and comply with labor legislation.

Employment relationships in Kernel are regulated by national laws.

As a recognition of our efforts, Kernel is regularly named among best employees in Ukraine. Carrying on in this tradition, in FY2020 we have been scored among top-20 best employers in Ukraine in ratings compiled by Vlast Deneg business magazine (including #1 employer as per readers' voting). Additionally, Kernel was named among the best 13 employers in Ukraine in the [Best Employer Survey](#) conducted by EY Ukraine in September-December 2019 among over 1,000 candidates. Finally, our approaches in human resources management and development and labor relations have been evaluated particularly high in the first Ukrainian sustainability rating [Sustainable Ukraine](#), with #1 and #2 positions among other Ukrainian corporates, respectively.

Competitive remuneration

We consider our employees as our company's most valuable asset, and constantly strive to maintain competitive remuneration

Monetary compensation consists of the fixed part, which is set at the level which matches or exceeds the benchmark paid in our industries, and bonuses, which depends on numerous KPIs, which are quite granular, including, for example, various indicators for each separate field in our farming business. What is more important, we provide employees all tools to directly affect KPI's and monitor the KPI's execution on close-to-online basis, thus trying to keep them involved as much

Personnel benefits

- ✓ Competitive salary (regular monitoring of labor market)
- ✓ Guaranteed compliance with all the legal labor requirements (incl. parental leaves)
- ✓ Training and development of personnel, formation of personnel reserve
- ✓ Occupational health and safety, including respective insurance
- ✓ Financing sport initiatives of the employees
- ✓ Material assistance to employees facing difficult life circumstances
- ✓ Rewards and other benefits dedicated for special events (birth, marriage)
- ✓ Retirement provisions and privileged pensions for employees at hazardous jobs

Human capital indicators

As of 30 June of the respective year

	FY2016	FY2017	FY2018	FY2019	FY2020
Total number of employees	14,075	16,103	15,116	13,397	11,928
by geography					
Ukraine	14,010	16,048	15,066	13,355	11,882
Other	65	55	50	42	46
by level					
Managers	1,040	1,157	991	885	906
Specialists	3,141	3,841	3,959	3,665	3,450
Workers	9,894	11,105	10,166	8,847	7,564
by business division					
Oilseed Processing	2,455	2,592	2,501	2,258	2,203
Infrastructure and Trading	3,250	3,501	3,447	2,990	2,718
Farming	7,767	9,389	8,448	7,405	6,232
Headoffice and other	603	621	720	744	775
by employment contract, by region					
Permanent	13,626	15,659	14,724	12,794	11,440
Ukraine	13,561	15,605	14,674	12,752	11,394
Russia & other	65	54	50	42	46
Seasonal and temporary	449	444	392	603	488
Ukraine	449	443	392	603	488
Russia & other	0	1	0	0	0
by employment contract, by gender					
Permanent	13,626	15,659	14,724	12,794	11,440
Male	9,717	10,956	10,882	9,383	8,440
Female	3,909	4,703	3,842	3,411	3,000
Seasonal and temporary	449	444	392	603	488
Male	331	351	289	514	409
Female	118	93	103	89	79
by employment type, by gender					
Full-time	13,606	15,459	14,774	13,143	11,641
Male	9,828	11,029	11,002	9,774	8,538
Female	3,779	4,431	3,772	3,369	3,103
Part-time	469	644	342	254	287
Male	220	278	169	123	196
Female	248	365	173	131	91

Note: Differences are possible due to rounding. Headcount data include FTE (full-time equivalent) employees as at 30 June of the respective period

as possible.

Apart from regular compensation, employees may receive **one-time monetary incentives** for operational accomplishments, business processes optimization, labor safety improvement and other achievements.

In case of staff reduction in a team of employees due to labor productivity improvements (which is inevitable in our business), the salary pool is not reduced, but rather shared with

the other team members.

Finally, monetary compensation includes such social components as fixed payments in case of retirement and monetary support in case of employee's personal life difficulties.

Payroll and related costs for our production staff amounted to US\$ 85 million in FY2020, up 29% y-o-y. Payroll and related costs for our administrative staff totaled at US\$ 79 million, a 30% increase y-o-y.

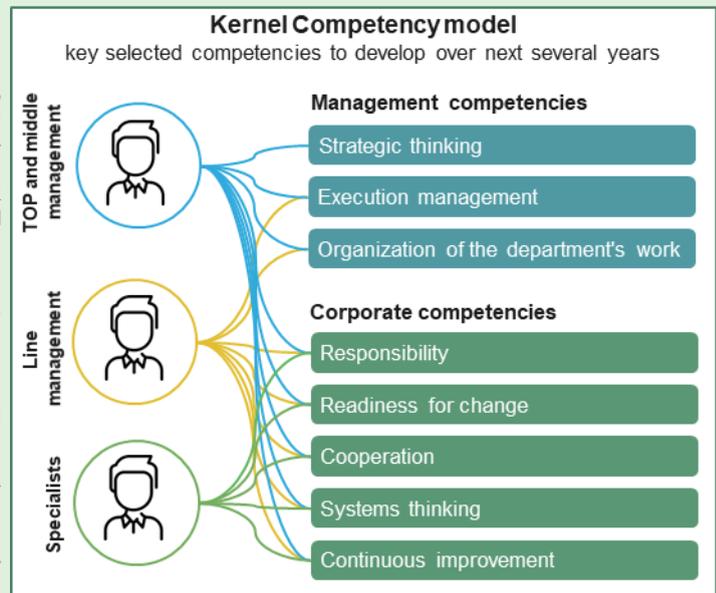
Sustainability continued

New Kernel Competency model – case study

Purpose: to make our employees more successful and efficient by evaluating not only their results, but also their behavior / competencies

Project timeline

- **December 2019:** a study of the existing corporate culture conducted by an independent advisor and based on Beck and Cowan's Spiral Dynamics model. Not many companies in Ukraine do similar studies. We surveyed over 800 managers to understand the spread and encouragement of competencies currently at Kernel. Competencies include responsibility, adaptability, integrity, initiative, self-development, strategic and system thinking, teamwork and execution management, cooperation, honesty, openness, and many others.
- **January-May 2020:** based on the study results, we determined core competencies to develop over the next several years considering 1) the existing corporate culture level, and 2) the next target level of corporate culture we aim to achieve.
- **July 2020:** we launched the first personnel assessment based on the new Competency model, covering approximately 4,000 employees. Once completed, assessment results will help understand which of the selected competencies need to be improved by each employee, which shall positively contribute to better managing careers, organizing training and education programs which better fits the employee needs, and account for competences when reviewing compensation.
- **September 2020:** we started recruitment processes based on new Competency model.



New Competency assessment model combines existing culture and new values that will lead the company to success in the future. The competency model became a core for all key HR-processes: the assessment of competencies will be used in recruitment, career advancement, it will affect the training plan and remuneration.

Our **non-monetary compensation** includes additional paid leave in case of special family events, numerous events organized for employees' children, gifts, trainings and education programs, various discounts for employees (vaccination, tickets for sport, art and culture events etc.).

We fully comply with local labor legislation and pay all salary-related taxes and social contributions, despite somewhat losing a competitive advantage versus those market players who are involved in shady operations.

Employees of the Group receive pension benefits from the government of Ukraine. Our contributions to the State Pension Fund of Ukraine in FY2020 amounted to US\$ 21 million, up 13% y-o-y.

Working conditions

We are committed to providing safe working conditions, respect of working time (hours of work, rest periods), competitive remuneration and other benefits to employees, and to promote entrepreneurial organization culture, with requisite responsibility & accountability.

FY2020 became a year of significant transformation of our working conditions. We changed many employment processes because of COVID-19, including recruitment, training and

education, and occupational health and safety. More important, our administrative staff successfully moved to remote work mode, quickly adopting all IT processes to the new reality, without losing employee productivity. During last four months of FY2020, our administrative staff (including regional offices) worked distantly 80% of time, which coincided with strict quarantine measures in Ukraine. Given the adaptive quarantine for FY2021, our administrative employees are expected to work remotely at least 50% of time in the year ending 30 June 2021.

Individual development system and career planning

In FY2020, we further increased the number of employees participating in standardized performance appraisals, from 514 employees in FY2019 to 569 in FY2020. Moreover, after launching new Kernel Competency model, we started to regularly assess behavior / competencies of more than 4,000 employees.

To create a talent pool within the group for key positions, we have a special Candidates Pool program. Employees can nominate themselves to participate in this program and get necessary training and education to get ready for promotion in case a vacancy appears (see [more details in Training and education](#)).

In FY2020, 130 our employees retired from

work in Kernel.

Employee engagement

An independent marketing and social research company InMind regularly evaluates our impact, covering such topics as employee work satisfaction, loyalty and engagement, and benchmarking Kernel results with market averages. The employee engagement study conducted in FY2020 demonstrated that the Kernel employee satisfaction level is 24% above the market averages, employee loyalty is 12% higher than market averages, and employee engagement level exceeds its peers by 3%. All indicators improved 2-5% as compared to the results of the similar study conducted a year ago.

New employee hires and employee turnover

We hired 2,810 new employees for permanent jobs in FY2020, of which 82% were male and 18% female. 25% of the hired employees are below 30-years-old, 53% are between 30-50-years-old, and 22% are aged 50+. All employees have been hired in Ukraine.

During the reporting period, 3,805 employees left the Company, of which 76% were male and 24% female. More than half of such employees (53%) were aged between 30 and 50 years old, 23% were below 30 years old, and 23% were older than 50 years.

Sustainability continued

Occupational health & safety (GRI 403)

Operating in the region with historically poor work-related safety culture, we pay special attention to the improvement of occupational safety and remain committed to providing adequate working conditions in compliance with labor legislation at all Kernel sites.

One of the most important challenges this season was protection of our employees against COVID-19 (see [Our response to COVID-19](#)).

Occupational health and safety management system

We have implemented occupational health and safety management system ("OHSMS") considering both legal requirements (Ukrainian Labor safety legislation), and ISO 45001 standards guidelines. OHSMS covers activities of our employees and contractors working at workplaces and sites controlled by Kernel. OHSMS does not cover our employees outside our workplaces and our construction sites where contractors keep all control over the construction process, as we have limited control over such environment.

We have a dedicated OHS manager employed by the company, who is responsible for OHSMS and once per year reports to a committee headed by the CEO.

The **ultimate goal** of our OHSMS is to achieve zero fatalities and work-related injuries at our workplaces. In FY2020 we initiated substantial transformation of OHSMS (see [case study on OHSMS transformation exercise](#)), aimed at meeting this goal.

Our main target in OHS is to change the behavior of our employees by proactively engaging them to create a sustainable OHS culture. We are now undergoing this transformation and aim to have all employees incentivized to identify and eliminate OHS discrepancies and constantly improve workplace safety conditions. At the same time, oversight from above continues to perform its function.

Hazard identification, risk assessment, and incident investigation

OHSMS implies the following processes to identify work-related hazards and assess risks:

- **on a non-routine basis:** employees responsible for OHS compose lists of hazards and risks for all new entities. We already have such lists at existing entities.
- **on an annual basis:** managers, OHS personnel and other employees regularly update such lists, using as inputs results of internal and external labor safety audits, outcome from employee's engagement process, incidents investigation analysis, and

implications from best international practices.

These processes are arranged in line with ISO 45001 standard.

We ensure the **quality of these processes** by:

- the accident statistics tracking, including frequency of occupational accidents, lost workdays caused by them and severity of injuries;
- continuous competency improvement of personnel who carry out these processes (OHS internal and external trainings and education with exams passing).

The **results of these processes** are assessed for each asset and respective records are added to the Risk and Threat Assessment Document. Assessment methods also include workplace condition assessment, asset self-assessment and statutory inspections, while continuous improvement includes actions to continually improve the results of these processes.

Following the identification of hazards and risks assessments, we take specific actions to manage identified risks. Management measures are selected based on international ERIC/PD **hierarchy of controls** among the following options (in descending priority order):

1. Fully eliminate risk / hazard
2. Reduce potential impact of risk / hazard to acceptable level
3. Isolate risk / hazard from employees
4. Control risk / hazard, including providing instructions and information, personal protective equipment, training, first-response means, lockout / tagout devices, etc.

This approach applies to all measures for managing risks / hazards and assessing risks at each asset of the Group.

Kernel operates various channels and **processes for reporting work-related hazards** and hazardous situations. An employee may report an issue to his/her supervisor, site OHS Specialists or corporate OHS Manager, or Compliance Manager. Alternatively, a call/email to the corporate Hotline, or a special "near miss form" can be used.

Workplace health and safety policy guarantees workers the right to remove themselves from work situations that they believe could cause an injury or ill health. Workers are protected against reprisals by the whistle-blower protection procedure.

We use Ishikawa ("fishbone") diagram approach to **investigate work-related incidents** and identify hazards and assess risks

Kernel OHS trainings



Sustainability continued

relating to incidents, to determine corrective actions using the hierarchy of controls, and to determine improvements needed in the OHSMS. We first establish root causes of an incident, assess the contribution of each cause and prescribe corrective actions. Additionally, we revise risk assessment of the enterprise. For each accident, a special investigation commission is created, which may include representatives of competent authorities. The commission creates a detailed report on the accident (including actions to eliminate causes of the accident in the future and improve the OHS system) at the end of the investigation. The Company has a notification system for each accident.

We comply with all applicable legal requirements and regulations pertaining to OHS. In FY2020 we had 20 statutory OHS inspections on our assets, that resulted in no fines for breaching the labor safety requirements.

Occupational health services

Before starting work or visiting an asset, each Kernel employee, visitor and/or representative of contractors is briefed with:

1. the description of the OHS services functions that help to identify and eliminate hazards and minimize risks,
2. explanation of how the company ensures the quality of these services and facilitates workers' access to them.
3. special OHS e-learning programs and video materials.

There are information boards on the company's assets that contain OHS information.

In FY2020, our eight externally certified OHS inspectors spent 262 man-days on internal labor safety audits.

We spent US\$ 1.3 million to maintain our OHS system in FY2020. These funds covered OHS and fire safety measures, trainings for personnel, medical examination of employees, special clothes and personal protective equipment, detergents and disinfectants, alcohol detectors, and surveillance cameras.

The work-related hazards that pose a risk of high-consequence injury are mostly physical, as these types of hazards contributed most high-consequence injuries historically and in the reporting period. Hazards are determined both proactively (through risk assessment) and reactively as a result of high-consequence injuries. Most such cases occur either because of non-adherence to OHS instructions, or because of personal negligence. Therefore, actions taken to minimize risks of this hazard include more intense training and OHS instructions.

Work-related injuries (GRI 403-9)

	FY2016	FY2017	FY2018	FY2019	FY2020
Recordable work-related injuries	16	14	16	25	17
Oilseed Processing	2	2	1	-	2
Infrastructure and Trading	3	2	3	17	8
Farming	11	10	12	8	7
<i>of which</i>					
Fatalities	1	-	4	1	1
Oilseed Processing	-	-	1	-	-
Infrastructure and Trading	-	-	1	1	1
Farming	1	-	2	-	-
High-consequence work-related injuries (excl. fatalities)	8	5	6	9	5
Oilseed Processing	1	-	-	-	1
Infrastructure and Trading	2	2	1	5	3
Farming	5	3	5	4	1
Hours worked, million	30	31	29	28	25
Rate of recordable work-related injuries	0.53	0.45	0.55	0.88	0.68
Rate of fatalities as a result of work-related injury	0.03	-	0.14	0.04	0.04
Rate of high-consequence work-related injuries (excl. fatalities)	0.26	0.16	0.21	0.32	0.20

Injury data is collected in accordance with local regulatory requirements in Ukraine and Russia and does not include minor (first-aid level) injuries and does not include contractors working on-site. Injury rates are calculated as total accidents occurred over the period divided by the actual hours worked (in millions) over the period. FY2019 data have been amended.

Worker participation, consultation, and communication on OHS

Company has the following processes for **worker participation and consultation** in the development, implementation, and evaluation of the OHSMS, and for providing access to and communicating relevant information on OHS to workers:

- Employee surveys;
- Hotline calls register;
- Near Miss and Stop-card letterforms.

Employees' representatives participate in the processes of development, implementation, and evaluation of the OHS management system and pass the relevant information to other employees.

Worker training on OHS

We organize various OHS trainings for Kernel employees:

- e-learning courses which are mandatory for all employees;
- specialized trainings on high-risk work with the obligatory exams and the subsequent authorization;
- trainings on modeling dangerous situations and practicing actions in such situations, with the involvement of specialized equipment and state rescue services.

In FY2020, 1,985 employees completed our new mandatory e-learning OHS course since its launch in May 2020. On top of that, 2,908 employees spent 22 thousand hours in total on special OHS trainings. Additionally, we organized 370 emergency response drills with 3,680 employees attending during the reporting period.

Promotion of worker health

Kernel uses the following measures to facilitate workers' access to non-occupational medical and healthcare services:

- Free of charge testing for COVID-19 (11 tests in FY2020).
- We build a stock of immune drugs to provide to our employees free of charge in case of severe COVID-19 symptoms.
- In case of serious health diseases, we provide financial and organizational support to our employees and their families for medical treatment and rehabilitation. In FY2020, 210 our employees and 111 members of employees' families received in total US\$ 110 thousand financial support for such needs.
- We facilitate life insurance for our employees, covering insurance costs.
- Seasonal vaccination of employees (447 people in FY2020) at company's costs.
- Almost 250 workers of hazardous professions are regularly provided with milk at company's cost.
- We provide face masks to employees.

Our **health promotion programs** include inviting guest speakers to run morning webinars, among others, about physical and mental health, healthy habits, and wellbeing, etc. Company also financially supports employee's affinity groups such as Kernel Sport Team and Mental Health community, which promote healthy lifestyle.

Prevention and mitigation of OHS impacts directly linked by business relationships

Even when we have no control over both the work and workplace, we still consider it our responsibility to make efforts and exercise the leverage we have (given our scale and reputation in agro-industrial business in Ukraine)

Sustainability continued

to prevent and mitigate negative OHS impacts that are directly linked to our operations. As an example, in our agreements we oblige counterparties to comply with our [Code of interaction with suppliers](#), which implies also OHS and working environment that does not endanger life and health.

Work-related injuries

We deeply regret that one workplace death occurred in FY2020. A driving accident happened in our logistics operations, when delivering sunflower oil by truck from our plant to port. We will implement additional control measures for our drivers leaving our facilities in the future, although such accidents are beyond our full control and cannot be fully avoided in the future.

The number of severe work-related injuries (excl. fatalities) in FY2020 reduced as compared to the previous year, to five such cases. Most accidents arose as a result of human carelessness. Such high numbers are unacceptable to us, and we remain committed to reduce them and create a fatality and injury-free workplace.

Our OHSMS does not cover construction sites where we have limited control over the processes and contractors are responsible for safety of their employees. Unfortunately, there were three fatalities and two work-related injuries on such worksites among workers of our contractors in FY2020. To eliminate such adverse impact, we promote our OHS approaches among our contractors.

OHSMS transformation exercise – case study

In FY2020 we initiated an ambitious transformation of our OHS approach. The main drawback of the previous system was a lack of unification and consistency, decentralization of the OHS function given the historical evolution of the Kernel group via acquisition of various assets across all business lines. The goal we set was to create a modern OHS function with unified management and reporting approaches, and to minimize in such a way the number of work-related injuries.

In the beginning of FY2020, we hired a dedicated OHS professional to lead the transformation.

Over the first few months, a new team assessed the existing OHS level on all assets and, as a part of employee involvement program, launched regular annual self-assessment of labor safety culture at all our assets to better understand which pillars of our OHS system are least developed and require priority attention. Based on the assessment results, we developed and adopted a group-wise Workplace Health and Safety Policy, and adopted a three-year OHS and ecological safety development strategy, so that all our further actions follow these documents.

Starting from 2H FY2020, we moved to action plan, mostly focusing on transforming our approach in Oilseed Processing and Infrastructure and Trading segments. Farming segment will be under focus in FY2021.

First of all, we created a proper OHS structure, which became more independent and better managed. An optimized labor safety team now functionally reports to a new OHS and environmental manager, who once per year reports to committee headed by the CEO.

Secondly, we focused on engaging employees and changing the approach: from top-down (control from above) to bottom-up (when employees are incentivized and involved to proactively raise and solve OHS issues and communicate above on the need to improve the labor safety). Employee engagement happens through:

- Individual and team competitions on risk factors identification and ideas for labor safety improvement (one-off and regular). Winners get monetary prizes and public awareness in company media.
- Employees themselves compose “Gold Safety Rules” which then hang on the information boards.
- Other projects target to increase employee engagement.

Thirdly, we integrated the OHS function. We created a consolidated database of regular OHS inspections and monitoring of elimination of discovered OHS discrepancies. We actively introduce best international practices in OHSMS: near misses, stop cards, fishbones analysis, self-assessments etc.

We started to apply Kaizen approaches in OHS, when each injury case is thoroughly analyzed applying and Ishikawa (fishbone) diagram approach, and response actions are created accordingly and widely communicated to employees.

Besides the usual training, we created a special OHS e-learning course, which is mandatory for all employees (including new employees when onboarding).

As a key achievement, in FY2020 we managed to reduce the number of work-related injuries. Additionally, all but one our oilseed processing plants, and key trading company Kernel-Trade successfully completed certification under ISO 45001:2018 conducted by Bureau Veritas. By FY2023, we plan to complete similar certification for all other our assets in Ukraine.

Our OHS efforts have been recognized in the first Ukrainian sustainability rating [Sustainable Ukraine](#), where we scored #2 corporate in Ukraine in health and safety practices.

Sustainability continued

Training and education (GRI 404)

We treat people as our key competitive advantage and extensively invest in the development of their hard and soft skills.

To properly structure our training and education activities, we account for requests from employees themselves, inquiries from divisional managers, strategic vision of top managers on the company development, and since FY2021 we will also apply a new Competence model.

By the end of FY2021, we plan to have almost 4,000 employees covered by the competencies' assessment (based on the Competency model). After the launch of the competency model, ~1,900 employees took part in such assessment in FY2020. Of them, 714 employees took part also in the assessment of achievement of goals and targets (standardized performance appraisals).

In FY2020, 5.5 thousand employees participated in our training and education activities.

Our approach to training and education

We have several dimensions to our training and education activities. First of all, we allow our employees to obtain **hard** and **soft skills**. More than half of the hard skills training attributes to various types of professional education in our farming business, wherein we see the highest potential for implementing cutting-edge farming approaches in our operations.

Secondly, we organize both education delivered by **external** providers and by **internal** coaches. External format of education also assumes attendance of various conferences, exhibitions, workshops, experience-exchange trips in Ukraine and abroad, and brings Kernel new expertise from outside. Internal coaches share their knowledge with other employees.

Thirdly, we generally provide a **traditional** (face-to-face) **format** of learning, with 2,707 employees investing over 89 thousand hours in such education in FY2020. At the same time, given the COVID-19 pandemic, we substantially extended our **distance learning** program. We upgraded our e-learning hub by redesigning user interface, simplifying content creation integrating cloud solutions and introducing adaptable learning process management and reporting. Our distance learning and knowledge web/mobile platform allows any employee to take hard and soft skills learning e-courses, and get access to accumulated in-house expertise and e-books from various fields of personal / professional development.

Finally, we structure our training and education activities on a **regular** basis (mostly hard

Talent development (GRI 404-1)

	FY2016	FY2017	FY2018	FY2019	FY2020
Training expenditures, thousand US\$	194	445	474	456	637
Training hours	150,612	83,943	78,477	97,273	112,186
Average hours of training per employee	10.7	5.2	5.2	7.3	9.4
by gender					
Male	12.8	5.6	5.3	7.8	10.1
Female	6.3	5.8	5.7	5.8	7.4
by employee category					
Managers	n/d	n/d	n/d	33.1	26.5
Specialists	n/d	n/d	n/d	13.2	15.7
Workers	n/d	n/d	n/d	2.2	4.5

skills), **one-off trainings** (master-classes, conferences and seminars led by both internal and external trainers, as well as one-time courses for new managers) and **modular development programs** (focused mainly on soft skills development). Modular programs include also corporate MBA programs for various of our business divisions, consisting of workshops, case studies, team-based assignments and a final project, and is tutored by lecturers who teach at certified MBA programs.

Key developments

A flagship achievement in FY2020 is an introduction of the new Competency model, which will have a substantial impact on structuring of our training and education activities in the future (see [case study](#)).

Additionally, we successfully adjusted our program to new COVID-19 related realities and increased the scale of on-line and distance education.

We substantially increased the scale of our training and education activities for workers and specialists. Despite all the complications with COVID-19 pandemic and quarantines, we successfully transformed our program.

We also offer a **mentorship program**, which is designed to accelerate the adaptation of new employees. The program manager assigns mentors to new employees, and structures, formalizes and oversees mentor-employee relationships. Mentors get monetary incentives and proper training to improve their coaching skills and ability to provide feedback. First introduced in 2015, the program now includes 65 mentors.

Since 2014, we have made progress on implementing a unified approach to planning individual development, the coverage of which increased in FY2020 to 714 employees (vs 180 employees in FY2017), including employees from a central office, and management and key staff from regional branches. The assessment conducted as a part of this program is used to identify key areas for growth, improve career planning and provide better

visibility of the ambitious talent pool, their training needs and prospects.

Within the company, we are creating an internal talent pool of highly skilled professionals who will not only share their expertise with their colleagues and help them grow professionally, but also be the leaders in Kernel's strategy and corporate culture.

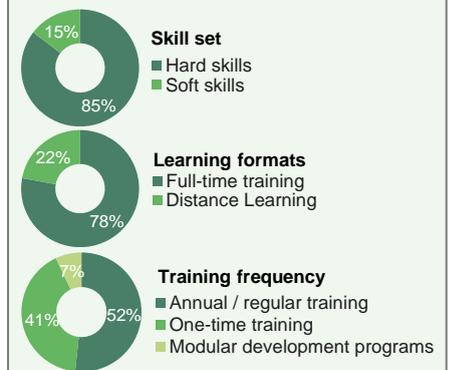
For proactive ambitious employees, we created a **Candidates Pool** project. The aim is to secure and strengthen internal candidates pool for promotion to top positions by developing initiative employees who are willing and ready to actively move by career steps. The project helps such employees to develop hard and soft skills. The project started with 294 employees, and 182 reached the final round.

Despite the pandemic and quarantines, we successfully sustained our training and education process, and managed to transform it into a distant format, expanded the scope of e-learning activities and, as a result, organized even more education activities than a year ago.

The efforts we make allowed us to fill more than half of vacancies for managers and almost 30% of vacancies for specialists with internal recruitment.

Training and education activities

percentage of total training hours



Sustainability continued

Diversity and equal opportunity (GRI 405)

We are committed to the active promotion of diversity and equal opportunity at work and outside of Kernel.

We consider this topic material for us, as disclosure of the diversity information is required by Luxembourg Law of 23 July 2016 on disclosure of non-financial and diversity information (the "Law of 23 July 2016"), implementing the European Directive 2014/95/EU. Additionally, this topic is important for our investors, as impact in this area is assessed by numerous ESG scoring systems.

Our management approach

Our approach is based on the [Equality, Diversity, and Inclusion Policy](#), which was adopted in 2018. We recognize that following diversity and equality principles is beneficial both for our business and for the society in general.

An e-learning course on equality, diversity and inclusion developed in FY2020 is among five mandatory courses for new employees when onboarding.

Our highest decision-making body, the Board of Directors, follows the diversity approach in terms of gender, age, tenure and experience composition, as well as the Executive Management Team (see Board of Directors). Diversity of competences and views allows us to improve the quality of our decisions.

In order to recruit and retain diverse talent and create **equal opportunities for newcomers**, we launched a mentorship program in 2015 with 65 acting mentors as of today (see also [Training and education](#)).

To create an **equal opportunity for young people**, we cooperate with 28 specialized universities in Ukraine. All of them participate in "Kernel Chance" – a paid internship program for undergraduates and graduates allowing them to work in the company for several months under the mentorship of our professionals, learn theoretical and practical aspects of the selected area, and propose the area for optimization. Following the evaluation process, the best students get job offers from Kernel, and once employed, undergo intensive on-job training and rigorous mentoring, thus creating a ready-made career plan. Since the launch of the program in 2011, we employed 345 "Kernel Chance" alumni. In FY2020, we received 298 applications for the program. We also organized four meetings with 204 students in total, discussing practical aspects of working in agronomy, energy business, IT and PR in agriculture.

In FY2019, Kernel together with other Ukrainian agricultural companies, PWC Ukraine and the National University of Life and Environmental Sciences of Ukraine created a specialized 1.5-year master program in agriculture "Agrokebety" for up to 50 students. The purpose of the program is to prepare a new generation of agribusiness managers with a universal set of skills in agronomy, agriculture engineering and business management. After the curriculum is polished, the program is to be spread among other universities, thus improving the quality of higher education in agriculture in Ukraine. As a Gold Partner of the project, Kernel contributes funding to the program, provides tutors and mentors for students (four mentors), and organizes internships for students. The program implies **no age, gender, professional or previous education restrictions**. Each participant gets a mentor among top industry professionals and six months internship under mentor's review.

In FY2020, Kernel became a first employer for 48 students, including six students from the Agrokebety program. Additionally, 78 students started as trainees in our enterprises during the reporting period.

While we comply with all applicable legal regulations on diversity and equal opportunities, our initiatives go far beyond the legal compliance. Specifically, in FY2020, Kernel signed a [Declaration on gender equality and preventing domestic violence](#). We take a public commitment by 2025:

- to introduce gender-sensitive approaches to the work in Kernel, create conditions for decent work and equal employment, and implement family-friendly policies;
- to promote the prevention of domestic violence and formation of intolerance to all its manifestations;
- to develop and encourage cooperation for the promotion of women's rights, gender equality, and the development of intolerance to domestic violence.



We provide equal access for all our permanent employees to our training and education programs, healthcare initiatives, career advancement. We promote the openness management model: any employee can address top or middle managers at any time. We have no dress-code requirements.

We provide **equal working opportunities to aged people and people with disabilities**. As of 30 June 2020, Kernel was an employer for 465 working pensioners and 557 people with disabilities. All workplaces of disabled employees are properly equipped to meet their needs, although part of them work distantly from home.

Employee affinity and networking groups

Our employees participate in a few affinity groups, naming, among others:

- **Kernel Sport Team**, within which our employees coordinate for participation in sport events, running clubs, organize sport tournaments between Group's business units. Company provides financial and organizational support for such activities;
- **Kernel Green Team**, an initiative of our employees to jointly participate in various environmental events: tree planting, garbage collection, promotion of environmentally friendly behavior;
- **Mental Health**, a community, for which we organize webinars, online morning, afternoon and evening yoga classes and fitness breaks, learning events on the health improvement and emotional intelligence.

Diversity and equal opportunity (GRI 405-1)

	FY2016	FY2017	FY2018	FY2019	FY2020
Percentage of individuals within the Board of Directors in each of the following diversity categories					
by gender					
Male	75%	63%	63%	63%	63%
Female	25%	38%	38%	38%	38%
by age					
30-50 years old	63%	75%	75%	75%	75%
more than 50 years old	38%	25%	25%	25%	25%
Percentage of employees per employee category in each of the following diversity categories					
by gender					
Male	71%	70%	74%	74%	74%
Female	29%	30%	26%	26%	26%
by age					
less than 30 years old	19%	18%	21%	20%	20%
30-50 years old	56%	56%	55%	55%	56%
more than 50 years old	25%	25%	24%	24%	25%
Percentage of women in executive management	40%	33%	25%	18%	25%

Sustainability continued

Freedom of association and collective bargaining (GRI 407)

In June 2020, Kernel joined UN Global Compact initiative, thus publicly declaring our support of one of the UN Global Compact principles: "Uphold the freedom of association and the effective recognition of the right to collective bargaining." We are now developing the action plan to enhance this principle and a formal Freedom of Association Policy, which we plan to complete by the end of FY2021.

We comply with all applicable local regulations on freedom of association and collective bargaining, namely the Labor Code of Ukraine and the Constitution of Ukraine. We do not have any company-specific policies considered likely to affect workers' decisions to form or join a trade union, to bargain collectively or to engage in trade union activities.

Trade unions representing employees function at Kropyvnytskyi, Prykolotne, Poltava and Vovchansk oil extraction plants, as well as on some of our silo business entities. There were no outstanding disputes between trade unions and Kernel business entities as of the date of this report.

As of 30 June 2020, 93% of total employees were covered by collective bargaining agreements, and 9% belonged to trade unions.

Human rights assessment (GRI 412)

In June 2020, we signed the UN Global Compact, thus publicly declaring our support of human rights, including support and respect of the protection of internationally proclaimed human rights and obligation not to be complicit in human rights abuses. In FY2021, we plan to develop and start implementing the action plan to promote these human rights principles.

Our commitment under UN Global Compact initiative consists of:

- **Primary commitment:** rights of women, persons with disabilities, local communities, smallholder farmers, workers (those under temporary contracts, sub-contractors, migrant workers).
- **Secondary commitment** (no direct impact from our side): children, indigenous people, victims of trafficking in human beings.

We receive financing from international financial institutions (the European Bank for Reconstruction and Development, the European Investment Bank, the Black Sea Trade and Development Bank), which implies our commitment to environmental and social matters, including human rights protection. As an example, under EBRD's Environmental and Social Policy we are obliged to respect human rights, avoid infringement on the human rights of others, and address adverse human rights risks and impacts caused by the business activities of clients.

We also **impact human rights indirectly**. Our agreements oblige our counterparties to comply with Kernel's [Code of interaction with suppliers](#), including respect of human rights (equal opportunities for employees), following of the diversity approach (gender, age, disability, ethnicity, social status, culture etc.), and a complete ban of child and forced labor.

More than 4% of our employees are people with disabilities, and more than 5% belong to socially vulnerable groups, meeting the requirements of local Ukrainian legislation.



Sustainability continued

Local communities (GRI 413)

By leasing lands on territories of 403 local councils in Ukraine and having the majority of our employees working and living in rural areas, we strongly interact with local communities. Villages in Ukraine suffer from high poverty rates, accelerating urbanization, and a lack of access to basic services and infrastructure. As a reputable long-term partner, Kernel shares responsibility for the development of neighboring local communities, so our purpose is to continuously contribute to the improvement of local communities' well-being in the regions of our farming operations.

In FY2020, we adopted a [Good Neighborhood Policy](#), which proclaims the general principles of our cooperation with local communities.

To identify and engage with stakeholders (local communities), better understand their needs and get feedback about our social activities, we benefit from:

- a team of **241 dedicated relationship managers** who serve as our representatives in rural regions, communicate with landowners, local officials and opinion makers, help with offering seasonal and full-time jobs in Kernel to people in rural regions, coordinate our social projects and initiatives. The team has proven to be useful and effective, and we treat it as one of our competitive advantages, as a limited number of other crop producers in Ukraine apply such a practice;
- a **countrywide 24/7 toll-free hot line (0 800 50 10 59)**. We received 1,499 calls in the reported period, a 65% of which covers questions related to local communities;
- **website** (in Ukrainian) of our charity fund 'Together with Kernel' with description of our initiatives and contact details. All our support of local communities is structured through this fund.
- a **constant dialogue with local municipalities**.

After understanding the needs, we structure our efforts in two directions: monetary donations and non-cash support.

Monetary donations

In FY2020 we invested US\$ 7.7 million into well-being of local communities, including US\$ 0.8 million investments into infrastructure (excluding spending related to Kernel business needs).

Our initiatives include:

- **Infrastructure investments:** maintenance and repairs of roads, bridges, street lighting, waterpipes, bus stops etc.
- **Education:** maintenance and repairs of schools, kindergartens, and children playgrounds, providing necessary equipment

Social spending (GRI 203-1)

thousand US\$

	FY2016	FY2017	FY2018	FY2019	FY2020
Total social spending	1,668	2,616	2,440	2,303	7,714
incl. infrastructure	749	1,049	760	625	759

Social spending includes only direct expenses by the Company.

- **Charity:** targeted support of needy landowners, orphan homes, nursing homes, severely ill people, and cash donations to other charity organizations.
- Donations for **funeral arrangements**
- **Sport and culture:** building and repairs of libraries, athletic fields, community cultural centers; supplying equipment for gyms, sponsorship of sport and cultural events.
- **Healthcare:** maintenance and repairs of rural health posts, purchases of medical equipment.

In FY2020, our projects (repairs, purchase of new equipment) touched 63 rural health posts, 84 schools and 48 kindergartens, 67 libraries and other cultural and public buildings located in 477 local communities.

Besides our typical activities, this year we also spent US\$ 5 million as donations to fight COVID-19.

Non-cash support

Besides cash donations, we provide various other types of support to local communities.

We support **social entrepreneurship** by helping to establish municipal enterprises in the regions of our operations. We provide machinery or equipment to such enterprises for free or rent it out at some nominal costs, or sometimes purchase new equipment. Municipal enterprises provide landscaping, municipal and agricultural services (field cultivation) to local communities and local citizens, support and maintenance of local infrastructure (waterpipes), waste collection, snow cleaning etc. As of the date of this report, we helped to create 14 such enterprises with 52 new jobs created.

In FY2020, we also provided premises and equipment for fire stations.

In one of regions of our presence with limited access to **healthcare services**, we acquired and fully equipped a medical car and hired a professional doctor who completed 235 visits to villages and provides medical services for free to almost 3,800 people living there.

Two of our plants located in areas with high water stress provide local communities with access to water supply and wastewater treatment, supplying in total 18,038 m³ of water to 316 households. Wastewater from all the households returns to the plants for treatment.

We also contribute to local communities' development indirectly, by creating jobs and opportunities there. At the same time, we understand that in the long-term our constant efficiency improvements in farming operations result in gradual reduction of the full-time headcount. Through our employees, we are spreading corporate culture, knowledge and skills, and leaving other positive footprints in rural areas we are unable to touch it in other ways. We are also disseminating best farming practices, which are quickly adopted by small neighboring farmers.

We try to engage local communities to co-finance the projects we do – it allows us to select only the most important projects for communities. In FY2020, we supported over 2,000 such projects with total financing from our side of US\$ 1.7 million.

Finally, being a responsible taxpayer committed to full compliance with tax obligations, we indirectly support local communities, as a sizable portion of the taxes we pay goes directly to local budgets. In FY2020, we paid US\$ 62 million (UAH 2.1 billion) of taxes, a substantial portion of which served as local budgets revenues, supporting the well-being of local communities.

In a recognition of our merits, our charity fund "Together with Kernel" was awarded as a top-3 winner (among 17 applicants) in the nomination "Big Business Charity" in the prestigious National Charity Award "Charity Ukraine" in FY2020. The contest included 1,132 applications in 24 nominations.

What is even more important, our efforts are recognized by people who live in local communities and lease land to Kernel. We have been actively resigning land lease agreements in FY2020, increasing the average tenor of lease contracts to 12 years as of June 30, 2020.



Sustainability continued

Customer health and safety (GRI 416)

Kernel is committed to setting the benchmark in terms of product quality, guaranteeing the highest standards of our goods. Our purpose is to deliver the best quality products to our customers and prevent any incidents of non-compliance with regulations, as well as expand geographies of product export as a result of recognition of our customer health and safety approach.

Our key products include:

- **sunflower oil** (sold in bulk and bottled), sunflower meal (a protein-rich type of feed), sunflower husk. We are the largest global sunflower oil producer.
- **grains and oilseeds** produced by our farming segment and exported from Ukraine through our infrastructure and trading value chain. We are the largest crop producer in Ukraine and the largest grain exporter from Ukraine.

Our impact occurs across all our business lines, but most significantly in the Oilseed Processing segment, where we touch the final customer with our bottled sunflower oil product. Other business lines deliver mostly commodity-type products or related services with globally standardized product quality characteristics, which are sold to big international soft commodity traders.

We maintain a preventive food management system, targeted at addressing the risk of potential biological, chemical and physical hazards in production processes. It ensures the traceability of products across the entire value chain under our control.

There were no incidents of non-compliance with regulations concerning the health and safety impacts of products and services within FY2020.

General quality and safety recognitions

Our export terminal and oilseed processing plants are certified under **ISO 9001** (quality management system). Oil-extraction plants are also certified under **ISO 22000** (food safety management), which integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application of procedures developed by the Codex Alimentarius Commission.

Our crushing plant in Poltava successfully passed **BSCI** audit (grade "A") in 2018, which confirmed the corporate social responsibility of our business and simplifies our access to retail chains in EU. The next such audit is scheduled for 2020.

Our laboratory in Poltava is accredited under **ISO 17025** standard, which allows us to

Product quality and safety certificates and registrations

Standard	Oilseed processing plants							Terminals		Trading		Total	
	Bandurka	Vovchansk	Kropyvnytskyi	Poltava	Prykolotne	BSI	Prydniprovskiy	Eilada	TransBulkTerminal	TransGrainTerminal	Kernel-Trade		Inerco
ISO 9001	✓	✓	✓	✓	✓	✓	✓	✓	✓				8
ISO 22000	✓	✓	✓	✓	✓	✓	✓	✓					8
GMP+B1	✓	✓	✓	✓	✓	✓	✓	✓					8
GMP+B3									✓	✓	✓	✓	4
GMP+B4												✓	1
BSCI				✓									1
FSSC 22000				✓	✓								2
Kosher	✓	✓	✓	✓	✓		✓	✓					7
Kosher Passover				✓	✓								1
Badatz				✓	✓								2
Halal	✓	✓	✓	✓	✓		✓	✓					7
FDA registration			✓	✓	✓		✓	✓					5
ISCC EU	✓			✓	✓						✓	✓	5
ISCC PLUS	✓												1
IFS				✓	✓								2
China (sunseed meal)	✓	✓	✓	✓	✓		✓	✓					8
China (rapeseed meal)	✓						✓	✓					3
Belarus (meal)		✓	✓	✓	✓		✓	✓					5
Total	9	7	8	14	12	5	9	6	2	1	2	3	78

- ✓ Obtained in FY2020
- ✓ Coverage expanded in FY2020

conduct a wide scope of the analysis of sunflower oil, meal and grain for our own needs and also provide services to third parties.

In FY2020, our TransBulkTerminal was certified under **Gafta** standards to conduct fumigation activities, resulting in no further needs in third-party certified fumigation services.

Sunflower oil

Our facilities comply with **Kosher**, **Kosher Passover**, and **Badatz** requirements of Jewish dietary regulations and conform to the Muslim **Halal** food standards. Five of our plants are FDA-registered, which opens the USA market to our sunflower oil (including high-oleic) in bottles and in flexi-tanks. Food safety systems on our bottling facilities are certified under **FSSC 22000**, increasing our market reach to large retailers.

Being certified under **ISCC EU**, production of vegetable oils and meals at three of our crushing plants comply with the legal sustainability requirements specified in the EU Renewable Energy Directive and Fuel Quality Directive. Our trading entities also obtained **ISCC EU** certification.

Our oil-extraction plants with bottling facilities are certified under **IFS**, which allows us to sell bottled sunflower oil and sunflower oil in flexi-tanks to European countries. Additionally, one of our plants obtained the country-specific

registration to sell sunflower oil to South Korea.

We supply bottled sunflower oil to reputable international retail chains (Auchan, Metro, Walmart, Maxima etc.). In FY2020, we entered Jumbo – a big retailer in Netherlands.

Sunflower meal

All our oilseed processing plants have **GMP+B1** certificates which ensure feed safety and quality for our protein meal production. Further along the value chain, our export terminals and trading entities are certified under **GMP+B3** (feed safety in trade, collection and storage & transshipment), and our Swiss trading entity Inerco also complies with **GMP+B4** (feed safety in transportation and airfreightment).

Our Bandurka plant complies with the requirements of **ISCC PLUS** certification system in the meal production.

Additionally, our crushing facilities have country-specific registrations allowing to export sunflower meal to China and Belarus.

Crop production

Kernel crops on 395 thousand hectares have been produced in an environmentally and socially sustainable way, meeting the **ISCC EU** requirements - prerequisites set for biofuel supply chain sustainability under the EU

Sustainability continued

Renewable Energy Directive. See more details in [Biodiversity](#) section.

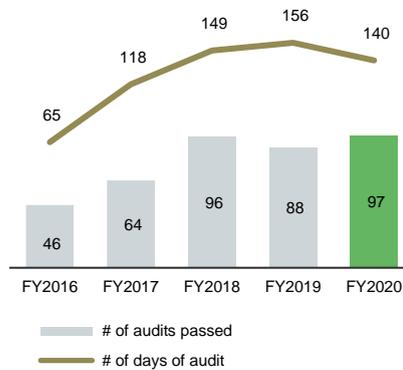
In FY2020, we completed the implementation of HACCP principles on all our grain silos, addressing the food safety concerns for grain storages.

In FY2020, we expanded the coverage of two existing certificates by adding more products under the certificates' umbrella and obtained 14 new certificates.

Next year, we plan to expand certification for new types of oils (vitaminized and frying oils, as well as oils sold in flexi-tanks), prolong BSCI certification at Poltava facility and certify our Prydniprovskiy oil-extraction plant under ISCC EU.

Our food safety and quality system is regularly tested by independent third-party auditors and constantly overseen by our internal food safety team. The audits' scope includes production, storage, distribution and supply processes. In FY2020, we passed 97 independent audits, taking in total 140 days.

Number of independent quality audits passed



Sustainability continued

GRI Content Index

In accordance with the GRI Standards: Core option

GRI	Disclosure	Reference (page) or direct response or reason for omission
101: Foundation 2016		
102: General Disclosures 2016		
1. Organizational profile		
102-01	Name of the organization	Kernel Holding S.A.
102-02	Activities, brands, products, and services	Our business model (p.7), Kernel at a Glance (p. 8), brands (p.18), website
102-03	Location of headquarters	Kyiv, Ukraine
102-04	Location of operations	Key Kernel assets are in Ukraine (p.8)
102-05	Ownership and legal form	Group structure (p. 83), Share capital and significant shareholdings (p. 83)
102-06	Markets served	<ul style="list-style-type: none"> • Geographic locations: sunflower oil sold in bulk (p.16) bottled sunflower oil (p.16), grain export markets (p.22) • Sectors served: food and agriculture • Types of customers and beneficiaries: global soft commodity traders and processors of agricultural commodities, feed compounders, retail chains and distributors.
102-07	Scale of the organization	<ul style="list-style-type: none"> • Total number of employees: (p.65) • Total number of operations: three business segments: Oilseed Processing, Infrastructure and Trading, Farming (p.7, 8). • Net revenues: key highlights (p.3) • Total capitalization: market capitalization (p. 10; for updated figures please see Kernel profile on Warsaw Stock Exchange website); credit metrics (p. 12) • Quantity of products or services provided: Kernel at a Glance (p. 8)
102-08	Information on employees and other workers	<ol style="list-style-type: none"> a. Human capital indicators (p. 65) b. Human capital indicators (p. 65) c. Human capital indicators (p. 65) d. Workers who are not employees perform insignificant portion of activities e. Significant variations in the numbers includes only seasonal variations of employees in Kernel farming business, which does not exceed 5% of total headcount. f. Data compiled by Kernel employee accounting system; Human capital indicators (p. 65)
102-09	Supply chain	<ul style="list-style-type: none"> • Our Business Model (p.7), Supplier environmental and social assessment (p. 63) • Types of suppliers: independent farmers-suppliers of grain and oilseeds, suppliers of inputs to crop production (seeds, fertilizers, crop protection agents, fuel), suppliers of other inputs (natural gas, energy)
102-10	Significant changes to the organization and its supply chain	<p>Significant changes to the organization: Note 1 to the Consolidated Financial Statements (p. 101), Oilseed Processing (p. 14), Infrastructure and Trading (p. 20)</p> <p>There were no significant changes to Kernel supply chain in FY2020.</p>
102-11	Precautionary Principle or approach	<p>The Group's entities apply the Precautionary Principle through maintaining compliance with the Law of Ukraine on Environmental Impact Assessment (see p. 52). The law requires a promoter to provide scientific evidence of no threats of serious or irreversible environmental damage associated with the planned development and activities. Unless such evidence is presented, no statutory authorization can be granted to the development and activities in question.</p> <p>The same principle works for environmental permitting. No emission or water use permit can be granted unless an applicant presented evidence of impacts staying below established thresholds (environmental quality standards). Kernel's subsidiaries hold all applicable environmental permits (see p. 56, 59).</p>

Sustainability continued

GRI	Disclosure	Reference (page) or direct response or reason for omission
102-12	External initiatives	Kernel endorses the following externally-developed economic, environmental and social charters, principles, and other initiatives: <ul style="list-style-type: none"> • International Labour Organization's Fundamental Principles and Rights at Work; • United Nations Global Compact (UNGC); • United Nations Universal Declaration of Human Rights; • Carbon Disclosure Project (CDP); • Global Reporting Initiative (GRI).
102-13	Membership of associations	Kernel, through its subsidiaries, is a member of several industry associations in Ukraine, including: <ul style="list-style-type: none"> • European Business Association (incl. Logistics Committee); • American Chamber of Commerce; • Ukrainian Grain Association; • Ukrainian Agrarian Association; • U.S.-Ukraine Business Council; • Federation of Oils, Seeds and Fats Associations; • Grain and Feed Trade Association; • UkrOliyaProm; • Ukrainian Network of Integrity and Compliance; • UN Global Compact.
2. Strategy		
102-14	Statement from senior decision-maker	Chairman's speech (p. 5) Our approach (p. 42)
3. Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	Our values and principles (p. 44) Business ethics and compliance section on our website Sustainability section on our website
4. Governance structure		
102-18	Governance structure	a. Governance structure of the organization (p. 83) b. Company does not have a separate committee responsible for decision-making on economic, environmental, and social topics on the Board of Directors level. Respective responsibilities are attributable to people in the management team.
5. Stakeholder engagement		
102-40	List of stakeholder groups	Key stakeholder groups and engagement channels (p.44)
102-41	Collective bargaining agreements	Freedom of association and collective bargaining (p. 72)
102-42	Identifying and selecting stakeholders	'Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' (p. 44). Although the frequency of our engagement varies, we are intent on staying engaged with all our stakeholders in areas of mutual interest
102-43	Approach to stakeholder engagement	Key stakeholder groups and engagement channels (p.44)
102-44	Key topics and concerns raised	Key stakeholder groups and engagement channels (p. 44), Stakeholder inclusiveness (p.44). Also discussed throughout this report.
6. Reporting practice		
102-45	Entities included in the consolidated financial statements	Notes 1 to the Consolidated Financial Statements (p. 101). Certain sustainability information does not include data for all entities, which is highlighted in each case
102-46	Defining report content and topic Boundaries	An explanation of the process for defining the report content and the topic Boundaries (p.44). Implementation of the Reporting Principles for defining report content (p. 44): <ul style="list-style-type: none"> • Stakeholder Inclusiveness • Sustainability Context • Materiality • Completeness • Accuracy • Balance • Clarity • Comparability • Reliability • Timeliness

Sustainability continued

GRI	Disclosure	Reference (page) or direct response or reason for omission
102-47	List of material topics	Topic Boundaries (p.45)
102-48	Restatements of information	Restatement carried out in the following standards: <ul style="list-style-type: none"> • GRI 201-1 Economic value generated, distributed, and retained Reason – restatements in financial statements for FY2019 • GRI 302-1 Energy consumption within the organization Reason – Amendment of accounting of heat consumed • GRI 305-1, 305-2, 305-4 Greenhouse gas emission Reason - expanding the scope of reporting, applying conversion factors which better reflect local practices in Ukraine • GRI 403-9 Work-related injuries Reason – several injuries cases have not been initially accounted for FY2019. • GRI 404-1 Average hours of training per year per employee Reason – included additional training hours for FY2019, which were not accounted before.
102-49	Changes in reporting	Report content (p. 44, 45)
102-50	Reporting period	Financial year 2020 ended 30 June 2020. See also Note 1 to the Consolidated Financial Statements (p. 101).
102-51	Date of most recent report	30 September 2019 is the date of the most recent previous report, as a sustainability section of the FY2019 annual report
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Michael lavorskiy, ir@kernel.ua; sustainability@kernel.ua
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI content index	p.76
102-56	External assurance	a. The Company does not have a policy with regard to external assurance. Current practice is to obtain external assurance at least once per 5 years. The Company obtained independent external assurance report for FY2015 Sustainability report. b. FY2020 Sustainability report has been externally assured (p.45). Baker Tilly Ukraine performed a limited assurance engagement. Kernel has no other relationship with Baker Tilly Ukraine. The initiative to obtain external assurance comes from the Board of Directors.

Material topics

Economic performance

103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Economic performance (p. 48), Strategy (p. 9), Topic boundaries (p. 45). Also discussed throughout the strategic report.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

201: Economic performance 2016

201-1	Direct economic value generated and distributed	Economic value generated, distributed, and retained (p. 48)
201-2	Financial implications and other risks and opportunities due to climate change	Economic performance (p. 48)

Indirect Economic Impacts

103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Indirect economic impact (p. 48), Local Communities (p.73), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	

203: Indirect Economic Impacts 2016

203-1	Infrastructure investments and services supported	Local Communities (p. 73)
203-2	Significant indirect economic impacts	Indirect economic impact (p. 48)

Anti-corruption

103: Management Approach 2016

103-1	Explanation of the material topic and its Boundary	Anti-corruption (p. 50-51), Topic boundaries (p. 45).
103-2	The management approach and its components	Business ethics and compliance section on our website
103-3	Evaluation of the management approach	

205: Anti-corruption 2016

205-1	Operations assessed for risks related to corruption	Anti-corruption (p. 50)
205-2	Communication and training about anti-corruption policies and procedures	Anti-corruption (p. 50). We do not provide a breakdown of communication and training by regions, as all such activities happen in Ukraine.
205-3	Confirmed incidents of corruption and actions taken	Anti-corruption (p.50)

Sustainability continued

GRI	Disclosure	Reference (page) or direct response or reason for omission
Energy		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Energy (p.53-54), Topic boundaries (p. 45), Environmental impacts (52). The Company is not subject to any government or industry-specific policy for energy use, while the renewable energy produced from biomass at the Company's sites falls under the legal incentive scheme (feed-in tariff).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
301: Energy 2016		
302-1	Energy consumption within the organization	a-g. Energy consumption (p. 53)
302-3	Energy intensity	a. Energy intensity (p. 53); b. Organization-specific metric (the denominators) chosen to calculate the energy intensity ratios: volumes of sunflower seeds processed (for Oilseed Processing Segment), ton-percentages of grain dried (for Infrastructure and Trading Segment) and volumes of grain and oilseeds produced (for Farming segment); c. All the energy consumed by respective business segment (fuel, electricity, heating etc.) was included to calculate the energy intensity ratios for Oilseed Processing and Farming. For Infrastructure and Trading, we used only energy consumed by silo business line to calculate the energy intensity ratio; d. All the ratios use energy consumption <u>within</u> the organization;
Water and Effluents		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Water and Effluents (p. 55-56), Topic boundaries (p. 45), Environmental impacts (52).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
303: Water and Effluents 2018		
303-1	Interactions with water as a shared resource	Water and Effluents (p. 55); Environmental Protection Policy
303-2	Management of water discharge-related impacts	Water and Effluents (p. 55)
303-3	Water withdrawal	a. Total water withdrawal from all areas in megaliters, and a breakdown of this total by the sources (p. 55) b. Total water withdrawal from all areas with water stress in megaliters, and a breakdown of this total by the sources (p. 55)
303-4	Water discharge	Water withdrawal and discharges (p. 55-56)
Biodiversity		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Biodiversity (p.57-58), Topic boundaries (p. 45). Sustainability section on our website.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
304: Biodiversity 2016		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Biodiversity (p. 57) Reason for omission - Confidentiality constrains. We omit disclosure of details of each separate site falling within the territory of a national park, as all such sites are land we lease from third parties, and detailed list of such sites constitutes a commercial information, as we compete for leasing land with other players in Ukraine.
Emissions		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Environment (p.59), Topic boundaries (p. 45). Sustainability section on our website.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
305: Emissions 2016		
305-1	Direct (Scope 1) GHG emissions	a-c. Emissions (p. 59) d. Base year is FY2016 e-f. Emissions (p. 59)
305-2	Energy indirect (Scope 2) GHG emissions	Emissions (p. 59)
305-4	GHG emissions intensity	Emissions (p. 59)
305-7	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and	Emissions (p. 59)

Sustainability continued

GRI	Disclosure	Reference (page) or direct response or reason for omission
	other significant air emissions	
Waste		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Waste (p. 61-62), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
306: Waste 2020		
306-1	Waste generation and significant waste-related impacts	Waste (p. 61)
306-2	Management of significant waste-related impacts	Waste (p. 61-62)
306-3	Waste generated	Waste (p. 61)
Environmental compliance		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Environmental impacts (p. 52).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
307: Environmental Compliance 2016		
307-1	Non-compliance with environmental laws and regulations	Environmental impacts (p. 52).
Supplier environmental assessment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Supplier environmental and social assessment (p. 63), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
308: Supplier environmental assessment 2016		
308-2	Negative environmental impacts in the supply chain and actions taken	Supplier environmental and social assessment (p. 63)
Employment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Employment (p.65), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
401: Employment 2016		
401-1	New employee hires and employee turnover	Employment (p. 66)
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	a. Standard benefits for full-time employees in Ukraine (p. 65). Temporary and part-time employees are not provided with some training and development programs. b. Ukraine is considered as a significant location of operations for the purposes of GRI 401-2 disclosure.
Occupational health and safety		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Occupational health and safety (Oilseed Processing) (p. 19)
103-2	The management approach and its components	Occupational health and safety (Infrastructure and Trading) (p.25)
103-3	Evaluation of the management approach	Occupational health and safety (Farming) (p.30) Occupational health and safety (p. 67-69), Topic boundaries (p. 45).
403: Occupational Health and Safety		
403-1	Occupational health and safety management system	Occupational health and safety (p. 67)
403-2	Hazard identification, risk assessment, and incident investigation	Occupational health and safety (p. 67-68)
403-3	Occupational health services	Occupational health and safety (p.68)
403-4	Worker participation, consultation, and communication on occupational health and safety	a. Occupational health and safety (p. 68) b. Company does not have a formal joint management-worker health and safety committee.
403-5	Worker training on occupational health and safety	Occupational health and safety (p. 68)
403-6	Promotion of worker health	Occupational health and safety (p. 68)
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Occupational health and safety (p. 68-69)
403-9	Work-related injuries	a. Work-related injuries (p. 68, 69). Main types of work-related injuries include slips, trips, and falls;

Sustainability continued

GRI	Disclosure	Reference (page) or direct response or reason for omission
		<p>b. Not applicable due to insignificant number of such workers;</p> <p>c. Occupational health and safety (p. 67);</p> <p>d. Actions taken to eliminate other work-related hazards include, among others, installation of alcohol detectors in all company's industrial and infrastructure assets and re-design of business processes with high potential risks;</p> <p>e. Rates have been calculated based on 1,000,000 hours worked;</p> <p>f. No workers have been excluded from this disclosure.</p>
Training and education		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Training and education (p.70), Topic boundaries (p. 45), Employee training and development (p. 19, 25, 30).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
404: Training and Education 2016		
404-1	Average hours of training per year per employee	Training and education (p. 70)
404-2	Programs for upgrading employee skills and transition assistance programs	<p>a. Training and education (p. 70);</p> <p>b. Transition assistance programs provided to facilitate continued employability are described in section "Training and education" (p. 70). We do not provide any specific transition assistance programs to facilitate management of career endings resulting from retirement or termination of employment, apart from one-off severance payment or retirement benefit.</p>
Diversity and equal opportunity		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Diversity and equal opportunity (p.71), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
405: Diversity and Equal Opportunity 2016		
405-1	Diversity of governance bodies and employees	Diversity and equal opportunity (p. 71),
Freedom of association		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Freedom of association and collective bargaining (p. 72), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
407: Freedom of Association and Collective Bargaining		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	<p>a. We have no operations in which workers' rights to exercise freedom of association may be violated or at significant risk. For 7% of our operations (measured by the headcount) there may exist difficulties to exercise collective bargaining rights, as such employees are not covered by collective bargaining agreement. We have no identified suppliers in which workers; rights to exercise freedom of association or collective bargaining may be violated.</p> <p>b. Freedom of association and collective bargaining (p. 72)</p>
Human Rights Assessment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Human rights assessment (p. 72), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
412: Human Rights Assessment		
412-1	Operations that have been subject to human rights reviews or impact assessments	No our operations have been subject to human rights reviews or human rights impact assessments.
Local communities		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Local communities (p.73), Topic boundaries (p. 45), Social spending (p. 73).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
413: Local Communities 2016		
413-1	Operations with local community engagement, impact assessments, and development programs	<p>Local communities (p. 73).</p> <p>100% of operations in our Farming segment (topic boundary for this topic disclosure) are involved in local community engagement, impact assessments and/or development programs. Albeit the frequency and</p>

Sustainability continued

GRI	Disclosure	Reference (page) or direct response or reason for omission
413-2	Operations with significant actual and potential negative impacts on local communities	depth of engagement may differ by region. Kernel is not aware of any significant negative impacts on local communities as a result of its activities.
Supplier social assessment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Supplier environmental and social assessment (p. 63)
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
414: Supplier Social Assessment 2016		
414-2	Negative social impacts in the supply chain and actions taken	a. Supplier environmental and social assessment (p. 63). Reason for omission of exact number of suppliers in Infrastructure and Trading and Oilseed Processing segments: information unavailable due to specific of the accounting system. b. Supplier environmental and social assessment (p. 63) c. Supplier environmental and social assessment (p. 63) d. Supplier environmental and social assessment (p. 63) e. Supplier environmental and social assessment (p. 63)
Customer health and safety		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Customer health and safety (p.74-75), Topic boundaries (p. 45).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
416: Customer Health and Safety 2016		
416-1	Assessment of the health and safety impacts of product and service categories	We assess health and safety impacts for improvement for all our significant products.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	There were no incidents of non-compliance with regulations and/or voluntary code concerning the health and safety impacts of products and services within the reporting period, which resulted in fines, penalties, or warnings.

Corporate Governance

Main Characteristics of Kernel

Group structure

Kernel Holding S.A. is a public limited liability company (société anonyme) incorporated on 15 June 2005 under the laws of the Grand Duchy of Luxembourg (RCS Luxembourg B109173) and having its registered address 19 Rue de Bitbourg, L-1273 Luxembourg. Kernel Holding S.A. is a holding entity for the group of companies (altogether 'the Group' or 'the Company' or 'Kernel') and has its share listed on the main market of the Warsaw Stock Exchange (Bloomberg ticker: KER PW) since November 2007. The list of primary subsidiaries is disclosed on page 101 of this report.

Share capital and significant share-holdings

The issued capital of the Kernel Holding S.A. as of 30 June 2020 consisted of 84,031,230 fully paid ordinary single class shares, all ranking pari passu and having equal voting rights and no special control rights attached to any of the shares.

According to notifications received by the company, two shareholders owned more than 5% of Company's shares as of 30 June 2020:

- Namsen Limited, a legal entity directly controlled by the Chairman of the Board of Directors and founder of the business, Mr. Andrii Verevskiy, owning 39.16% of shares;
- Cascade Investment Fund, holding between 5% and 10%;

Ownership structure as of 30 June 2020

	Shares owned	%-age owned
Namsen Limited	32,903,278	39.16%
Other ¹	51,127,952	60.84%
Total	84,031,230	100.00%

Note 1: including one shareholder controlling between 5% and 10% of total shares: Cascade Investment Fund.

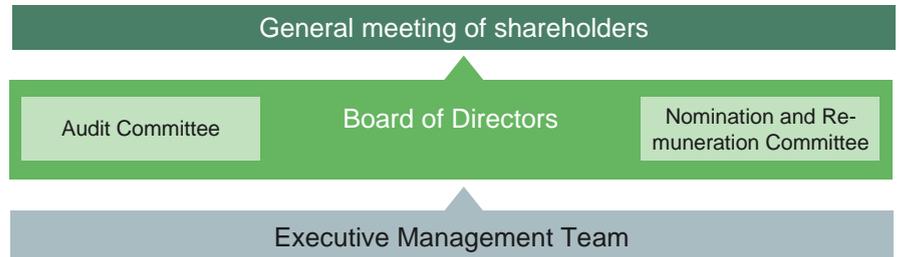
As per notifications received in FY2020, Julius Baer Group, controlling between 5% and 10%, reduced its stake to below 5% over the course of FY2020.

As per notifications received in FY2020, Namsen Limited acquired 186,503 shares of Kernel Holding S.A. during the reported period.

In December 2019, the Company issued 2,090,000 new ordinary shares without indication of nominal value, which have been subscribed by holders of stock options issued in connection with the Company's management incentive plan of which the Company informed in [current report no 42/2014](#). All newly issued shares have been paid up in cash.

The company held no treasury shares as of 30 June 2020.

Governance structure



As of 30 June 2020, there were 3,000,000 outstanding options granted to the senior managers of the Group, all vested, at 75 PLN strike price. Each option provides for the right to acquire one ordinary share of the Company.

Corporate governance framework

Kernel is committed to high standards of corporate governance and is subject to the corporate governance framework determined by:

- the corporate law of the Grand Duchy of Luxembourg as a place of incorporation (including voluntary compliance with most of the provisions of the X Principles of Corporate Governance of the Luxembourg Stock Exchange); and
- corporate governance rules set out in the [Best Practices of Warsaw Stock Exchange Listed Companies 2016](#) ("Best Practices") as a place of shares listing. Kernel complies with most of the standards of "Best Practices", except for the recommendations included in items IV.R.2 and the detailed principles included in items I.Z.1.16, I.Z.1.20, IV.Z.2, VI.Z.4. At the same time, the Board of Directors decided that the recommendations and detailed principles, marked as items II.Z.11, III.Z.6. and IV.R.3 do not apply to the Company. The respective statement of compliance is published on [Company's website](#) under section "Board of Directors and Corporate Governance".

Key internal documents laying out the principles of corporate governance are Kernel Holding S.A. Articles of Association and Corporate Governance Charter, both available on [Company's website](#).

Our approach has been evaluated particularly high in the first Ukrainian sustainability rating [Sustainable Ukraine](#), where we scored as #2 corporate in Ukraine in corporate governance rating.

General Meeting of Shareholders

General Meeting of Shareholders is the highest governance body of the Company, having the broadest power to order, carry out or ratify all acts relating to the operations of the Company. All the details about organizing and functioning of the general meeting of

shareholders are listed in the Articles of Association and Corporate Governance Charter, both published on [Company's website](#).

The annual general meeting held on 10 December 2019:

- approved the management report of the Board of Directors, consolidated financial statements of the Company and standalone annual accounts of the Kernel Holding S.A., and the report of the independent auditor for the year ended 30 June 2019;
- granted discharge to the directors of the Company for the exercise of their mandates in FY2019;
- renewed the mandates of seven of the directors and approved the fees of executive and non-executive directors for the year ended 10 December 2020;
- granted discharge to the independent auditor and reappointed Deloitte Audit as independent auditor of the Company for one-year term mandate.

There were no extraordinary meetings of shareholders of Kernel Holding S.A. in FY2020.

The next annual general meeting of shareholders is scheduled for 10 December 2020.

All the documents and resolutions adopted by the shareholder meetings are available on [Company's website](#).

Board of Directors

Company is managed by the Board of Directors ("the Board"), which is the ultimate decision-making body, except for the powers reserved for the general meeting of shareholders by law, the Articles of Association and the Corporate Governance Charter. The Board is vested with the broadest powers to perform all acts of administration and disposition in compliance with the Company's corporate purpose. The Board resolves to take its decisions objectively, in the best corporate interest of the Company. The Board is collectively responsible and accountable to the shareholders for the proper conduct of the business, the long-term success of the Company, the effectiveness of the reporting system and the corporate governance framework.

Corporate Governance continued

Effective and experienced leadership

Kernel Holding S.A. is governed by the Board of Directors composing of eight members, including three non-executive directors, two of which are independent). Biographical details of the Board as at 30 June 2020 are as follows (with further details available on Company's [website](#)).



Andrii Verevskiy, 46
Chairman of the Board, Founder

Tenure: 13 years
Skills and experience:
Founded the Group's business in 1995, holding various executive positions within the Group. Presently, he oversees the strategic development and overall management of the Group.

Board Committee:
Nomination & Remuneration Committee



Nathalie Bachich, 46
Independent non-executive director

Tenure: 4 years
Skills and experience:
With over 15 years' experience in international investment banking, Nathalie spent the majority of that time in Equity Capital Markets.

Board Committee:
Nomination & Remuneration Committee, Audit Committee



Andrzej Danilczuk, 57
Non-executive director

Tenure: 13 years
Skills and experience:
His rare know-how combines with a strong understanding of western corporate culture and modus operandi and a deep knowledge of local culture and business practices in the Black Sea region.

Board Committee:
Chairman of the Nomination & Remuneration Committee, Audit Committee



Sergei Shibaev, 61
Independent non-executive director

Tenure: 8 years
Skills and experience:
Occupied different managerial roles with international consultancy and financial services firms including PWC, ING Barings, Deloitte & Touché and Roland Berger, among others

Board Committee:
Chairman of the Audit Committee



Yevgen Osypov, 44
Chief executive officer

Tenure: 3 year
Skills and experience:
Mr. Osypov is responsible for the day-to-day management of the Company's subsidiaries, execution of strategy, budgets, and Board decisions. He completed several educational programs in Harvard Business School.

Board Committee:
None



Anastasiia Usachova, 49
Chief financial officer

Tenure: 13 years
Skills and experience:
Ms. Usachova is responsible for the overall financial management of Kernel. She holds an MBA degree from IMD (Switzerland).

Board Committee:
None



Viktoriia Lukianenko, 45
Chief legal officer

Tenure: 13 years
Skills and experience:
Ms. Lukianenko is responsible for providing legal advice and counseling in all aspects of Kernel's business operations.

Board Committee:
None



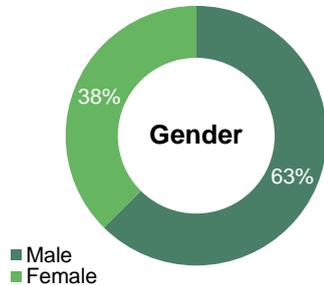
Yuriy Kovalchuk, 39
Corporate investment director

Tenure: 9 years
Skills and experience:
Mr. Kovalchuk contributes to strategy formulation and is responsible for the execution of investment projects. Yuriy has been a Fellow with Association of Chartered Certified Accountants (FCCA), since September 2013.

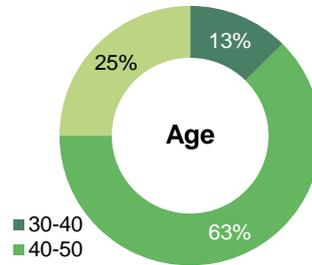
Board Committee:
None

Corporate Governance continued

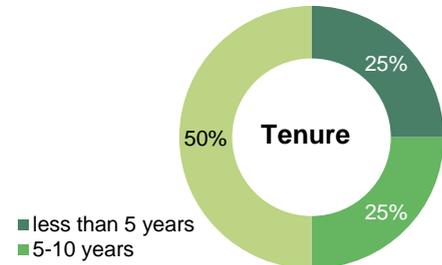
Composition of the Board of Directors as of 30 June 2020



■ Male
■ Female



■ 30-40
■ 40-50
■ 50+



■ less than 5 years
■ 5-10 years
■ more than 10 years

The responsibilities of the Board include approval and review of strategies and policies, governance of the Company and management supervision. More detailed responsibilities are specified in Company's Corporate Governance Charter.

All Directors are equally accountable for the proper stewardship of the Company's affairs. The non-executive directors have a responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the Directors to promote the success of the Company for the benefit of its shareholders, while having regard to, among other matters, the interest of employees, the fostering of business relationships with customers, suppliers and other stakeholders, as well as promoting the impact of the Company's operations on the communities and the environment in which the business operates.

The Board approves every investment, divestment, acquisition, disposal, and funding transaction exceeding in value 5% of average 12 months trailing daily market capitalization of the Company.

Board composition

The Board is composed of eight directors, of which five are executive (including a Chairman) and three non-executive directors. Two of non-executive directors are independent. There were no changes in the composition of the Board in FY2020.

The non-executive directors are experienced and influential individuals from a range of industries and countries with an appropriate mix of skills and business experience to contribute to the proper functioning of the Board and its Committees.

The mandate of the Chairman and all other directors expires at the annual general shareholder meeting in December 2020.

Nomination and Remuneration Committee regularly review the composition of the Board to ensure that the Board has an appropriate,

diverse and balanced mix of competences, skills, experience, background and knowledge of the Company's affairs. Key principles governing the processes of nomination, appointment and re-election of Directors are described in the Company's Corporate Governance Charter, published on [Kernel's website](#).

Board diversity

Diversity among Directors makes the Board high-performing and efficient, serving the best interests of the Company's key stakeholders. The Company benefits from nationality, gender, age, experience and industry expertise diversity among Directors. The diversity within the Board is enhanced by [Kernel's Equality, Diversity and Inclusion Policy](#), which was adopted in 2018. The policy is on constant basis considered by the Nomination and Remuneration Committee of the Board and Executive Management Team when making employee and management appointment decisions.

Directors consider the diversity among Board members while evaluating the Board's effectiveness. During the annual Board self-evaluation process conducted in FY2020, most directors recognized the sufficient range of expertise, attitudes and external relationships within the Board members.

Directors' independence

Each non-executive director annually provides the other members of the Board with a statement of meeting the independence criteria indicated in Annex II of the European Commission Recommendation of 15 February 2005. The statements are published on Company's website.

As per statements received in September 2020, two non-executive directors meet the independence criteria. One non-executive director does not meet the independence criteria, serving as a director for more than 12 years already.

Conflict of interest

A [Corporate Governance Charter](#) adopted in May 2018 pays special attention to disclosing

conflicts of interests among Board members. Any Director having a direct or indirect conflict of interest must inform the Board thereof and shall refrain from deliberating or voting on the relevant item of the agenda. Any conflict of interest should be properly declared and documented.

Members of the Board shall refrain from professional or other activities which might cause a conflict of interest or adversely affect their reputation as members of the governing bodies of the Company, and where a conflict of interest arises, immediately disclose it.

The following non-exhaustive list is an example of the duties that shall be followed by the Directors:

- duty not to accept any benefits from third parties, which may give rise to a personal financial interest and/or gain;
- duty to disclose any interest in a proposed transaction or arrangement with the Company and a separate and independent duty to disclose any arrangement with the Company; and
- duty to avoid conflicts of interest unless authorized.

There were no cases of conflict of interest among Directors declared over the course of FY2020.

As of September 2020, non-executive directors occupied the following positions in companies outside the Group:

- Mr. Sergei Shibaev is an Independent Director and Audit Committee Chair at RESO Garantia, an Independent Director and Audit Committee Chair at Bank Zenit, an Independent Director and Audit Committee Chair at Katren.
- Mr. Andrzej Danilczuk is a Director at JDI Brokers and a Director at Agroil S.A.
- Mrs. Nathalie Bachich does not occupy positions in companies outside the Group.

Corporate Governance continued

Board committees

The Board has two committees appointed amongst its members:

- Audit Committee;
- Nomination & Remuneration Committee (hereinafter "N&R Committee");

The Board believes this structure is sufficient enough to ensure its efficient performance of duties and tasks, as certain specific matters are heard first by specialized bodies with explicit professional experience, and only then considered by the Board.

Following the regular annual review in FY2020, the Board does not see a necessity to establish new committees.

Board self-evaluation

Following the best standards of corporate governance, the Board regularly undertakes a formal self-evaluation of its performance and effectiveness as a collective body, operating efficiency, composition, organizational structure, compliance with the rules of good government and relationship with the executive management and other stakeholders. The survey conducted in FY2020 identified no major issues with regards to the items mentioned above. Board recognized the quality and timeliness of the information provided to the Board, quality of Board practices and meetings, appropriate composition of the Board, adequate Board roles and responsibilities, proper established committee practices etc.

Independent advice

All directors can consult with the corporate secretary, who is available to provide assistance and information on governance, corporate administration and legal matters as appropriate. Directors may also seek advice on such matters, or on other business-related matters relating to the performance of his duties, directly from independent professional advisors, if so desired, at the Company's expense.

Board activity report

The Board held eight scheduled meetings in FY2020, all of which via teleconference, with an average attendance rate of 89%. Usually, the Board has two physical meetings per year, but no such meetings took place in the reporting period given the COVID-19-related travel and social distancing restrictions. Since the second half of FY2020, Board meetings are conducted in video format.

Typically, at each meeting, the Chairman of the Board, together with the Chief Financial Officer, report on strategy implementation, present recent developments and management accounts. The workplan of the Board for

Remuneration of the Board of Directors

US\$ thousands

	FY2016	FY2017	FY2018	FY2019	FY2020
Chairman of the Board	200	200	250	200	200
Three non-executive Directors	264	269	268	260	260
Four executive Directors	44	40	50	40	40
Total Board of Directors	508	509	568	500	500

Excluding reimbursement of travelling expenses incurred by Directors in performing their duties

FY2020 included, among others, the following items:

- review of Company's mid-term strategy and approval of budget;
- review and approval of annual, semi-annual and quarterly accounts; review of operations updates;
- review of management accounts and financing transactions;
- review of corporate-governance-related questions;
- supervision of the risk management process: approval of top risks for the Company and mitigation plan, review of reports on top risks mitigation activities; update on implementing the risk management system; review of risk limits; review of outstanding legal cases;
- updates from Audit Committee and N&R Committee;
- Review of the performance of the Group sustainability function;
- various ad-hoc items (M&A updates, updates on market situation, Avere performance review).

Over the course of FY2020, the Board also approved financing and M&A transactions via circular resolutions.

Accountability and audit Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the strategic report on pages 7-31. The financials of the group, its liquidity position, borrowing facilities and applicable terms are described in the financial statement's accounts.

Current economic conditions have fostered the development of a number of risks and uncertainties for the Company, in particular in regard to global soft commodity prices and harvest expectations (see details in the Risks and Uncertainties section of this report).

Directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about the future trading and production performance, as well as debt requirements.

The results show that the Company should be able to operate within the levels of its available

capital. Therefore, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the annual report and accounts.

Takeover disclosure

The Company's shares are in electronic form and are freely transferable, subject only to the provisions of law and the Company's Articles of Association. There are no agreements between the Company and its employees or directors providing for compensation of the loss of office or employment (whether through resignation, purported redundancy, or otherwise) that would occur because of a takeover bid. Options granted under management incentive plans incorporate accelerated vesting in the event of a takeover.

The Company in the ordinary course of business has entered into various agreements with customers and suppliers around the world. Some of the Company's borrowing agreements, which either by their nature or value may represent significant agreements, do provide for the right of termination upon a change of control of the Company. The commercial sensitivity of these agreements prevents their details from being disclosed.

Except for the preceding disclosure, there are no other significant agreements to which the Company is a party that take effect, alter, or terminate upon a change of control following a takeover of the Company.

Audit Committee

The Audit Committee is a continuously operating collective body of the Board. It consists of three members including a chairman, all of whom are non-executive directors, and two of whom meet the independence criteria. The members have competence in accounting and audit, and the competence relevant to the sector in which the company is operating. The Audit Committee is fully capable of overseeing the affairs of the Company in the areas of adequacy and effectiveness of the Kernel's system of financial reporting, internal controls and risk management.

The functioning and key responsibilities of the

Corporate Governance continued

Audit Committee are described in the Articles of Association, and further specified in the Corporate Governance Charter. Both documents available on [Company's website](#).

Audit Committee activity report

The Audit Committee had seven meetings in FY2020, all of which via teleconference. Usually, the Audit Committee has two physical meetings per year, but no such meetings took place in the reporting period given the COVID-19-related travel and social distancing restrictions. Since the second half of FY2020, Audit Committee meetings are conducted in video format.

All members of the Audit Committee attended all the meetings of the committee in FY2020. Chief Financial Officer was invited and attended all the meetings of the Audit Committee. Chief Executive Officer, head of internal audit and compliance officer were invited to all routine meetings of the Audit Committee. Representatives of Deloitte, Company's external auditor, were invited and attended four meetings of the Audit Committee.

During its meetings, Audit Committee had one closed session with the external auditor and one with the internal auditor to communicate without the presence of executives. Additionally, decisions of the Audit Committee were taken via two circular resolutions signed over the course of FY2020.

To execute its key functions and discharge its responsibilities as outlined in the Corporate Governance Charter, the Committee, during FY2020:

- assisted the Board in **monitoring the reliability and integrity of the financial information provided**. The Committee reviewed the quarterly, semi-annual and annual financial reports, reviewed critical accounting policies and management estimates, among other things;
- conducted **oversight over the performance of the internal audit function**, including the review of the internal audit activities and action plans and reports. To further enhance the internal audit function, Audit Committee approved the Internal Audit Charter. The committee had one meeting with the Head of Internal Audit of the Company without the presence of executives;
- conducted **oversight over the performance of the external audit function** including review of the annual audit plan and scope of semiannual accounts review and areas of focus, review of auditor reports, presentations and additional auditors report, management letter review. The Audit Committee had one face-to-face discussion with the external auditors in the absence of executives. The Audit Committee

monitored the fee cap of non-audit services, and review of the contract with auditors (including review of expected fees for the audit and consulting services) and independence of external auditor;

- conducted **oversight over the risk management function**. The Audit Committee assisted the Board in the discharge of its risk management responsibilities, monitoring and examining the effectiveness of the Company's internal control and risk monitoring system; reviewing top risks, risk mitigation plans and results of risk mitigation activities, overseeing group risk management procedures; reviewing trade management position risk mitigation activities (including Avere). The Audit Committee also reviewed Kernel group-wide business continuity plan (including Avere IT business continuity plan);
- conducted **oversight over the compliance function**, including implementation of the Corporate Governance Charter provisions, compliance with good corporate governance practices with respect to the functioning of the Audit Committee, and reviewing reports from Kernel Compliance Officer on the progress achieved in the enhancement of Company's compliance function;
- **discussed various ad-hoc items**, including Audit Committee succession and rotation plan and auditor selection procedure.

After each meeting, the chairman of the Audit Committee reports to the Board on key matters.

Over the course of FY2020 Audit Committee conducted annual self-evaluation procedure, which indicated potential areas of Audit Committee performance and activities improvement and resulted in clear action plan based on results of the self-evaluation procedure.

Internal audit

As an integral part of the system of internal control, the Company established an internal audit division headed by an experienced professional reporting directly to the Board of Directors via Audit Committee and to the CEO of the Company as a chairman of the Risk Committee within the Executive Management Team, and working closely with the Board.

The Internal Audit provides independent and objective assurance and consulting services in the areas of internal controls and risk management, aimed at improving the operations and performance of the Company and its subsidiaries.

The independence rules defined in generally accepted international standards of the professional internal audit practice apply to members of internal audit division.

Main responsibilities of internal audit are:

- to maintain continuous support for the Directors on the operational risk management, internal controls and mitigation activities by undertaking regular or ad hoc reviews;
- to provide independent and objective evaluation of effectiveness and efficiency of internal control systems within operational framework of the Company;
- to assist personnel and management of the Company in improving the effectiveness of risk identification and internal control systems in operations; advise and consult them regarding how to effectively execute their responsibilities, including recommendations on specific improvements in policies and procedures; and
- to assist in open and two-way communication among internal and external auditors, management and personnel, Audit Committee and the Board.

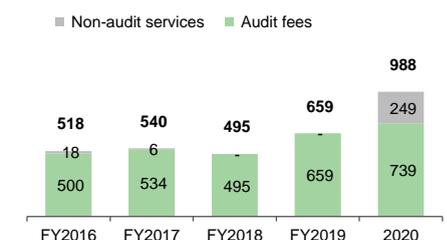
External auditor

Deloitte Audit S.a.r.l. ("Deloitte"), with its registered office at 560 rue du Neudorf, L-2220 Luxembourg and register number B 67 895 with the Luxembourg Trade and Companies' Register, acts as an external auditor of Kernel's consolidated and standalone accounts since FY2012. Annual general meeting of shareholders held on 10 December 2019 appointed Deloitte as Kernel's external auditor also for the year ended 30 June 2020. In compliance with the EU statutory audit legislation requirement for key audit partners to rotate after a maximum of seven years, new Deloitte partners led Kernel's external audit process starting from FY2019.

Deloitte attended four meetings of the Audit Committee in FY2020, presenting the results of the annual audit, additional auditor's report, management letter, review of the semi-annual accounts and audit plan for FY2020 among other things. Audit Committee also had one meeting with Deloitte without presence of the executives. The Audit Committee review and monitor the level of fees paid by the Company to external auditor, preapprove permissible non-audit services and monitor the cap on non-audit fees.

External auditor's fees

US\$ thousand



Corporate Governance continued

Audit fees in FY2020 amounted to US\$ 739 thousand, as compared to US\$ 659 thousand in FY2019. Additionally, external auditors provided Kernel with non-audit services for the amount of US\$ 249 thousand, mainly related to issuing Eurobonds in October 2019.

Nomination and remuneration Compensation principles

The Company's compensation policies and management incentive plans reward performance, sustainable growth and long-term value creation for all stakeholders. Remuneration programs for the Board and Executive Management Team are competitive, internally equitable and straightforward.

The compensation of the Board for execution of Directors' duties consists of fixed fees, without any performance-based variable component, pension, retirement or similar benefits provided by the Company. This ensures a certain degree of independence when it comes to fulfilling the Board's duties towards the Executive Management Team. On top of that, Directors are reimbursed for certain travel, hotel and other expenses related to the exercise of their duties. The fees paid to the independent directors and the fees paid to executive directors are approved at the annual general shareholders' meeting.

Compensation of the Executive Management Team is based on a pay-for-performance principle, rewarding sustainable growth and long-term value creation for shareholders. A significant portion of remuneration comes from a variable part depending on Company's performance. For details, please see the figure below.

The remuneration of the Executive Management Team is proposed by the Chairman of the Board in accordance with the remuneration policies and incentive plans drawn up by the N&R Committee and is reviewed and, if necessary, adjusted by the N&R Committee on an annual basis. The Board shall approve any long-term management incentive plan.

Remuneration policies and incentive plans, as well as amounts, are reviewed by the N&R Committee on an annual basis and, if required, adjusted by the Board.

Members of the executive management team are not granted any pension, retirement or similar benefits provided by the Company, apart from those required by the law.

The Company believes that remuneration policy strongly contributes to the long-term shareholder value creation and the company's

Compensation structure of the Executive Management Team

Base salary	The fixed part of the compensation is determined at the discretion of the Board considering the respective position and the individual profile of the manager in terms of qualifications, skill set, and experience. All amounts are fixed and paid in cash, monthly.
Short-term variable bonus	The annual variable monetary bonus is calculated as a percentage of the EBITDA less the financial expenses, with exact parameters determined by the Nomination & Remuneration Committee. A minimum threshold level is required to activate the pay-out. The bonus rewards for the short-term financial performance of the Company.
Long-term management incentive plan	A management incentive plan is a reward for performance of the Company over the long-term period and shall align the interests of the Executive Management Team with those of the shareholders by delivering a substantial portion of share options in the Company as compensation. The plan is duly reviewed by the Nomination & Remuneration Committee and approved by the Board. Each option is granted non-vested, with a vesting period from three to five years, carrying no rights to dividends and voting, and to be executed in cash.

stability.

Nomination and Remuneration Committee

The Nomination and Remuneration committee is a continuously operating collective body of the Board. It is established from amongst the members of the Board and consists of three members, including a chairman elected by the members of the N&R Committee amongst themselves. The majority of the members of the N&R Committee (including the chairman) are nonexecutive Directors.

The role of the N&R Committee is to assist the Board in fulfilling its responsibilities by reviewing, advising and making recommendations to the Board, the Chairman and the CEO on the nomination to the Board and Executive Management Team and their remuneration. The N&R Committee assists the Board in nominating and assessing candidates for both directorship and managerial positions, establishing and reviewing the compensation principles and strategy. N&R Committee also supports the Board in preparing the Board's remuneration proposals to the shareholders' general meeting. A detailed list of N&R Committee responsibilities is available in Corporate Governance Charter, published on [Company's website](#).

Nomination and Remuneration Committee's activity report

The N&R Committee held two scheduled meetings during the reporting period, discussing the composition of the Board, performance of the CEO and the Executive Management Team, changes within key management personnel, and settled on the management compensation for FY2020 standing at US\$ 8,834 thousand (including a short-term variable bonus of US\$ 6,326 thousand) for 12 key executives, as compared to the total compensation of US\$ 5,518 thousand (including a bonus of US\$ 3,099) a year ago for 12 executives.

There were no new management incentive plans approved over FY2020, and no significant amendments to the Executive Management Team remuneration policy in FY2020.

Executive Management Team

The Executive Management Team is responsible for the overall financial and operating results of the Company's subsidiaries, heading operating segments and providing support functions on a daily basis. The Executive Management Team focuses on strategy implementation, financial and competitive performance, commercial and technological developments, succession planning and organizational development.

Remuneration of the Executive Management Team

US\$ thousands

	FY2016	FY2017	FY2018	FY2019	FY2020
Total remuneration	6,476	5,699	3,294	5,518	8,834
Base salary	2,276	2,409	2,467	2,419	2,508
Short-term variable bonus	4,200	3,290	827	3,099	6,326
# of executive managers	10	10	12	12	12

Corporate Governance continued

The Executive Management Team is headed by the Chief Executive Officer (the "CEO"), who is appointed and removed by the Board and report directly to the latter. The role of the CEO has been established in FY2018. The CEO is responsible for the day-to-day management of the Company's subsidiaries, execution of strategy, budgets, and Board decisions. The CEO delegates his/her responsibilities to other members of the Executive Management Team.

The Executive Management Team consists of 12 professionals including CEO. All the members of the Executive Management Team other than CEO are appointed and removed, as applicable, by the Board upon proposal by the N&R Committee after prior consultation with the CEO, save where he is subject of the procedure. The full list of the members of the Executive Management Team, including short biographies for each member is available on the [Company's website](#).

Responsibilities of the Executive Management Team are described in more detail in Company's Corporate Governance Charter, available on [Company's website](#).

There are various committees operating on the Executive Management Team level, including Strategic Committee, Investment Committee, Trade Committee, Risk Committee.

Compliance system

In December 2016, Kernel initiated a **Corporate Compliance Program ("CCP")** – an action plan of bringing Company's compliance system in accordance with best international standards. Progress on CCP implementation was monitored each quarter by Baker Tilly, with final report presented in summer 2019, after completion of the CCP in June 2019. Baker Tilly recognized a significant progress achieved in the implementation of Kernel's Compliance Program due to the actual execution of both internal and external control activities, highlighting also the aspects for further continuous improvement.

Since 2017, compliance function within Kernel is headed by a dedicated Compliance Officer, who reports directly to CEO and Board of Directors via Audit Committee of the Board, as well as attends all Audit Committee meetings and reports on the functioning of compliance system and compliance controls not less than twice per year.

Compliance at Kernel is focused on the following areas:

- **preventing fraud, corruption and other misconduct** (see details in section [Anti-](#)

Kernel Holding S.A. Investor Calendar

Q1 FY2021 Operations Update	26 October 2020
Q1 FY2021 Financial Report	27 November 2020
Annual general shareholders' meeting	10 December 2020
Q2 FY2021 Operations Update	21 January 2021
H1 FY2021 Financial Report	26 February 2021
Q3 FY2021 Operations Update	23 April 2021
Q3 FY2021 Financial Report	28 May 2021
Q4 FY2021 Operations Update	22 July 2021
FY2021 Financial Report	4 October 2021

- **managing risk of cooperation with unreliable counterparties and international sanctions.** Compliance officer and security department check business partners for compliance risks: sanctions, corruption, money-laundering, terrorism financing;
- **making company activities compliant with various external initiatives** (GDPR, United Nations Global Compact, equality, diversity, and inclusion initiatives, etc.);
- **compliance by employees with internal documents**, including [Code of Conduct](#), [Policy for managing conflicts of interests](#), [combating fraud and corruption](#), and other internal documents on compliance. Compliance officer leads the compliance incident management processes for all interested parties.

We have a compliance risk management system. We assessed compliance risks in 19 risk areas and introduced necessary compliance controls in business processes to mitigate the most significant risks.

Our efforts in enhancing corporate governance and compliance practices were recognized by such reputable institutions as European Investment Bank and EBRD, which provided Kernel with financing in FY2019 after a very granular inspection of corporate governance, compliance and environmental practices adopted by the company.

Investor Relations

Kernel constantly put efforts on establishing adequate and efficient communication with shareholders, bondholders and other capital providers and targets the expansion of investors base.

The means for that include:

- **roadshows.** We had a credit roadshow in October 2019 before issuing Eurobonds. Additionally, we organized one physical and two virtual non-deal equity-focused roadshows following the publication of our annual report, meeting investors from Poland, Western Europe and Scandinavia, USA and Canada;
- **investor conferences.** In FY2020, we met with equity and debt investors at 9

conferences in Europe and USA, organized by Auerbach Grayson, Goldman Sachs, WOOD, Bank of America Merrill Lynch, Citi and Erste. Most of the events were organized in virtual format, given the travel constraints caused by COVID-19. The full list of conferences is published on our [website](#);

- **regular annual Investor Days.** Normally, each year we organize for investors a visit to company assets and a meeting with top management in Kyiv office. But in FY2020, we did not have one given the COVID-19-related travel constraints.;
- **ad-hoc meetings** and calls with investors;

Company is covered by seven sell-side equity analysts and three credit analysts (full list published on our [website](#)).

All reports, presentations and other materials are available to stakeholders on the Company's [website](#).

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the consolidated financial statements of Kernel Holding S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 30 June 2020, the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of "Réviseur d'Entreprises Agréé" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Valuation of biological assets	
<p>As indicated in the Notes 3 and 13, the Group measures biological assets at fair value as of reporting date in accordance with IAS 41. As of 30 June 2020, the carrying amount of biological assets consisted primarily of current biological assets (mainly crops in fields) in amount of USD 252,184 thousand. Crops in fields are measured using the discounted cash flow technique</p> <p>Given the significant judgments made by management to estimate the fair value of Biological assets, performing audit procedures to evaluate the reasonableness of management's estimates related to expected yields, prices and discount rates, required a high degree of auditor judgment and an increased extent of effort.</p>	<p>We obtained an understanding of controls surrounding valuation of biological assets.</p> <p>We challenged management's assumptions with reference to historical data (yields) and, where applicable, external benchmarks (prices) and market data noting the assumptions used fell within an acceptable range.</p> <p>We performed an independent recalculation of fair value of biological assets as of 30 June 2020 using prices forecast based on futures' prices, median actual yields for last seven years and a discount rates verified by our internal valuation specialists.</p> <p>We tested the accuracy and methodology of valuation models.</p> <p>We tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity calculations.</p> <p>We considered the appropriateness of the related disclosures provided in the consolidated financial statements (Note 13 to the consolidated financial statements).</p>
Impairment of goodwill	
<p>As indicated in Note 3 and 17, annually, as of the reporting date, or as required per IAS 36 "Impairment of Assets" more frequently, if there are indicators that the carrying amount of goodwill is no longer recoverable, the Group performs an impairment test. The Group manages</p>	<p>We obtained an understanding of controls around goodwill impairment test.</p> <p>Our procedures included, among other, using internal valuation</p>

Independent Auditor's Report continued

Why the matter was determined to be a key audit matter

its goodwill at the group of cash generating unit ("CGU") level. Impairment is tested with reference to fair value less cost to sell or the value-in-use, typically based on the cash flow forecast for each CGU.

Impairment considerations were significant to our audit because the goodwill balance of USD 123,487 thousand as of 30 June 2020 is material to the consolidated financial statements. In addition, management's assessment process is complex, involves judgment and is based on assumptions, which are affected by expected future market and economic conditions. Based on our risk assessment, we focused our procedures on the Oil Processing CGU due to the high sensitivity of the following inputs into the model that required a high degree of auditor judgment and an increased extent of effort:

- The discount rate ("WACC"), which is based on the weighted average cost of capital.
- Terminal growth rate.
- Business assumptions, including but not limited to expected operating margins, future production and sales volumes, which are volatile.

Further, key considerations included determination of CGUs, whether the value in use calculation and valuation method used complied with the requirements of IFRS.

How the matter was addressed in the audit

experts to assist us in evaluating the methodology and data used to estimate the WACC of each CGU's value-in-use estimate.

We have also focused on those assumptions that have the most significant effect on the determination of the recoverable amount of goodwill by performing sensitivity analysis.

More specifically:

We performed audit procedures on impairment models relating to oil processing CGU. We evaluated reasonableness of the models by comparing the assumptions made to internal and external data. In particular, we:

- compared short-term revenue growth rates and other inputs to the latest approved budgets and found them to be consistent;
- compared long-term revenue growth rates to the forecasts obtained from publicly available data;
- challenged the reasonableness of the assumptions in management's forecasts with reference to past performance, market conditions and external benchmarks, where applicable;
- assessed the historical forecasting and budgeting accuracy;
- tested the integrity and mathematical accuracy of the models;
- tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity calculations;
- prepared our independent estimation of value-in-use for the tested CGUs and compared amount obtained to the carrying value of non-current assets of these CGUs.

We also considered the adequacy of the Group's disclosures in respect of goodwill impairment testing (Note 17 to the consolidated financial statements) and whether disclosures, related to the sensitivity of the valuation model used, properly reflecting the risks inherent in such assumptions.

Revenue recognition

The Group sells different commodities, goods and services to various counterparties as disclosed in Note 25, and operates in different business and geographical segments as described in Note 6 in the consolidated financial statements.

ISAs require an auditor in assessing risk of material misstatement to presume fraud risk in revenue recognition. There could be a pressure for management to meet the requirements and expectations of third parties due to profitability level expectations of shareholders, investment analysts and significant creditors. Additionally, given the inherent uncertainty related to Covid - 19 there may be incentives to improperly recognize or derecognize revenue in the right accounting period which required an increased extent of auditor effort.

We obtained an understanding of the process and controls in respect of timely recognition of revenue.

We have performed our risk assessment as to period for cut-off testing before and after the reporting date and evaluated completeness of accounting records for the respective period.

On a sample basis, we have performed substantive detailed testing for revenue recognition in a correct period:

- verified agreement terms including point of control transfer;
- checked and agreed the date and quantity to the source documents.

Adoption of IFRS 16 "Leases"

As disclosed in Note 3 the Group has adopted IFRS 16 "Leases" as of 1 July 2019. The Group applied the standard retrospectively without restating comparative information.

We consider adoption of IFRS 16 as a key audit matter because it required the Group to substantially modify existing business processes related to financial reporting and to apply significant judgment, in particular, when determining whether the contract is, or contains, a lease, the lease term and discount rates used. In addition to that, the carrying amounts of Right of Use Assets and Lease Liabilities are significant at the reporting date, equaling to USD 347,296 thousand and 310,000 thousand, respectively.

We obtained understanding of the Group's policy, processes and controls over the lease accounting as of the adoption date and the reporting date.

We assessed the appropriateness of the transitional provisions applied as of 1 July 2019 in accordance with the requirements of IFRS 16.

We have verified that selected practical expedients were applied correctly.

We tested discount rate (incremental borrowing rate) used with the assistance of our internal valuation specialists.

See also Note 15 "Right-of-use assets" and Note 22 "Lease liabilities".

Independent Auditor's Report continued

Why the matter was determined to be a key audit matter

How the matter was addressed in the audit

We have tested lease agreements on a sample basis for an appropriate:

- determination whether the contract is, or contains, a lease (for the leases as of the date of IFRS 16 adoption and commenced during the year ended 30 June 2020);
- identification of lease payments;
- determination of lease term;

We have checked the mathematical accuracy of management's calculations of lease liabilities, right-of-use assets, interest expenses on lease liabilities and depreciation charged in respect of right-of-use assets for the year ended 30 June 2020.

We have assessed completeness and accuracy of the relevant disclosures in the consolidated financial statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the strategic report and the Corporate Governance Statement, but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we concluded that there is a material misstatement of this other information; we are required to report this fact. We have nothing to report in this regard.

Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the « Réviseur d'Entreprises Agréé » for the Audit of the Consolidated Financial Statements

The objectives of our audit are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N°537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions

Independent Auditor's Report continued

are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We have been appointed as « Réviseur d'Entreprises Agréé » by the General Meeting of the Shareholders on 10 December 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 9 years.

The strategic report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the strategic report (in corporate governance section) and as published on the Group's website <http://www.kernel.ua> is the responsibility of the Board of Directors. The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The strategic report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audited services referred to in the EU Regulation No 537/2014 on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

For Deloitte Audit, *Cabinet de révision agréé*

Marco Crosetto,
Réviseur d'entreprises agréé
Partner

2 October 2020

Statement of the Board of Directors' Responsibilities for the Preparation and Approval of the Consolidated Financial Statements

for the year ended 30 June 2020

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

- The consolidated financial statements of Kernel Holding S.A. (the 'Company') presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies; and
- The Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

02 October 2020

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

Selected Financial Data

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

	USD ¹		PLN		EUR	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
I. Revenue	4,106,780	3,960,231	16,192,212	14,922,546	3,715,404	3,471,935
II. Profit from operating activities	337,276	269,207	1,329,812	1,014,399	305,134	236,014
III. Profit before income tax	144,825	190,406	571,016	717,469	131,023	166,929
IV. Profit for the period from continuing operations	122,750	178,504	483,979	672,621	111,052	156,494
V. Net cash generated by operating activities	269,356	198,650	1,062,017	748,534	243,687	174,155
VI. Net cash used in investing activities	(202,691)	(241,404)	(799,170)	(909,634)	(183,375)	(211,639)
VII. Net cash generated by financing activities	224,122	29,102	883,668	109,659	202,763	25,514
VIII. Total net cash flow	290,787	(13,652)	1,146,515	(51,441)	263,075	(11,970)
IX. Total assets	3,164,703	2,463,600	12,597,417	9,198,097	2,820,700	2,163,287
X. Current liabilities	412,593	479,760	1,642,368	1,791,232	367,744	421,277
XI. Non-current liabilities	1,257,987	637,814	5,007,543	2,381,342	1,121,244	560,064
XII. Issued capital	2,219	2,164	8,833	8,080	1,978	1,900
XIII. Total equity	1,494,123	1,346,026	5,947,506	5,025,523	1,331,712	1,181,946
XIV. Number of shares	82,983,367	81,941,230	82,983,367	81,941,230	82,983,367	81,941,230
XV. Profit per ordinary share (in USD/PLN/EUR)	1.42	2.31	5.60	8.71	1.28	2.03
XVI. Diluted number of shares	83,328,986	82,820,378	83,328,986	82,820,378	83,328,986	82,820,378
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	1.41	2.29	5.58	8.62	1.28	2.01
XVIII. Book value per share (in USD/PLN/EUR)	17.76	16.49	70.70	61.57	15.83	14.48
XIX. Diluted book value per share (in USD/PLN/EUR)	17.91	16.31	71.29	60.90	15.96	14.32

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

Consolidated Statement of Financial Position

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2020	As of 30 June 2019
Assets			
Current assets			
Cash and cash equivalents	8, 36	369,117	76,801
Trade accounts receivable, net	3, 9, 33, 36	215,279	183,196
Prepayments to suppliers and other current assets, net	3,10	148,916	129,822
Corporate income tax prepaid	24	247	8,484
Taxes recoverable and prepaid, net	11	132,748	118,575
Inventory	12	303,402	357,610
Biological assets	13	252,184	309,030
Other financial assets	36	108,692	70,835
Assets classified as held for sale		432	2,079
Total current assets		1,531,017	1,256,432
Non-current assets			
Property, plant and equipment, net	14	984,368	764,686
Right-of-use assets	3, 15	347,296	—
Intangible assets, net	16	68,085	114,942
Goodwill	17	123,487	107,735
Investments in joint ventures	32	—	51,252
Deferred tax assets	24	9,152	8,447
Corporate income tax prepaid		—	4,374
Other non-current assets	18, 33	101,298	155,732
Total non-current assets		1,633,686	1,207,168
Total assets		3,164,703	2,463,600
Liabilities and equity			
Current liabilities			
Trade accounts payable	36	87,508	136,043
Advances from customers and other current liabilities	19, 33	170,534	104,976
Short-term borrowings	20	44,581	183,692
Current portion of long-term borrowings	21	6,871	1,233
Current portion of lease liabilities	3, 22	44,872	—
Interest on bonds issued	23, 36	21,945	17,949
Other financial liabilities	36	36,282	35,867
Total current liabilities		412,593	479,760
Non-current liabilities			
Long-term borrowings	21	172,403	63,680
Lease liabilities	3, 22	265,128	—
Obligations under finance leases	3	—	5,230
Deferred tax liabilities	24	24,449	29,010
Bonds issued	23	793,777	496,051
Other non-current liabilities	7, 36	2,230	43,843
Total non-current liabilities		1,257,987	637,814
Equity attributable to Kernel Holding S.A. equity holders			
Issued capital	2	2,219	2,164
Share premium reserve		500,378	481,878
Additional paid-in capital		39,944	39,944
Equity-settled employee benefits reserve	2	4,624	9,111
Revaluation reserve		62,249	62,249
Other reserves	3	(3,523)	—
Translation reserve		(697,555)	(734,396)
Retained earnings		1,584,331	1,489,996
Total equity attributable to Kernel Holding S.A. equity holders		1,492,667	1,350,946
Non-controlling interests		1,456	(4,920)
Total equity		1,494,123	1,346,026
Total liabilities and equity		3,164,703	2,463,600
Book value		1,492,667	1,350,946
Number of shares	2, 37	84,031,230	81,941,230
Book value per share (in USD)		17.76	16.49
Diluted number of shares	37	83,328,986	82,820,378
Diluted book value per share (in USD)		17.91	16.31

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Consolidated Statement of Profit or Loss

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	For the year ended 30 June 2020	For the year ended 30 June 2019 ¹
Revenue	25, 33	4,106,780	3,960,231
Net change in fair value of biological assets and agricultural produce	13	(20,979)	9,140
Cost of sales	26, 33	(3,623,812)	(3,635,510)
Gross profit		461,989	333,861
Other operating income, net	27	7,017	41,878
General and administrative expenses	28, 33	(131,730)	(106,532)
Profit from operating activities		337,276	269,207
Finance costs, net	29, 33	(147,220)	(82,319)
Foreign exchange (loss)/gain, net	30	(1,012)	12,860
Other expenses, net	31, 33	(50,524)	(8,376)
Share of income/(loss) of joint ventures	32	6,305	(966)
Profit before income tax		144,825	190,406
Income tax expenses	24	(22,075)	(11,902)
Profit for the period from continuing operations		122,750	178,504
Profit for the period		122,750	178,504
Profit/(Loss) for the period attributable to:			
Equity holders of Kernel Holding S.A.		117,865	189,464
Non-controlling interests		4,885	(10,960)
Earnings per share			
From continuing operations			
Weighted average number of shares	37	82,983,367	81,941,230
Profit per ordinary share (in USD)		1.42	2.31
Diluted number of shares	37	83,328,986	82,820,378
Diluted profit per ordinary share (in USD)		1.41	2.29
On behalf of the Board of Directors			

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

¹ During the year ended 30 June 2020, the Group has changed presentation of remeasurement movements on the commodity derivatives and included them into Revenue and Cost of sales instead of Other operating income. Comparative information was reclassified respectively. Please see Note 3 for more details and description of changes in accounting policy and reclassifications made.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	For the year ended 30 June 2020	For the year ended 30 June 2019
Profit for the period		122,750	178,504
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property	14	—	25,833
Income tax related to components of other comprehensive income	24	—	(4,650)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		37,053	(10,979)
Loss arising on cash flow hedge	3	(5,644)	—
Income tax related to this item	3	785	—
Other comprehensive income, net		32,194	10,204
Total comprehensive income for the period		154,944	188,708
Total comprehensive income/(loss) attributable to:			
Equity holders of Kernel Holding S.A.		151,183	200,305
Non-controlling interests		3,761	(11,597)

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders										
	Issued capital	Share premium reserve	Additional paid-in capital	Equity-settled employee benefits reserve	Revaluation reserve	Other reserve	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
Balance as of 30 June 2018 (as previously reported)	2,164	481,878	39,944	8,114	43,815	—	(724,054)	1,318,872	1,170,733	6,871	1,177,604
Effect of IFRS 9 implementation (Note 9)	—	—	—	—	—	—	—	(314)	(314)	—	(314)
Balance as of 1 July 2018 (re-stated)	2,164	481,878	39,944	8,114	43,815	—	(724,054)	1,318,558	1,170,419	6,871	1,177,290
Profit/(Loss) for the period	—	—	—	—	—	—	—	189,464	189,464	(10,960)	178,504
Other comprehensive income/(loss)	in-	—	—	—	21,183	—	(10,342)	—	10,841	(637)	10,204
Total comprehensive income/(loss) for the period	in-	—	—	—	21,183	—	(10,342)	189,464	200,305	(11,597)	188,708
Distribution of dividends (Note 2)	—	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Disposal of subsidiaries	—	—	—	—	(1,626)	—	—	1,626	—	—	—
Effect of changes on minority interest	—	—	—	—	—	—	—	(290)	(290)	(194)	(484)
Recognition of share-based payments (Note 2)	—	—	—	997	—	—	—	—	997	—	997
Transfer of revaluation reserve	—	—	—	—	(1,123)	—	—	1,123	—	—	—
Balance as of 30 June 2019	2,164	481,878	39,944	9,111	62,249	—	(734,396)	1,489,996	1,350,946	(4,920)	1,346,026
Profit for the period	—	—	—	—	—	—	—	117,865	117,865	4,885	122,750
Other comprehensive (loss)/income	—	—	—	—	—	(3,523)	36,841	—	33,318	(1,124)	32,194
Total comprehensive (loss)/income for the period	—	—	—	—	—	(3,523)	36,841	117,865	151,183	3,761	154,944
Increase in share capital (Note 2)	55	13,555	—	—	—	—	—	—	13,610	—	13,610
Distribution of dividends (Note 2)	—	—	—	—	—	—	—	(21,008)	(21,008)	—	(21,008)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(16)	(16)
Effect of changes on minority interest	—	—	—	—	—	—	—	(2,631)	(2,631)	2,631	—
Recognition of share-based payments (Note 2)	—	4,945	—	(4,487)	—	—	—	109	567	—	567
Balance as of 30 June 2020	2,219	500,378	39,944	4,624	62,249	(3,523)	(697,555)	1,584,331	1,492,667	1,456	1,494,123

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Consolidated Statement of Cash Flows

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2020	As of 30 June 2019
Operating activities:			
Profit before income tax		144,825	190,406
Adjustments for:			
Amortization and depreciation		105,742	76,303
Finance costs, net	29	147,220	82,319
Movement in allowance for doubtful receivables	28	2,367	7,905
Other accruals		3,824	5,036
Gain on disposal of property, plant and equipment	31	(969)	(605)
Net foreign exchange gain		(2,564)	(13,840)
Write-offs and impairment loss/(reversal)	16, 17, 31	658	(116)
Net change in fair value of biological assets and agricultural produce	13	20,979	(9,140)
Share of (income)/loss of joint ventures	32	(6,305)	966
Loss/(Gain) on sales of subsidiaries and joint ventures	7, 31	36,634	(4,833)
Net (gain)/loss arising on financial assets classified as at fair value through profit or loss		(28,280)	23,662
Other (gain)/losses		(1,957)	10,234
Operating profit before working capital changes		422,174	368,297
Changes in working capital:			
Change in trade and other accounts receivable ¹		(43,070)	(131,516)
Change in prepayments and other current assets		(26,137)	(13,706)
Change in restricted cash balance		(1,771)	538
Change in taxes recoverable and prepaid		(19,130)	441
Change in biological assets		113,403	18,779
Change in inventories		(15,070)	(24,160)
Change in trade accounts payable		(51,120)	60,055
Change in advances from customers and other current liabilities		32,797	(4,328)
Cash generated from operations		412,076	274,400
Interest paid		(139,500)	(76,233)
Interest received		4,940	3,829
Income tax paid		(8,160)	(3,346)
Net cash generated by operating activities		269,356	198,650
Investing activities:			
Purchase of property, plant and equipment		(215,651)	(166,988)
Proceeds from disposal of property, plant and equipment		5,533	9,754
Payment for lease agreements		(4,462)	—
Purchase of intangible and other non-current assets		(3,738)	(25,375)
Acquisition of subsidiaries, net of cash acquired	7	(28,564)	(56,272)
Disposal of subsidiaries	7	8,966	11,313
Disposal of joint ventures		65,313	—
Amount advanced for subsidiaries		3,131	3,873
Amount advanced to related parties		(21,984)	(10,085)
Proceeds from return of loans by related parties		2,375	—
Payment to acquire financial assets		—	(7,624)
Loans for stock options execution		(13,610)	—
Net cash used in investing activities		(202,691)	(241,404)
Financing activities:			
Proceeds from borrowings		512,991	577,983
Repayment of borrowings		(536,913)	(516,713)
Payment of dividends	2	(21,008)	(20,485)
Financing for farmers		(1,028)	(11,083)
Repayment of lease liabilities		(37,709)	—
Proceeds from share capital increase		13,555	—
Issued capital		55	—
Proceeds from bonds issued		297,660	—
Transactions costs related to corporates bonds issue		(1,895)	—
Net cash generated by financing activities		225,708	29,702
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,586)	(600)
Net increase/(decrease) in cash and cash equivalents		290,787	(13,652)
Cash and cash equivalents, at the beginning of the year	8	76,417	90,069
Cash and cash equivalents, at the end of the year	8	367,204	76,417

For non-cash financing activities please see Note 8.

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

Anastasiia Usachova
 Director, Chief Financial Officer

¹ Includes movement in other financial assets

Notes to the Consolidated Statements

for the year ended 30 June 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. As of 30 June 2020, the Group employed 11,928 people (13,397 people as of 30 June 2019).

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

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

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

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

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 2 October 2020.

¹ The company was merged to Kernel Holding S.A. in March 2020

² The company was disposed in December 2019

Notes to the Consolidated Statements continued

for the year ended 30 June 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 30 June 2020, consisted of 84,031,230 ordinary electronic shares without indication of the nominal value (30 June 2019: 81,941,230). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 June 2020		As of 30 June 2019	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	32,903,278	39.16%	32,716,775	39.93%
Free float	51,127,952	60.84%	49,224,455	60.07%
Total	84,031,230	100.00%	81,941,230	100.00%

As of 30 June 2020 and 2019, 100% of the beneficial interest in the Major Equity Holder was held by Andrii Mykhailovych Verevskiy (hereinafter the 'Beneficial Owner').

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

On 10 December 2019, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share, which were paid in full in the amount of USD 21,008 thousand on 30 April 2020.

As of and during the year ended 30 June 2020, the fair value of the share-based options granted to the management was USD 4,624 thousand and USD 567 thousand was recognized as an expense (part of payroll and payroll related expenses), with a corresponding increase in equity over the vesting period (as of and during the year ended 30 June 2019: USD 9,111 thousand and USD 997 thousand, respectively) and USD 5,054 thousand decrease in the fair value of the share-based options was recognized as a result of exercised share-based options (30 June 2019: nil).

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 216 thousand as of 30 June 2020 (30 June 2019: USD 216 thousand), may not be distributed as dividends.

3. Summary of Significant Accounting Policies

Basis of Preparation and Accounting

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment for oilseeds processing segment, assets held for sale, biological assets, agricultural produce and certain financial assets and liabilities - measured at fair value. The consolidated financial statements have been prepared on a going concern basis.

The Group's Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's Subsidiaries' accounts under local accounting regulations, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Adoption of New and Revised Standards

IFRS 16 Leases

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 starting from 1 July 2019.

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;

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

- 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 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 consolidated 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 30 June 2020 was 18.4% and as of 1 July 2019 was 18.7%. The average term of leases entered into is 9 years, these lease contracts do not include emphyteusis. As of 30 June 2020 and 1 July 2019, the Group is committed to USD 758 thousand for short-term leases and USD 2,738 thousand respectively.

For the year ended 30 June 2020 interest expense on lease liabilities in the amount of USD 53,951 thousand was recognized within the line "Finance costs, net" in the consolidated 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)
Total additional lease liabilities recognized on adoption of IFRS 16	283,801
Existing finance lease obligations at 30 June 2019	7,714
Total lease liabilities at 1 July 2019	291,515
Of which	
Current portion of lease liabilities	34,706
Lease liabilities	256,809

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 1 July 2019. There were no onerous lease contracts that would have required an

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

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 consolidated statement of financial position.

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

	As of 30 June 2020	As of 1 July 2019
Land	334,449	318,876
Property, plant and equipment ¹	12,847	14,697
Total right-of-use assets	347,296	333,573

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

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

The increase in right-of-use assets is associated with signing of new contracts in the amount of USD 29,682 thousand and a change in conditions in the amount of USD 48,258 thousand, while depreciation for the period amounts to USD 43,211 thousand.

For short-term leases and leases low-value assets, the Group recognized a leases expense on a straight-line basis as permitted by IFRS 16. This expense is presented within "Cost of sales" in the statement of profit or loss in the amount of USD 1,380 thousand for the year ended 30 June 2020.

For the year ended 30 June 2020, the amount of depreciation charge on right-of-use assets of USD 23,076 thousand was recognized as an expense within the line "Cost of sales" in the statement of profit or loss and of USD 20,136 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 consolidated statement of cash flows.

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

The effect from the adoption of IFRS 16 on the consolidated statement of financial positions is as following:

	As of 30 June 2019	As of 1 July 2019	IFRS 16 effect
Current assets , of which	1,256,432	1,249,094	(7,338)
Other current assets	24,137	16,799	(7,338)
Non-current assets , of which	1,207,168	1,495,553	288,385
Property, plant and equipment	764,686	755,519	(9,167)
Intangible assets	114,942	78,921	(36,021)
Right-of-use assets	—	333,573	333,573
Total assets	2,463,600	2,744,647	281,047
Current liabilities , of which	479,760	509,228	29,468
Obligation under finance lease	2,484	—	(2,484)
Settlements with land lessors	2,754	—	(2,754)
Current portion of lease liabilities	—	34,706	34,706
Non-current liabilities , of which	637,814	889,393	251,579
Obligations under finance lease	5,230	—	(5,230)
Lease liabilities	—	256,809	256,809
Total liabilities	1,117,574	1,398,621	281,047

The implementation of IFRS 16 on 1 July 2019 resulted in a decrease to net profit for FY 2020 of USD 21,628 thousand and a decrease in ordinary and diluted earnings per share of USD 0.26.

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.

Derivatives and hedging activities

¹ including Agricultural equipment and vehicles and buildings

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

The Group enters into a variety of derivative financial instruments to manage its exposure to commodity price and foreign exchange risk.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. 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 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 of 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.

The risk management objective is to hedge commodity price risk exposure arising from the changes in sunflower oil market price. In order to comply with its risk management strategy, the Group enters into sunflower oil commodity sales agreements with counterparties matching the highly probable forecasted sale quantity per time bucket in the end destination to hedge the identified commodity price exposure for its future sales at end destination. There is an economic relationship between the hedged items and the hedging instruments as the designated hedged item's and hedging instruments' quantities and timing of the cash flows is matching and there is high correlation in movement of prices for hedged item and hedging instrument. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

During the year ended 30 June 2020, 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. For the year ended 30 June 2020, loss resulted from change in fair value of hedging instruments under cash flow hedge accounting was USD 5,644 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 Group. The remaining part of cash flow hedge reserve is included in non-controlling interests. There were derivative financial instruments outstanding as at 30 June 2020 relating to 72,500 tons of sunflower oil designated as hedging instruments. The fair value of expired commodity price contract is recorded in Cost of sales when the hedged item is recorded in Revenue.

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. As of 30 June 2020, the hedges were mostly effective, and ineffectiveness in the amount USD 4,760 thousand was recorded through Statement of Profit or Loss within Cost of sales. As of 30 June 2020, the amount reclassified from the cash flow hedge reserve into profit or loss (in Cost of sales) as a reclassification adjustment due to hedge rebalancing was equal to USD 6,543 thousand.

If the commodity prices of the hedging transactions accounted for using cash flow hedge accounting had been 5 per cent higher (lower) as of 30 June 2020, Other comprehensive income would have been USD 1,078 thousand lower (USD 1,136 thousand higher).

The Group has adopted the other standards and interpretations effective for annual periods beginning on or after 1 July 2019.

The adoption of other new or revised standards did not have any material effect on the consolidated financial position or performance of the Group and any disclosures in the Group's consolidated financial statements.

Change in Accounting Policy

IFRIC agenda decision on the Physical Settlement of Contracts

In March 2019, the International Financial Reporting Interpretations Committee (IFRIC) issued an agenda decision on the Physical Settlement of Contracts to Buy or Sell a non-financial Item. The committee concluded that, for physical commodity contracts within the scope of IFRS 9 Financial instruments, settlement of the underlying forward contract accumulated derivative gains or losses recognized under the standard on a forward sales contract should be recognized in Revenue and similarly on a forward purchase contract in Cost of sales.

The Group previously recognized mark-to-market movements on the remeasurement of physical forward contracts that do not meet own use exemption, within Other operating income line. Following the agenda decision this IFRIC, the Group has reconsidered recognition of

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

remeasurement movements on physical forward sales contracts that do not meet own use exemption within the revenue line and for physical forward purchase contracts that do not meet the own use exemption, within cost of sales. Due to the adoption of this change, the previous year revenue and cost of sales decreased by an equal amount of USD 31,902 thousand, the change in accounting policies had no effect on earnings per share either in the current or previous periods.

Similarly, the Group decided to change presentation on recognition of remeasurement movements on the rest of commodity derivatives such as futures and options, which previously was recognized within Other operating income line, and recognized them within Cost of sales. Due to the adoption of this change, the previous year other operating income, net and cost of sales increased by an equal amount of USD 13,650 thousand, the change in accounting policies had no effect on earnings per share either in the current or previous periods.

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

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

	For the year ended 30 June 2020			For the year ended 30 June 2019		
	New Policy	Old Policy	Effect of the change in accounting policy	New Policy	Old Policy	Effect of the change in accounting policy
Revenue	4,106,780	4,083,631	23,149	3,960,231	3,992,133	(31,902)
Cost of sales	(3,623,812)	(3,679,829)	56,017	(3,635,510)	(3,653,762)	18,252
Other operating income, net	7,017	86,183	(79,166)	41,878	28,228	13,650

Standards and Interpretations Issued but not Effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations, as well as amendments to the standards had been issued but were not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
IFRS 17 Insurance contracts	1 January 2023
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
Amendments to IFRS 3 Definition of a Business	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, IFRS 7 and IAS 40: Interest rate Benchmark Reform	1 January 2020
Amendment to IFRS 16: Covid-19 Related rent Concession	1 June 2020

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

Functional and Presentation Currency

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

Foreign Currencies

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the reporting date. Income and 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income accumulated in 'Translation reserve'.

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

Currency	Closing rate as of 30 June 2020	Average rate for the year ended 30 June 2020	Closing rate as of 30 June 2019	Average rate for the year ended 30 June 2019
USD/UAH	26.6922	25.3688	26.1664	27.2935
USD/EUR	0.8913	0.9046	0.8781	0.8767
USD/PLN	3.9806	3.9428	3.7336	3.7681

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.

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

Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Holding (Subsidiaries) as of 30 June 2020.

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its Subsidiaries. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a Subsidiary begins when the Company obtains control over the Subsidiary and ceases when the Company loses control of the Subsidiary. Specifically, income and expenses of a Subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the over Subsidiary.

All inter-company transactions and balances between the Group's enterprises are eliminated for the consolidation purpose. Unrealized gains and losses resulting from inter-company transactions are also eliminated, except for unrealized losses that cannot be recovered.

Non-controlling interests as of the reporting date represent the non-controlling equity holders' portion of the fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date and the non-controlling equity holders' portion of movements in equity since the date of acquisition. The total comprehensive income of Subsidiaries is attributed to the equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and equity interests issued by the Group in exchange for control of the acquire. Acquisition costs are expensed when incurred and included in general and administrative expenses.

At the acquisition date, identifiable assets acquired, and liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or those held for disposal by the Group) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

For each business combination, the Group measures the non-controlling interests in the acquire either at fair value or at a proportionate share of the acquirer's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during a measurement period of 12 months after the acquisition date.

Changes in the Group's ownership interests in Subsidiaries that do not result in the Group losing control over the Subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect changes in their relative interests in Subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Holding.

Goodwill

Goodwill arising from a business combination is recognized as an asset at the date that control is acquired (acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquire and the fair value of the acquirer's previously held equity interest (if any) in the entity net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

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Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. The cash-generating units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the entity.

Investments in Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture and dividends received. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the profit or loss in the period in which the investment is acquired.

Non-current assets held for sale and Discontinued Operations

In compliance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable within one year, and the asset or disposal group is available for immediate sale in its present condition. Non-current assets are measured at the lower of the previous carrying amount or the fair value less costs to sell.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control, and there is sufficient evidence that the Group remains committed to its plan to sell the asset. In such circumstances, the asset is measured at its fair value less costs to sell at each reporting date. Any impairment loss arising subsequent to reclassification as held for sale is recognized in the Consolidated Statement of Profit or Loss. Non-current assets and liabilities of a disposal group classified as held for sale are presented separately from the other assets and liabilities in the balance sheet.

If criteria for classification of the asset as held for sale are no longer met at the reporting date, the Group ceases to classify the asset as held for sale.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a Subsidiary acquired exclusively with a view to resale.

The result from discontinued operations is presented in the Consolidated Statement of Profit or Loss as a separate item after the profit from continuing operations. If the criteria for classification of the disposal group held for sale are met after the reporting date, the disposal group is not presented as held for sale in those consolidated financial statements when issued. However, when those criteria are met after the reporting date but before the authorization of the consolidated financial statements for issue, the Group discloses the relevant information in the notes to the consolidated financial statements.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost consists of the purchase cost and, where applicable, those expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Biological Assets and Agricultural Produce

The Group classifies crops in fields and cattle as biological assets. The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognized in the Consolidated Statement of Profit or Loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell estimated at the point of harvest. A gain or loss arising from the initial recognition of agricultural produce at fair value less costs to sell is included in the Consolidated Statement of Profit or Loss.

Biological assets for which quoted market prices are not available and for which alternative estimates of fair value are considered to be clearly unreliable are measured using the present value of expected net cash flows from the sale of an asset discounted at a current market-determined rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

Cost of agricultural preparation of fields before seeding is recorded as work-in-progress in inventories. After seeding, the cost of field preparation is recognized as biological assets held at fair value less costs to sell.

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets. All of the Group's biological assets except non-current cattle were classified as current, as their average useful life is less than one year.

Property, Plant, and Equipment

Buildings, constructions, production machinery and equipment (Oilseed Processing segment) are accounted for at revalued amounts, being the fair value, which is determined using external professional expert evaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to other comprehensive income and accumulated in revaluation reserve in equity. However, such an increase is recognized in the Consolidated Statement of Profit or Loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in the Consolidated Statement of Profit or Loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the Consolidated Statement of Profit or Loss. However, such a decrease is debited directly to the Other Comprehensive Income or Loss to the extent of any credit balance existing in the revaluation surplus with respect to that asset.

Depreciation on revalued assets is charged to the Consolidated Statement of Profit or Loss. On the subsequent sale or retirement of revalued assets, the revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized. Property, plant and equipment are depreciated over the estimated useful economic lives of assets under the straight-line method.

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Useful lives of property, plant, and equipment are as follows:

Buildings and constructions	20 - 50 years
Production machinery and equipment	10 - 20 years
Agricultural equipment and vehicles	3 - 10 years
Other fixed assets	5 - 20 years
Construction in progress (CIP) and uninstalled equipment	not depreciated

Except for land, building and constructions and production machinery and equipment of Oilseed Processing segment, all other property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses. Land is carried at cost less accumulated impairment losses and is not depreciated.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of assets or increase their revenue-generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are presented the Consolidated Statement of Profit or Loss as incurred.

Construction in progress consists of costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overhead incurred during construction. Depreciation of these assets commences when the assets are put into operation.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Statement of Profit or Loss.

Leases

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).

For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the 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 right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, any lease incentives received and any initial direct costs. Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease.

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

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated depreciation and accumulated impairment losses. Amortization is primarily recognized within "Cost of Sales" on a straight-line basis over their estimated useful lives. The amortization method and estimated useful life are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately shall not be amortized and are carried at cost less accumulated

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impairment loss.

Trademarks

The 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks have indefinite useful lives and are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

Land Lease Rights

Land lease rights acquired in a business combination are recognized separately from goodwill at their fair value at the acquisition date (which is subsequently regarded as their cost).

Amortization of land lease rights is calculated on a straight-line basis during the term of a lease contract. For land lease rights acquired in business combination, the amortization period varies from 1 to 22 years.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the Consolidated Statement of Profit or Loss when the asset is derecognized.

Impairment of tangible and intangible assets, except Goodwill

At each reporting date, the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial Instruments

Financial asset and financial liability are recognized in the Group's Consolidated Statement of Financial Position when, and only when, the Group entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents include cash on hand, cash with banks, and deposits with original maturities of three months or less.

Financial assets are classified as either to the following categories financial assets at amortized cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL). The classification depends on the nature and purpose of the financial assets or financial liabilities and is determined at the time of initial recognition.

The Group does not have financial instruments carried at FVTOCI. The Group measures derivative instruments and investments made in equity instruments at FVTPL, all other financial instruments are measured at amortized cost.

Financial assets and financial liabilities are initially measured at fair value. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Amortized cost and effective interest method

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses

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are recognized in profit or loss when the asset is derecognized, modified or impaired.

The effective interest method calculates the amortized cost of a debt instrument and allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss. The effect of initial recognition of financial assets and liabilities obtained/incurred at terms below the market is recognized net of the tax effect as an income or expense, except for financial assets and liabilities with shareholders or entities under common control, whereby the effect is recognized through equity.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and all the risks and rewards to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the Consolidated Statement of Profit or Loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in the Consolidated Statement of Profit or Loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Impairment of financial assets

The Group recognizes a loss allowance for ECL (expected credit losses) on a financial asset, other than those at FVTPL, at the end of each reporting period. The amount of ECL and other current assets is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

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- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

- (1) the carrying amount of the liability before the modification; and
- (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Commodity derivatives

The Group enters into variety of derivative financial instruments including futures, options and physical contracts to buy or sell commodities, which do not meet the own use exemption. These derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in the profit or loss within Cost of sales unless the derivative is designated and effective hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Fair values are determined using quoted market prices, broker quotations or using models and other valuation techniques.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

Other financial assets include margin accounts that are represented by variation margin and initial margin held in respect of open exchange-traded futures and forwards contracts. Margin accounts are measured at amortized cost.

For the financial assets and liabilities subject to enforceable master netting or similar arrangements above, each agreement between the Group

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and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis (Note 36). In the absence of such an election, financial assets and liabilities may be settled on a gross basis, however, each party to the master netting or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make payment when due, failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party or bankruptcy.

Taxes Recoverable and Prepaid

Taxes recoverable and prepaid are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

Employee Benefits

Certain entities within the Group participate in a mandatory government defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period.

The liability recognized in the Consolidated Statement of Financial Position with respect to the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date, less adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid.

Equity-settled Transactions

Equity-settled share-based payments with employees are measured by reference to the fair value at the grant date and are recognized as an expense over the vesting period, which ends on the date the relevant employees become fully entitled to the award.

Fair value is calculated using the Black-Scholes model. No expense is recognized for awards that do not ultimately vest.

At each reporting date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognized in the Consolidated Statement of Profit or Loss, with a corresponding entry in equity.

Provisions

A provision is recognized in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but is disclosed when an inflow of economic benefits is probable.

Revenue recognition

Revenue is derived principally from the sale of goods and finished products, farming and rendering services. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The point of revenue recognition for sale commodity goods is dependent upon contract sales terms (Incoterms). When goods are sold on a Cost and freight (CFR) or Cost, insurance, and freight (CIF) basis, the Group is responsible for providing services carriage and freight to the customer. The Group revenue recognizes as a separate performance obligation and allocate part of the transaction price to a carriage and freight services incorporated in some contracts that the Group undertakes to perform. The Group allocates the transaction price based on the relative stand-alone selling prices of the commodities and supporting services. The revenue from these carriage and freight services is recognized over time.

A receivable is recognized by the Group when the control over goods is transferred to the wholesaler as this represents the point of time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. Timing of billing is generally close to the timing of performance obligation satisfaction, respectively, amount of contract assets and contract liabilities is not material. When the Group obtains a contract from a customer, the Group enters into a contract with one of those service providers, directing the service provider to render freight and other services for the customer. The Group is obliged to pay the service provider even if the customer fails to pay. Also, the Group is responsible for inventory risk during the freight service provision

Rendering of Services

Revenue is recognized over the period of time as the service is rendered. The main type of services provided by the Group are transshipment services by terminals and crop cleaning, drying and storage services by the Group's silos. Revenue from transshipment services is recognized using input methods based on a time-and-materials basis as the services are provided. Revenue from grain cleaning, drying and storage services is recognized on an accrual basis, based on the fees for the specific service, volumes of crops under service and days of storage.

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VAT benefits

Till 31 December 2016, in accordance with the Tax Code of Ukraine the Group's enterprises that qualify as agricultural producers were entitled to retain a portion of net VAT payable which were recognized as VAT benefits. Starting from 1 January 2017 the special VAT treatment regime has been abolished but VAT benefits on prepayments received up to this date are recognized upon subsequent sales.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowing spending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Consolidated Statement of Profit or Loss in the period in which they are incurred. The interest expense component of finance lease payments is recognized in the Consolidated Statement of Profit or Loss using the effective interest rate method.

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently enacted in the legal jurisdictions where the operating entities are located. Income tax expense represents the sum of the tax currently payable and deferred tax expense.

Current and deferred tax for the year

Current and deferred tax are recognized in the Consolidated Statement of Profit or Loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The current income tax charge is the amount expected to be paid to, or recovered from, taxation authorities with respect to taxable profit or losses for the current or previous periods. It is calculated using tax rates that have been enacted or substantially enacted by the reporting date in the countries where the Holding and its Subsidiaries operate and generate taxable income. Taxable profit differs from 'profit before tax' because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible taxes other than income tax are recorded within operating expenses. Some of the Group's companies that are involved in agricultural production are exempt from income taxes and pay the Unified Agricultural Tax instead.

Deferred tax

Deferred income tax is recognized on temporary differences arising between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the temporary differences will reverse, or the tax loss carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities for taxable temporary differences associated with investments in Subsidiaries and joint ventures are recognized, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Reclassifications

Notes to the Consolidated Statements continued

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Certain reclassifications have been made to the consolidated financial statements as of 30 June 2019 and for the year then ended to conform to the current year's presentation.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The application of IFRS requires the use of reasonable judgments, assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The estimates are based on the information available as of the reporting date. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue Recognition

In the normal course of business, the Group engages in sale and purchase transactions for the purpose of exchanging grain in various locations to fulfill the Group's production and trading requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of a similar nature and value. The Group's management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying grain is of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying grain indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transactions involving goods of a similar nature amounted to USD 80,870 thousand and USD 105,783 thousand for the years ended 30 June 2020 and 2019, respectively.

Revaluation of Property, Plant and Equipment

As described in Note 3, the Group applies the revaluation model to the measurement of buildings and constructions and production machinery and equipment (Oilseed Processing segment). At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from fair value. The Group carries out such a review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and the availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period.

Based on the results of this review, the Group concluded that the carrying amount of buildings, constructions, production machinery and equipment (Oilseed Processing segment) does not materially differ from the fair value as of 30 June 2020.

Useful Lives of Property, Plant and Equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, which are based on management's business plans and operational estimates.

The factors that could affect the estimation of the life of a non-current asset and its residual value include the following:

- Changes in technology;
- Changes in maintenance technology;
- Changes in regulations and legislation; and
- Unforeseen operational issues.

Any of the above could affect the prospective depreciation of property, plant and equipment and their carrying and residual values. The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in the estimated useful life or residual value is recorded on a prospective basis from the date of the change.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimating uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment Testing of Property, Plant and Equipment

Management reviews the carrying amounts of assets to determine whether there is any indication that those assets are impaired.

In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

The assessment of whether there are indicators of a potential impairment are based on various assumptions including market conditions, asset utilization and the ability to utilize the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater than the recoverable amount.

The value in use is based on estimated future cash flows that are discounted to their present value. Estimated future cash flows require management to make a number of assumptions including customer demand and industry capacity, future growth rates and the appropriate discount rate. Any change in these estimates may result in impairment in future periods.

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As of 30 June 2020, no indicators of property, plant and equipment impairment have been identified (Note 14).

Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill is impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating units to which goodwill has been allocated. The calculation of value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate their present value.

As of 30 June 2020, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 135,930 thousand (30 June 2019: USD 120,836 thousand). As of 30 June 2020, USD 658 thousand impairment loss for intangible assets with indefinite useful lives was recognized (Notes 16, 17) (30 June 2019: USD 708 thousand). Details of the management assumptions used to assess the recoverable amount of cash-generating units for which goodwill and intangible assets with indefinite useful lives have been allocated to are provided in Note 16 and Note 17.

Provision for ECL of trade and other receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating). The amount of ECL is sensitive to changes in circumstances and of forecasts economic conditions. The Group uses reasonable and supportable forward-looking information for the forecast of economic conditions when measuring ECL. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Determination of incremental borrowing rate

The Group uses incremental borrowing rate as discounting factor for the purpose of calculation of lease liability. Incremental borrowing rate is determined as reference interest rates which were derived from the yields of corporate bonds in the currency similar to the lease contracts, for a period up to 10 years. The weighted-average discount rate applied on 1 July 2019 was 18,7%.

Fair Value of Biological Assets and Agricultural Produce

Biological assets are recorded at fair value less costs to sell. The Group estimates the fair values of biological assets and agricultural produce based on the following key assumptions:

- Expected crop output (for crops in fields);
- Expected future inflows from livestock;
- Average number of heads of milk cows and its weight;
- Productive life of one milk cow;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and
- Discount rate.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results (Note 13).

Fair value measurements

Derivative instruments are carried at fair value for which the Group evaluates the quality and reliability of the assumptions and data used to measure fair value in the three hierarchy levels, Level 1, 2 and 3, 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); by using models with externally verifiable inputs (Level 2); or by using alternative procedures such as comparison to comparable instruments and/or using models with unobservable market inputs requiring Group to make market-based assumptions (Level 3). Level 3 inputs therefore include the highest level of estimation uncertainty.

5. Operating Segments

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

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

The Group is presenting its segment results within three business segments: Oilseed Processing, Infrastructure and Trading, and Farming.

In Oilseed Processing segment, the Group combines oilseed origination, edible oil production and sales of bottled sunflower oil. Sunflower oil in bulk is mostly sold further to the Infrastructure and Trading segment for the global marketing.

In Infrastructure and Trading segment, the Group combines results of grain trading, silo services and export terminals operations. These parts of the business form an integrated supply chain which is managed jointly. Under current framework, the management considers export terminals and grain storage facilities as production assets which serve grain merchandizing business and consequently uses a combined throughput margin to evaluate performance of Infrastructure and Trading business. In FY2020, 100% of the Group's export terminals capacity and majority of grain storage capacity were used for the Group's own export volumes. The results of the Infrastructure and Trading segment incorporate savings achieved by acquiring and employing the Company's own railcar park. Also, the Infrastructure and Trading segment include the results of the Avere Commodities S.A. and its subsidiaries (hereinafter, Avere).

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In Farming segment, the Group reports results of its crop production business, which includes growing of corn, wheat, soybean, sunflower seed and rapeseed on the leasehold land, as well as some minor crops and small cattle farming operations.

Presentation of the operating segments' activities is as follows:

Operating segments	Activities
Oilseed Processing	Sunflower seed origination and sunflower oil production. Sales of bottled oil sunflower oil.
Infrastructure and Trading	Sourcing and merchandising of wholesale sunflower oil, grain, provision of silo services, grain handling and transshipment services.
Farming	Agricultural farming. Production of corn, wheat, soybean, sunflower seed and rapeseed.

Income and expenses unallocated to any segment, which are related to the administration of the Group, were included in the 'Other' line.

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

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

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

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

Seasonality of operations

The Oilseed 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.

6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2020:

	Oilseed Processing	Infrastructure and Trading	Farming	Other ¹	Reconciliation	Continuing operations
Revenue (external)	712,194	3,364,970	29,616	—	—	4,106,780
Intersegment sales	834,813	61,319	574,413	—	(1,470,545)	—
Total revenue	1,547,007	3,426,289	604,029	—	(1,470,545)	4,106,780
Net change in fair value of biological assets and agricultural produce	—	—	(20,979)	—	—	(20,979)
Other operating income, net	5,820	(10,250)	8,087	3,360	—	7,017
Profit/(Loss) from operating activities	134,102	193,014	71,168	(61,008)	—	337,276
Finance costs, net						(147,220)
Foreign exchange loss, net						(1,012)
Other expenses, net						(50,524)
Share of gain of joint ventures						6,305
Income tax expenses						(22,075)
Profit for the period from continuing operations						122,750
Total assets	1,230,621	982,516	854,729	96,837	—	3,164,703
Capital expenditures	153,948	81,500	124,848	3,734	—	364,030
Amortization and depreciation	17,662	22,787	63,079	2,214	—	105,742
Liabilities	84,854	143,762	354,919	1,087,045	—	1,670,580

¹ Income, expenses, assets and liabilities unallocated to any segment, included in the 'Other' line

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Key data by operating segment for the year ended 30 June 2019:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	878,835	3,051,413	29,983	—	—	3,960,231
Intersegment sales	614,437	56,601	571,602	—	(1,242,640)	—
Total revenue	1,493,272	3,108,014	601,585	—	(1,242,640)	3,960,231
Net change in fair value of biological assets and agricultural produce	—	—	9,140	—	—	9,140
Other operating income, net	1,729	26,558	13,591	—	—	41,878
Profit/(Loss) from operating activities	92,598	92,601	136,813	(52,805)	—	269,207
Finance costs, net						(82,319)
Foreign exchange gain, net						12,860
Other expenses, net						(8,376)
Share of loss of joint ventures						(966)
Income tax expenses						(11,902)
Profit for the period from continuing operations						178,504
Total assets	914,414	748,022	744,796	56,368	—	2,463,600
Capital expenditures	53,431	115,368	91,285	3,600	—	263,684
Amortization and depreciation	16,419	13,134	45,069	1,681	—	76,303
Liabilities	74,532	150,899	69,470	822,673	—	1,117,574

Allocated revenue of promised goods and services by operating segment for the year ended 30 June under requirements IFRS 15 was as follows:

	For the year ended 30 June 2020				For the year ended 30 June 2019			
	Oilseed Processing	Infrastructure and Trading	Farming	Continuing operations	Oilseed Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	667,276	3,229,420	29,616	3,926,312	865,222	2,914,517	29,983	3,809,722
Freight and other services	44,918	135,550	—	180,468	13,613	136,896	—	150,509
Total external revenue from contracts with customers	712,194	3,364,970	29,616	4,106,780	878,835	3,051,413	29,983	3,960,231

During the year ended 30 June 2020, revenues of approximately USD 335,007 thousand (2019: USD 314,471 thousand) are derived from a single external customer. These revenues are attributed to Oilseed processing and Infrastructure and Trading segments. Also, during that period, export sales amounted to 96.9% of total external sales (2019: 97.0%).

For the year ended 30 June 2020, revenue from the Group's top five customers accounted for approximately 30.2% of total revenue (for the year ended 30 June 2019, revenue from the top five customers accounted for 36.0% of total revenue).

Among other, intersegment sales between Oilseed 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 year ended 30 June 2020		As of and for the year ended 30 June 2019	
	Revenue from external customers	Non-current assets	Revenue from external customers	Non-current assets
Ukraine	2,234,045	1,562,212	2,083,289	1,144,221
Europe	1,656,333	3,439	1,094,994	2,451
North America	216,402	501	781,948	276
Other locations	—	380	—	51,773
Total	4,106,780	1,566,532	3,960,231	1,198,721

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.

As of 30 June 2019, non-current assets that relate to other locations included 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.

7. Acquisition and Disposal of Subsidiaries

On 4 December 2019, Prydniprovskiy OEP LLC, 100% subsidiary of Kernel Holding S.A., acquired assets of an active oilseed crushing plant, that was qualified as a business combination as defined in IFRS 3. Purchase consideration equaled to USD 44,600 thousand and were paid in cash

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(out of which USD 20,914 thousand paid within the reporting period). As of the date of acquisition, the net assets of the acquired oilseed crushing plant, which mostly consisted of property, plant and equipment, amounted to USD 28,379 thousand. The goodwill in the amount of USD 16,221 thousand comprises the value of expected synergies arising from the high profitability of the acquired business and launch additional products. Goodwill is allocated entirely to the Oilseeds processing segment. It will not be deductible for tax purposes.

The Group does not disclose the amount of revenue and net profit contributed by Prydniprovskiy OEP LLC since the acquisition date to the Group revenue and net profit as it is impracticable to determine the mentioned amounts due to the full integration of the acquired and existing businesses under one entity. The Group does not disclose the revenue and net profit of the acquired oilseed crushing plant as if it has been acquired at the beginning of the reporting period as it is impracticable due to the fact that no IFRS financial information is available for the acquired plant as from the beginning of the reporting period and up to the date of acquisition.

During the year, ended 30 June 2020, according to management's plan, the Group disposed one of its export terminals, previously classified as assets held for sale, located in Mykolaiv region. The net assets as of the date of disposal amounted to USD 1,073 thousand. The cash consideration received was USD 3,918 thousand (out of which USD 1,879 thousand was received during this reporting period).

During the year, ended 30 June 2020, as a result of business optimization and optimization of its logistic assets, the Group disposed of five silos, located in Kirovohrad, Poltava and Mykolaiv regions, one holding company, located in Poltava region, one farming entity with about 3,000 ha of leasehold farmland located in Odesa region 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 4,944 thousand and the cash consideration receivable was USD 11,839 thousand (out of which USD 7,087 thousand was received during this reporting period, USD 2,627 thousand received during the previous period and USD 2,125 thousand will be paid during the next period).

During the year ended 30 June 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 was reclassified to profit or loss. As a 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 year, ended 30 June 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 managed about 2,949 grain railcars.

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

	Fair value
Assets	
Current assets:	
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
Total current assets	6,911
Non-current assets:	
Property, plant and equipment, net	56,925
Total non-current assets	56,925
Total assets	63,836
Liabilities	
Current liabilities:	
Advances from customers and other current liabilities	1,096
Total current liabilities	1,096
Non-current liabilities:	
Deferred tax liabilities	6,328
Total non-current liabilities	6,328
Total liabilities	7,424
Fair value of net assets of acquired Subsidiaries	56,412
Non-controlling interest	-
Fair value of acquired net assets	56,412
Goodwill	3,867
Fair value of purchase consideration	60,279
Less: acquired cash	(1,137)
Net cash outflow on acquisition of subsidiaries	(48,016)

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Revenue and net profit of the acquired entity from the date of acquisition to 30 June 2019 were as follows:

	Total
Revenue	6,002
Net profit	1,832

The Group did not disclose the revenue and net profit of the acquired entity as if it had 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 30 June 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 year ended 30 June 2019, as a result of the optimization process, the Group disposed of farming entities managing about 12,350 hectares of leasehold suboptimal farmlands located in Zhytomyr, Volyn and Mykolaiv regions and grain elevators, located in Ternopil, Kyiv, Cherkiv and Kharkiv regions.

The net assets of the disposed entities as of the date of disposal were equal to USD 7,671 thousand and the cash consideration receivable was USD 11,857 thousand (out of which USD 6,300 thousand was received during this reporting period).

Fair value of cash consideration receivable which should be repaid 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 4,820 thousand (USD 4,722 thousand as of the date of disposal) and is presented within the lines 'Prepayments to suppliers and other current assets, net' and 'Other non-current assets'.

During the year ended 30 June 2019, according to management's plan, the Group disposed of one of its oilseeds crushing plants, previously classified as assets held for sale, located in Mykolaiv region.

The net assets as of the date of disposal amounted to USD 14,432 thousand (including goodwill in the amount of USD 8,096 thousand). The cash consideration received was USD 15,079 thousand (out of which USD 5,013 thousand was received during this reporting period).

8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2020	As of 30 June 2019
Cash in banks in USD	340,737	64,109
Cash in banks in UAH	18,140	4,448
Cash in banks in other currencies	10,235	8,237
Cash on hand	5	7
Total	369,117	76,801
Less restricted and blocked cash on security bank accounts	(1,909)	(138)
Less bank overdrafts (Note 20)	(4)	(246)
Cash for the purposes of cash flow statement	367,204	76,417

In accordance with the international rating agency of Fitch, credit ratings of the banks with which the Group had the accounts opened as of 30 June were as follows:

	As of 30 June 2020	As of 30 June 2019
International bank with F1 rating	181,667	24,740
International bank with F1+ rating	53,490	2,395
Ukrainian bank with B rating	49,250	—
International bank with F3 rating	45,679	562
Ukrainian subsidiaries of international banks with B rating	22,005	—
Ukrainian subsidiaries of international banks without international ratings	7,451	27,504
Foreign banks without ratings	4,638	478
Ukrainian banks without ratings	4,554	—
International bank with F2 rating	379	21,122
International bank with B rating	4	—
Total	369,117	76,801

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The reconciliation in the table below presents changes in the Group's liabilities arising from financing activities by incorporating cash flows and non-cash changes over the reporting period.

Reconciliation of liabilities arising from financing activities:

	Bank borrowings, (Note 20, 21)	Finance lease obligations	Lease liabilities (Note 22)	Bonds issued (Note 23)	Total
As of 30 June 2018	188,280	10,946	—	494,796	694,022
Cash flow from proceeds/ (repayments)	64,947	(3,677)	—	—	61,270
Non-cash movements					
Amortization of one-off and transaction costs	2,398	—	—	1,255	3,653
Foreign exchange movements	(4,015)	3	—	—	(4,012)
Other changes ¹	(4,537)	442	—	—	(4,095)
As of 30 June 2019	247,073	7,714	—	496,051	750,838
Impact of adoption of IFRS 16	—	(7,714)	291,515	—	283,801
As of 1 July 2019	247,073	—	291,515	496,051	1,034,639
Cash flow from proceeds/ (repayments)	(18,555)	—	(37,709)	297,660	241,396
Transactions costs related to corporates bonds issue paid	(5,367)	—	—	(1,895)	(7,262)
Non-cash movements					
Additions and change of terms of lease liabilities	—	—	84,016	—	84,016
Disposals of lease liabilities	—	—	(12,859)	—	(12,859)
Non-cash settlement of lease liabilities	—	—	(6,402)	—	(6,402)
Amortization of one-off and transaction cost	3,712	—	—	1,961	5,673
Foreign exchange movements	2,296	—	483	—	2,779
Other changes ¹	(6,719)	—	(9,044)	—	(15,763)
As of 30 June 2020	222,440	—	310,000	793,777	1,326,217

9. Trade Accounts Receivable, net

The balances of trade accounts receivable, net were as follows:

	As of 30 June 2020	As of 30 June 2019
Trade accounts receivable	222,767	189,669
Allowance for expected credit losses	(7,488)	(6,473)
Total	215,279	183,196

As of 30 June 2020, accounts receivable from one European customer accounted for approximately 8.3% (30 June 2019: for approximately 14.3% respectively).

For the period ended 30 June 2020, the average credit period on sales of goods was 20 days (for the period ended 30 June 2019: 17 days). No interest is charged on the outstanding balances of trade accounts receivable.

The Group applies IFRS 9 simplified approach for measuring ECL which uses a lifetime expected loss allowance for all trade accounts receivables. The expected credit loss on trade receivables is estimated using a provision matrix by reference to past default experience of the debtor and credit rating, adjusted for an assessment of current and forward-looking information based on general economic conditions affecting the ability of the customers to settle the receivables. Trade receivables are collectively assessed, except for certain receivables that have differing credit risk characteristics.

The Group has recognized a loss allowance of 100 per cent against all receivables over 90 days past due, which were not secured, because historical experience has indicated that these receivables are generally not recoverable.

On this basis, the loss allowance as at 30 June was determined for trade accounts receivables as follows:

	As at 30 June 2020				As at 30 June 2019			
	Current	Less than 90 days past due	More than 90 days past due	Total	Current	Less than 90 days past due	More than 90 days past due	Total
		2.9%	98.6%			27.8%	84.6%	
Expected loss rate ²	0.3%	2.9%	98.6%		0.2%	27.8%	84.6%	
Gross carrying amount – trade accounts receivables	192,716	23,678	6,373	222,767	176,559	8,874	4,236	189,669
Loss allowance	(529)	(677)	(6,282)	(7,488)	(423)	(2,465)	(3,585)	(6,473)

¹ Other changes include translation difference and other non-cash changes.

² Differences in expected loss rate are possible due to rounding

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The loss allowances for trade accounts receivables as of 30 June reconcile to the opening loss allowances as follows:

	Trade accounts receivables		
	Collectively assessed	Individually assessed	Total
Opening loss allowance as of 30 June 2018 under IAS 39	390	726	1,116
Adjustment upon application of IFRS 9	314	—	314
Opening loss allowance as of 1 July 2018 under IFRS 9	704	726	1,430
Increase in loss allowance recognized in profit or loss during the year	4,899	1,040	5,939
Trade receivables written off during the year as uncollectible	(896)	—	(896)
Closing loss allowance as of 30 June 2019	4,707	1,766	6,473
Increase in loss allowance recognized in profit or loss during the year	—	1,482	1,482
Trade receivables written off during the year as uncollectible	(455)	—	(455)
Unused amount reversed	(12)	—	(12)
Closing loss allowance as of 30 June 2020	4,240	3,248	7,488

During the year ended 30 June 2020, a customer with gross carrying amount of USD 2,024 thousand was assessed as doubtful and individual allowance for the whole amount of trade receivables due from the latter was recognized.

Impairment losses on trade accounts receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

There has not been any significant change in the gross amounts of financial assets that has affected the estimation of the loss allowance.

10. Prepayments to Suppliers and Other Current Assets, net

The balances of prepayments to suppliers and other current assets, net were as follows:

	As of 30 June 2020	As of 30 June 2019
Prepayments to suppliers	111,005	111,461
Other current assets	40,487	24,137
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(2,576)	(5,776)
Total	148,916	129,822

11. Taxes Recoverable and Prepaid, net

The balances of taxes recoverable and prepaid, net were as follows:

	As of 30 June 2020	As of 30 June 2019
VAT ('value added tax') recoverable and prepaid	132,492	117,880
Other taxes recoverable and prepaid	256	695
Total	132,748	118,575

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances will be recovered in full within 12 months after the reporting date through cash collection or set-off with respective VAT liabilities. For the year ended 30 June 2020, the amount of VAT refunded by the government in cash was USD 392,243 thousand (30 June 2019: USD 331,719 thousand).

12. Inventory

The balances of inventories were as follows:

	As of 30 June 2020	As of 30 June 2019
Raw materials	148,517	148,205
Finished products	94,744	105,569
Goods for resale	35,575	47,355
Fuel	6,383	7,075
Agricultural products	4,268	38,560
Work in progress	2,547	1,478
Packaging materials	1,429	1,620
Other inventories	9,939	7,748
Total	303,402	357,610

As of 30 June 2020, raw materials mostly consisted of sunflower seed stock in the amount of USD 121,402 thousand (30 June 2019: USD 103,661 thousand).

As of 30 June 2020, finished products mostly consisted of sunflower oil in bulk in the amount of USD 78,893 thousand (30 June 2019: USD 75,518 thousand).

The cost of inventories recognized as an expense includes USD 750 thousand (2019: USD 1,709 thousand) in relation to the write-downs of inventory to net realizable value.

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As of 30 June 2020 inventories with a carrying amount of USD 118,657 thousand (30 June 2019: USD 166,245 thousand) have been pledged as security for short-term borrowings (Note 20).

13. Biological Assets

The balances of biological assets were as follows:

	As of 30 June 2020	As of 30 June 2019
Non-current assets		
Non-current cattle (Note 18)	6,786	5,271
Total	6,786	5,271
Current assets		
Crops in fields	250,672	307,115
Current cattle	1,512	1,915
Total	252,184	309,030

As of 30 June 2020, non-current cattle were represented mainly by 5,058 heads of milk cows of USD 6,781 thousand (30 June 2019: 5,058 heads of USD 5,271 thousand) and the remaining amount composed of horses.

As of 30 June 2020, current cattle were represented mainly by 4,316 heads of calves in the amount of USD 1,495 thousand (30 June 2019: 4,707 heads of calves in the amount of USD 1,915 thousand) and the remaining amount composed of bees. The change in the balances caused by a change in the mix of cattle and variation in prices and exchange rates between reporting dates.

For the year ended 30 June 2020, the net loss arising from changes in the fair value of biological assets in the amount of USD 20,979 thousand (2019: gain of USD 9,140 thousand) includes a USD 97 thousand gain on changes in current and non-current cattle's fair value (2018: loss of USD 3,700 thousand).

The balances of crops in fields were as follows:

	As of 30 June 2020		As of 30 June 2019	
	Hectares	Value	Hectares	Value
Corn	256,317	114,872	231,115	130,075
Sunflower seed	147,989	94,457	136,537	87,855
Wheat	73,113	30,544	97,072	66,304
Rapeseed	9,011	8,520	9,447	9,077
Soybean	3,607	1,916	24,283	10,031
Other	1,736	363	5,262	3,773
Total	491,773	250,672	503,716	307,115

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2020 and 2019:

	Capitalized expendi- tures	Effect of biological transfor- mation	Fair value of biological assets
As of 30 June 2018	233,277	53,581	286,858
Expenditures capitalized in biological assets (harvest 2018)	126,979	—	126,979
Decrease due to harvest (harvest 2018)	(360,256)	(53,581)	(413,837)
Decrease resulting from disposal of Subsidiaries	(970)	(265)	(1,235)
Expenditures capitalized in biological assets (harvest 2019)	246,203	—	246,203
Decrease due to harvest (harvest 2019)	(333)	(71)	(404)
Gain arising from changes in fair value biological assets (sowing under harvest 2019)	—	53,385	53,385
Exchange difference	8,023	1,143	9,166
As of 30 June 2019	252,923	54,192	307,115
Expenditures capitalized in biological assets (harvest 2019)	137,361	—	137,361
Decrease due to harvest (harvest 2019)	(390,284)	(54,192)	(444,476)
Decrease resulting from disposal of Subsidiaries	(1,232)	140	(1,092)
Expenditures capitalized in biological assets (harvest 2020)	222,334	—	222,334
Decrease due to harvest (harvest 2020)	—	—	—
Gain arising from changes in fair value biological assets (sowing under harvest 2020)	—	42,512	42,512
Exchange difference	(10,967)	(2,115)	(13,082)
As of 30 June 2020	210,135	40,537	250,672

The fair value of agricultural produce was estimated based on market prices as at the date of harvest and is within level 2 of fair value hierarchy. Crops in fields and non-current cattle of the Group are measured using discounted cash flow technique and are within the level 3 of the fair value hierarchy. Current cattle is measured based on market prices of livestock of similar age, breed and genetic merit, which is within level 2 of the fair value hierarchy.

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There were no changes in valuation technique since previous year. There were no transfers between any levels during the year.

Description	Fair value as of 30 June 2020	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in field	250,672	Discounted cash flows	Crops yield	2.33 – 7.67 (5.70) tons per hectare	The higher the crop yield, the higher the fair value
			Discount rate	12.95% (in UAH, short-term)	The higher the discount rate, the lower the fair value
Milk cows	6,781	Discounted cash flows	Milk yield – liter per cow	17.82 – 22.61 (20.22) liters per cow per day	The higher the milk yield, the higher the fair value
			Weight of 1 calf	23 – 32 (31) kg	The higher the weight, the higher the fair value
			Average yield of calves from 100 cows per year	55 – 77 (66) calves	The higher the yield, the higher the fair value
			Discount rate, %	12.20% (in UAH, long-term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5 per cent higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 22,247 thousand and USD 22,334 thousand, respectively.

Description	Fair value as of 30 June 2019	Valuation techniques	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in field	307,115	Discounted cash flows	Crops yield	2.41 - 7.20 (5.39) tons per hectare	The higher the crop yield, the higher the fair value
			Discount rate	17.88% (in UAH, short term)	The higher the discount rate, the lower the fair value
Milk cows	5,271	Discounted cash flows	Milk yield – liter per cow	17.48 – 22.03 (19.72) liters per cow per day	The higher the milk yield, the higher the fair value
			Weight of 1 calf	29 - 33 (31) kg	The higher the weight, the higher the fair value
			Average yield of calves from 100 cows per year	61 - 75 (69) calves	The higher the yield, the higher the fair value
			Discount rate, %	15.82% (in UAH, long term)	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5 per cent higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 23,048 thousand and USD 23,155 thousand, respectively.

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14. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2020:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Total
Net Book Value as at 30 June 2019	352,672	220,924	167,383	23,707	764,686
Land	852	377	74	1,110	2,413
Buildings and Constructions	207,882	69,295	17,604	19,391	314,172
Production machinery and equipment	87,437	32,844	34,650	20	154,951
Agricultural equipment and vehicles	4,584	55,117	74,816	801	135,318
Other fixed assets	4,049	2,232	8,826	2,375	17,482
CIP and uninstalled equipment	47,868	61,059	31,413	10	140,350
Additions	153,525	78,076	49,934	2,482	284,017
CIP and uninstalled equipment	153,525	78,076	49,934	2,482	284,017
Reclassification	(301)	54,012	(53,845)	134	—
Land	—	—	(4)	—	(4)
Buildings and Constructions	370	137	(479)	(213)	(185)
Production machinery and equipment	(226)	270	(24,226)	1,652	(22,530)
Agricultural equipment and vehicles	52	26,662	(1,866)	(36)	24,812
Other fixed assets	(497)	644	(971)	(1,269)	(2,093)
CIP and uninstalled equipment	—	26,299	(26,299)	—	—
Additions from acquisition of subsidiaries	29,988	—	—	—	29,988
Buildings and Constructions	18,958	—	—	—	18,958
Production machinery and equipment	11,009	—	—	—	11,009
Agricultural equipment and vehicles	21	—	—	—	21
Transfers	—	—	—	—	—
Land	115	—	14	—	129
Buildings and Constructions	7,147	39,606	4,642	136	51,531
Production machinery and equipment	9,322	16,104	6,452	395	32,273
Agricultural equipment and vehicles	753	12,143	16,306	586	29,788
Other fixed assets	860	2,143	2,939	271	6,213
CIP and uninstalled equipment	(18,197)	(69,996)	(30,353)	(1,388)	(119,934)
Transfers to Right-of-use assets	—	—	(9,167)	—	(9,167)
Agricultural equipment and vehicles	—	—	(9,167)	—	(9,167)
Disposals (at NBV)	(770)	(3,974)	(2,273)	(181)	(7,198)
Buildings and Constructions	(407)	(2,842)	(919)	(102)	(4,270)
Production machinery and equipment	(160)	(453)	(172)	(3)	(788)
Agricultural equipment and vehicles	(44)	(11)	(861)	(19)	(935)
Other fixed assets	(10)	(54)	(230)	(25)	(319)
CIP and uninstalled equipment	(149)	(614)	(91)	(32)	(886)
Depreciation expense	(17,241)	(22,126)	(30,994)	(1,494)	(71,855)
Buildings and constructions	(6,851)	(5,329)	(1,746)	(511)	(14,437)
Production machinery and equipment	(8,264)	(4,371)	(5,917)	(295)	(18,847)
Agricultural equipment and vehicles	(1,079)	(11,557)	(20,590)	(234)	(33,460)
Other fixed assets	(1,047)	(869)	(2,741)	(454)	(5,111)
Translation difference	(249)	(5,250)	(180)	(424)	(6,103)
Land	—	3	(14)	(21)	(32)
Buildings and Constructions	—	(2,381)	(425)	(322)	(3,128)
Production machinery and equipment	—	(782)	1,888	(10)	1,096
Agricultural equipment and vehicles	(78)	(81)	(1,499)	(1)	(1,659)
Other fixed assets	(2)	(176)	(50)	3	(225)
CIP and uninstalled equipment	(169)	(1,833)	(80)	(73)	(2,155)
Net Book Value as at 30 June 2020	517,624	321,662	120,858	24,224	984,368
Land	967	380	70	1,089	2,506
Buildings and Constructions	227,099	98,486	18,677	18,379	362,641
Production machinery and equipment	99,118	43,612	12,675	1,759	157,164
Agricultural equipment and vehicles	4,209	82,273	57,139	1,097	144,718
Other fixed assets	3,353	3,920	7,773	901	15,947
CIP and uninstalled equipment	182,878	92,991	24,524	999	301,392

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The following table represents movements in property, plant and equipment for the year ended 30 June 2019:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Total
Net Book Value as at 30 June 2018	302,717	123,496	138,255	23,659	588,127
Land	842	560	64	1,109	2,575
Buildings and Constructions	205,210	73,152	17,517	19,737	315,616
Production machinery and equipment	86,436	36,253	21,883	18	144,590
Agricultural equipment and vehicles	3,590	2,234	81,262	923	88,009
Other fixed assets	2,522	2,185	6,930	1,858	13,495
CIP and uninstalled equipment	4,117	9,112	10,599	14	23,842
Additions	53,339	58,240	66,249	1,455	179,283
CIP and uninstalled equipment	53,339	58,240	66,249	1,455	179,283
Reclassification	(5)	—	6	(1)	—
Land	—	—	7	—	7
Buildings and Constructions	(587)	—	—	—	(587)
Production machinery and equipment	(756)	—	(6)	—	(762)
Agricultural equipment and vehicles	35	—	(377)	—	(342)
Other fixed assets	1,303	—	382	(1)	1,684
CIP and uninstalled equipment	—	—	—	—	—
Additions from acquisition of subsidiaries	—	56,925	—	—	56,925
Agricultural vehicles and equipment	—	56,925	—	—	56,925
Transfers	—	—	—	—	—
Land	80	—	3	—	83
Buildings and Constructions	1,414	3,090	2,773	141	7,418
Production machinery and equipment	5,148	1,460	17,822	6	24,436
Agricultural equipment and vehicles	1,739	378	20,755	136	23,008
Other fixed assets	989	601	3,524	1,201	6,315
CIP and uninstalled equipment	(9,370)	(5,529)	(44,877)	(1,484)	(61,260)
Revaluation	15,599	—	—	—	15,599
Buildings and Constructions	10,133	—	—	—	10,133
Production machinery and equipment	5,466	—	—	—	5,466
Disposals (at NBV)	(3,127)	(4,631)	(4,266)	(36)	(12,060)
Land	(70)	(124)	—	—	(194)
Buildings and Constructions	(1,875)	(2,152)	(1,107)	—	(5,134)
Production machinery and equipment	(839)	(839)	(42)	(1)	(1,721)
Agricultural equipment and vehicles	(26)	(16)	(2,169)	(35)	(2,246)
Other fixed assets	(25)	(60)	(227)	—	(312)
CIP and uninstalled equipment	(292)	(1,440)	(721)	—	(2,453)
Transfers to Assets classified as held for sale	—	(1,380)	—	—	(1,380)
Land	—	(54)	—	—	(54)
Buildings and Constructions	—	(966)	—	—	(966)
Production machinery and equipment	—	(174)	—	—	(174)
Agricultural vehicles and equipment	—	(1)	—	—	(1)
Other fixed assets	—	(10)	—	—	(10)
CIP and uninstalled equipment	—	(175)	—	—	(175)
Depreciation expense	(15,992)	(12,506)	(33,809)	(1,395)	(63,702)
Buildings and constructions	(6,413)	(3,805)	(1,637)	(494)	(12,349)
Production machinery and equipment	(8,018)	(3,812)	(5,575)	(4)	(17,409)
Agricultural equipment and vehicles	(825)	(4,400)	(24,686)	(206)	(30,117)
Other fixed assets	(736)	(489)	(1,911)	(691)	(3,827)
Translation difference	141	780	948	25	1,894
Land	—	(5)	—	1	(4)
Buildings and Constructions	—	(24)	58	7	41
Production machinery and equipment	—	(44)	568	1	525
Agricultural equipment and vehicles	71	(3)	31	(17)	82
Other fixed assets	(4)	5	128	8	137
CIP and uninstalled equipment	74	851	163	25	1,113
Net Book Value as at 30 June 2019	352,672	220,924	167,383	23,707	764,686
Land	852	377	74	1,110	2,413
Buildings and Constructions	207,882	69,295	17,604	19,391	314,172
Production machinery and equipment	87,437	32,844	34,650	20	154,951
Agricultural equipment and vehicles	4,584	55,117	74,816	801	135,318
Other fixed assets	4,049	2,232	8,826	2,375	17,482
CIP and uninstalled equipment	47,868	61,059	31,413	10	140,350

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Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2020 and 2019 were as follows:

	Cost as of 30 June 2020	Accumulated depreciation as of 30 June 2020	Cost as of 30 June 2019	Accumulated de- preciation as of 30 June 2019
Land	2,506	—	2,413	—
Buildings and constructions	427,651	(65,010)	364,745	(50,573)
Production machinery and equipment	237,867	(80,703)	216,807	(61,856)
Agricultural equipment and vehicles	335,255	(190,537)	292,395	(157,077)
Other fixed assets	37,228	(21,281)	33,652	(16,170)
CIP and uninstalled equipment	301,392	—	140,350	—
Total	1,341,899	(357,531)	1,050,362	(285,676)

Had the Group's buildings and constructions and production machinery and equipment (Oilseed Processing segment) been measured on a historical cost basis, their carrying amount would have been as follows:

	As of 30 June 2020	As of 30 June 2019
Buildings and constructions	202,980	185,317
Production machinery and equipment	79,464	69,195
Total	282,444	254,512

During the year ended 30 June 2020, the Group has made reclassification between groups of property, plant equipment. Agricultural equipment and vehicles mostly consisted of railway cars was reallocated from the Farming segment to the Infrastructure and Trading segment in the amount USD 25,174 thousand since the Group increased share of commodities purchased from third parties in total quantity of grain delivered to ports using own railway cars. Construction in progress and uninstalled equipment consisted mainly of silos were reallocated from the Farming segment to the Infrastructure and Trading segment in the amount USD 26,299 thousand since silos are going to be used not only for the Farming segment, but also for Infrastructure and Trading sourcing. Production machinery and equipment in the amount of USD 25,065 thousand was reallocated to agricultural equipment and vehicles for more consistent presentation.

For the year ended 30 June 2020, interest was capitalized in the amount of USD 7,653 thousand (2019: USD 307 thousand). Apart from project specific borrowings, the rate used to determine the amount of borrowing costs eligible for capitalization was 3.4%.

As of 30 June 2020, property, plant and equipment with a carrying amount of USD 254,939 thousand (30 June 2019: USD 104,053 thousand) were pledged by the Group as collateral against short-term and long-term bank loans (Notes 20, 21).

As of 30 June 2020, property, plant and equipment with a carrying amount of USD 28,462 thousand (30 June 2019: USD 29,228 thousand) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016.

As of 30 June 2019, the net carrying amount of property, plant and equipment, represented by agricultural equipment and vehicles held under finance lease agreements was USD 9,269 thousand.

15. Right-of-use assets

The following table represents movements in right-of-use assets for the year ended 30 June 2020:

	Land	Agricultural equipment and vehicles	Buildings	Total
As of 30 June 2019	—	—	—	—
Impact of adoption of IFRS 16	318,876	9,167	5,530	333,573
Cost as of 1 July 2019	318,876	9,167	5,530	333,573
Additions	25,695	1,625	2,362	29,682
Change in terms	48,258	—	—	48,258
Disposals	(15,876)	—	—	(15,876)
Translation difference	(8,084)	(120)	(115)	(8,319)
Cost as of 30 June 2020	368,869	10,672	7,777	387,318
Accumulated depreciation as of 1 July 2019	—	—	—	—
Depreciation	(37,609)	(4,973)	(629)	(43,211)
Disposals	1,502	—	—	1,502
Translation difference	1,687	—	—	1,687
Accumulated depreciation as of 30 June 2020	(34,420)	(4,973)	(629)	(40,022)
Net book value as of 30 June 2020	334,449	5,699	7,148	347,296

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for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2020:

	Trademarks	Land lease rights	Other intangible assets	Total
Cost as of 1 July 2019	22,036	169,633	8,157	199,826
Additions	—	—	2,073	2,073
Disposals	—	(548)	(1,162)	(1,710)
Transfers to the Right-of-use assets	—	(37,006)	—	(37,006)
Exchange difference	—	(1,893)	(775)	(2,668)
Cost as of 30 June 2020	22,036	130,186	8,293	160,515
Accumulated amortization and impairment loss as of 1 July 2019	(8,935)	(71,897)	(4,052)	(84,884)
Amortization charge	—	(9,846)	(965)	(10,811)
Disposals	—	196	760	956
Transfers to the Right-of-use assets	—	985	—	985
Impairment loss recognized in the Statement of Profit or Loss	(658)	—	—	(658)
Exchange difference	—	1,845	137	1,982
Accumulated amortization and impairment loss as of 30 June 2020	(9,593)	(78,717)	(4,120)	(92,430)
Net book value as of 30 June 2020	12,443	51,469	4,173	68,085

The following table represents movements in intangible assets for the year ended 30 June 2019:

	Trade- marks	Land lease rights	Other intangible assets	Total
Cost as of 1 July 2018	22,036	149,069	6,200	177,305
Additions	—	24,501	2,975	27,476
Disposals	—	(5,033)	(951)	(5,984)
Transfers to Assets classified as held for sale	—	—	(7)	(7)
Exchange difference	—	1,096	(60)	1,036
Cost as of 30 June 2019	22,036	169,633	8,157	199,826
Accumulated amortization and impairment loss as of 1 July 2018	(9,051)	(60,323)	(3,465)	(72,839)
Amortization charge	—	(11,643)	(958)	(12,601)
Disposals	—	600	376	976
Transfers to Assets classified as held for sale	—	—	5	5
Reduction of loss on impairment recognized in the Statement of Profit or Loss	116	—	—	116
Exchange difference	—	(531)	(10)	(541)
Accumulated amortization and impairment loss as of 30 June 2019	(8,935)	(71,897)	(4,052)	(84,884)
Net book value as of 30 June 2019	13,101	97,736	4,105	114,942

Capitalized expenses for finance lease arrangements in the amount of USD 37,006 thousand and related depreciation of USD 985 thousand have been reclassified to the Right-of-use assets. There has been no change in the amount recognized.

Included in the intangible assets of Subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with net book values of USD 4,457 thousand, USD 5,122 thousand, USD 2,685 thousand and USD 179 thousand, respectively, in 2020 (USD 4,567 thousand, USD 5,122 thousand, USD 3,233 thousand and USD 179 thousand, respectively, in 2019). These trademarks are used by the Group for the sale of bottled sunflower oil mostly in the Ukrainian market.

In management's view, there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group.

The Group believes that, as a result of further promotion of the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks, the market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them for an indefinite period of time.

Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

The impairment testing of the value of trademarks as of 30 June 2020 was performed by an independent appraiser. The recoverable amount of trademarks was based on the fair value less costs to sell method using the royalty approach of valuation and is classified within level 3 of the fair value hierarchy. This calculation uses cash flow projections based on financial budgets approved by management and covering a five-year period. The total amount of the trademarks was allocated to the Oilseed Processing segment (as one cash-generating unit).

Key assumptions used for the calculation were as follows:

- The royalty rate used was determined at the weighted average market level of 5.00%;
- Growth rates are based on the expected market growth rate for sunflower oil consumption. As of 30 June 2020, management believed that the market for bottled oil was saturated and for a period of five years no cumulative growth is expected; and
- As bottled oil is predominantly sold within Ukraine, the discount rate used was based on the weighted average cost of capital rate of 15.95% for UAH denominated cash flow projections.

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As a result of testing performed as of 30 June 2020, recoverable amounts of the trademarks 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' were USD 4,457 thousand, USD 5,158 thousand, USD 2,685 thousand and USD 238 thousand, respectively (30 June 2019: USD 5,567 thousand, USD 5,122 thousand, USD 3,233 thousand and USD 320 thousand, respectively).

As a result of testing performed, impairment loss for the trademarks 'Stozhar' recognized in prior periods was partly reversed in the amount of USD 824 thousand as of 30 June 2019. Reversal was recognized as a reduction of loss on impairment of intangible assets within 'Other expenses, net' (Note 31). Value recovery was caused primarily by increase of export sales. This impairment loss was attributable to the Oilseed Processing segment. Impairment was caused primarily by shrinkage of consumer demand for premium segment bottled sunflower oil.

17. Goodwill

The balance of goodwill comprised of:

	As of 30 June 2020	As of 30 June 2019
Cost	118,103	114,705
Accumulated impairment losses	(10,837)	(10,837)
Other movements	16,221	3,867
Total	123,487	107,735

The following table represents movements in goodwill for the year:

	As of 30 June 2020	As of 30 June 2019
Cost at beginning of the year	118,572	114,528
Acquisitions of Subsidiaries (Note 7)	16,221	3,867
Exchange differences	(469)	177
Cost at the end of the year	134,324	118,572
Accumulated impairment losses at the beginning of the year	(10,837)	(10,837)
Impairment losses recognized in the year	—	—
Accumulated impairment losses at the end of the year	(10,837)	(10,837)
Balance at the end of the year	123,487	107,735

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

Segment	Cash-generating unit	Goodwill carrying value	
		As of 30 June 2020	As of 30 June 2019
Oilseed Processing	BSI LLC	35,331	35,331
	Kropyvnytskyi OEP PJSC (former Kirovogradoliya PJSC)	31,334	31,334
	Ellada	16,221	—
	Prydniprovskyi OEP LLC	13,225	13,225
	Prykolotnoe OEP LLC	2,147	2,147
	Volchansk	1,906	1,906
Infrastructure and Trading	Transbulkterminal LLC	10,515	10,727
	RTK-Ukraine	3,948	4,027
Farming	Druzhba-Nova Group and other agricultural farms	8,860	9,038
Total		123,487	107,735

The group tests whether goodwill has suffered any impairment on an annual basis or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of Oilseed Processing and Infrastructure and Trading CGUs were determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering a five-year period and a discount rate of 7.4% per annum (2019: 8.6%). The value in use estimates developed by the Group to estimate the recoverable amount of cash-generating units represent the best available estimate based on the analysis of the Group's past performance, market knowledge and internal assumptions as to future trends on the market.

The discount rate reflects the current market assessment of the risks specific to the cash-generating units. The discount rate was determined by the weighted average cost of capital based on observable inputs from external sources of information. The discount rate used as of 30 June 2020 was 7.4% (30 June 2019: 8.6%). Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. As of 30 June 2020, the assumptions for expected sunflower oil prices were USD 699 to 747 per one metric ton in 2021-2025 with a corresponding cost of USD 335 to 351 per one metric ton of sunflower seeds, which corresponds to a margins of USD from 79 to 100 for one metric ton of oil. As of 30 June 2019, the assumptions for expected sunflower oil prices were USD 688 to 769 per one metric ton in 2020-2024 with a corresponding cost of USD 340 to 349 per one metric ton of sunflower seeds, which corresponds to a margins of USD from 67 to 100 for one metric ton of oil. Management believes that the margin per one metric ton of sunflower oil depends on the supply-demand balance for raw material in Ukraine rather than on the level of prices.

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Excess of recoverable amount over carrying amount of individual CGUs summarized below:

Segment	Cash-generating unit	Excess of recoverable amount	
		As of 30 June 2020	As of 30 June 2019
Oilseed Processing	Prydniprovskiy OEP LLC	221,392	144,963
	BSI LLC	143,462	159,465
	Kropyvnytskyi OEP PJSC (former Kirovogradoliya PJSC)	105,224	100,453
	Volchansk	66,162	50,465
	Ellada	56,508	—
	Prykolotnoe OEP LLC	25,338	8,477

The recoverable amount of Druzhba-Nova Group and other agricultural farms have been determined based on fair value less cost to sell estimates. The valuation method is based on the market approach and observable market prices, adjusted for the age and liquidity of the assets, which is within level 2 of the fair value hierarchy.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of Transbulkterminal LLC and Oilseed Processing CGUs to exceed its recoverable amount. Management believes that no reasonably possible change in the key assumptions on which the recoverable amount of Druzhba-Nova Group and other agricultural farms is based will cause the carrying amount to exceed their recoverable amount.

The recoverable amount of RTK CGU was determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering railcars useful life period and a discount rate of 7.4% per annum and is classified within Level 3 of fair value hierarchy. Management believes that no reasonably possible change in the key assumptions on which the recoverable amount of RTK is based will cause the carrying amount to exceed their recoverable amount.

As of 30 June 2020 and 2019, no impairment of goodwill was identified.

18. Other Non-current Assets

The balances of other non-current assets were as follows:

	As of 30 June 2020	As of 30 June 2019
Loans provided to related parties (Note 33)	32,528	19,769
Prepayments for property, plant and equipment	32,189	87,849
Loans to farmers	12,657	11,083
Investments in financial asset	7,513	7,341
Non-current biological assets (Note 13)	6,786	5,271
Prepayments for business acquisitions	4,321	4,500
Other non-current assets	5,304	19,919
Total	101,298	155,732

19. Advances from Customers and Other Current Liabilities

The balances of advances from customers and other current liabilities were as follows:

	As of 30 June 2020	As of 30 June 2019
Settlements for acquired Subsidiaries	42,892	5,537
Payable for legal claims (Note 34)	34,047	31,872
Accrued payroll, payroll related taxes and bonuses	28,986	16,929
Accounts payable for property, plant and equipment	22,076	9,230
Taxes payable and provision for tax liabilities	16,396	9,748
Advances from customers	10,123	7,277
Provision for unused vacations and other provisions	6,561	6,334
Settlements with land lessors	—	2,754
Obligation under finance lease payable within one year	—	2,484
Other current liabilities	9,453	12,811
Total	170,534	104,976

Increase in Settlements for acquired Subsidiaries is connected with final amount payable due in February 2021 for the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016.

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20. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2020	As of 30 June 2019
Bank credit lines	43,166	182,160
Interest accrued on long-term borrowings	931	527
Interest accrued on short-term borrowings	480	759
Bank overdrafts (Note 8)	4	246
Total	44,581	183,692

The balances of short-term borrowings as of 30 June 2020 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.25%	USD	January 2021	14,578
European bank	Libor+2.00%	USD	October 2020	11,715
European bank	Libor+1.90%	USD	February 2021	8,786
European bank	Libor+2.50%	USD	July 2020	6,884
European bank	Libor+2.45%	USD	October 2020	1,207
Total bank credit lines				43,170
Interest accrued on long-term loans				931
Interest accrued on short-term loans				480
Total				44,581

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

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

As of 30 June 2020, undrawn short-term bank credit lines amounted to USD 831,204 thousand (as of 30 June 2019: USD 708,866 thousand).

Short-term borrowings from banks were secured as follows:

	As of 30 June 2020	As of 30 June 2019
Assets pledged		
Inventory (Note 12)	118,657	166,245
Future sales receipts	46,005	85,365
Property, plant and equipment (Note 14)	722	626
Total	165,384	252,236

21. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2020	As of 30 June 2019
Long-term bank borrowings	179,274	64,913
Current portion of long-term borrowings	(6,871)	(1,233)
Total	172,403	63,680

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The balances of long-term borrowings as of 30 June 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	48,000
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	8,000
Ukrainian subsidiary of European bank	Libor+4.50%	USD	August 2021	1,541
Total				179,274

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

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

As of 30 June 2020, undrawn long-term borrowings amounted to USD 128,267 thousand (as of 30 June 2019: USD 243,860 thousand).

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

	As of 30 June 2020	As of 30 June 2019
Assets pledged		
Property, plant and equipment (Note 14)	254,217	103,427
Total	254,217	103,427

22. Lease liabilities

The following is the maturity analysis of lease payments under the lease agreements as of 30 June 2020:

Maturity	As of 30 June 2020
Payable within one year	48,496
Payable in the second to fifth years	273,467
Payable after five years	449,176
Total	771,139
less	
Future finance charges	(461,139)
Present value of lease obligations	310,000
less	
Current portion	(44,872)
Lease obligations, long-term portion	265,128

The following is the maturity analysis of lease payments under obligations under finance lease agreements as of 30 June 2019:

Maturity	As of 30 June 2019
Payable within one year	3,113
Payable in the second to fifth years	5,983
Payable after five years	—
Total	9,096
less	
Future finance charges	(1,382)
Present value of lease obligations	7,714
less	
Current portion	(2,484)
Lease obligations, long-term portion	5,230

23. Bonds issued

The balances of bonds issued were as follows:

	Maturity	As of 30 June 2020	As of 30 June 2019
US 300,000 thousand 6.5% coupon bonds	October 2024	296,229	—
US 500,000 thousand 8.75% coupon bonds	January 2022	497,548	496,051
Total		793,777	496,051

In October 2019, the Group issued USD 300,000 thousand unsecured notes ('the Notes'), that will mature on 17 October 2024. The Notes bear

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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 Issuer and have been unconditionally and irrevocably guaranteed by designated Group subsidiaries on the joint and several basis to the maximum extent permitted by law.

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

As of 30 June 2020, accrued interest on bonds issued was USD 21,945 thousand (30 June 2019: USD 17,949 thousand).

24. Income Tax

The Company is subject to corporate income tax in Luxembourg. The tax rate in Luxembourg was 24.94% as of 30 June 2020 (2019: 27.08%). The effective income tax rate in Switzerland as of 30 June 2020 was in range 11.64% - 13.99%. Income tax rate in the US as of 30 June 2020 was 21.00%. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2020 and 2019. The majority of the Group's operating entities are located in Ukraine, therefore effective tax rate reconciliations is completed based on Ukrainian statutory tax rates.

The majority of the Group's companies that are involved in agricultural production pay the Unified Agricultural Tax (UAT) in accordance with the Tax Code of Ukraine. The UAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The UAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The UAT does not constitute an income tax and, as such, is recognized in the Consolidated Statement of Profit or Loss in cost of sales.

The components of income tax expense were as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Current income tax charge	(28,491)	(3,359)
Deferred tax benefit/(expenses) relating to origination and reversal of temporary differences	6,416	(8,543)
Total income tax expenses recognized in the reporting period	(22,075)	(11,902)

The income tax expense is reconciled to the profit before income tax per Consolidated Statement of Profit or Loss as follows:

	As of 30 June 2020	As of 30 June 2019
Profit before income tax	144,825	190,406
Tax expense at Ukrainian statutory tax rate of 18%	(26,069)	(34,273)
Effect of income that is exempt from taxation (farming)	16,685	34,984
Effect of different tax rates of Subsidiaries operating in other jurisdictions	2,478	1,527
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	(6,434)	764
Other expenditures not allowable for income tax purposes and non-taxable income, net	(8,735)	(14,904)
Income tax expenses	(22,075)	(11,902)

For the year ended 30 June 2020, USD 785 thousand income tax benefit were recognized in other comprehensive income (for the year ended 30 June 2019: USD 4,650 thousand expenses).

The primary components of the deferred tax assets and deferred tax liabilities were as follows:

	As of 30 June 2020	As of 30 June 2019
Tax losses carried forward	5,428	4,821
Valuation of property, plant and equipment	9,307	9,417
Others	1,501	674
Deferred tax assets	16,236	14,912
Valuation of property, plant and equipment	(28,704)	(32,438)
Valuation of intangible assets	(1,875)	(1,952)
Others	(954)	(1,085)
Deferred tax liabilities	(31,533)	(35,475)
Net deferred tax liabilities	(15,297)	(20,563)

As of 30 June 2020, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of USD 5,428 thousand (2019: USD 4,821 thousand) recognized with respect to tax losses carried forward by the subsidiaries. The amount of future taxable income required to be generated by the Subsidiaries to utilize the tax benefits associated with the tax loss carried forward is approximately USD 30,156 thousand (2019: USD 26,783 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

Tax losses incurred by subsidiaries registered in Ukraine can be brought forward for a reasonable period of time.

As of 30 June 2020, unrecognized deferred tax assets arising from tax losses carried forward by the Group's subsidiaries amounted to USD 6,434

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thousand (30 June 2019: nil).

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries as it is able to control the timing of the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is an analysis of the deferred tax balances (after offset) as they are presented in the Consolidated Statement of Financial Position:

	As of 30 June 2020	As of 30 June 2019
Deferred tax assets	9,152	8,447
Deferred tax liabilities	(24,449)	(29,010)
Net deferred tax liabilities	(15,297)	(20,563)

25. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Revenue from edible oils sold in bulk, meal and cake	2,209,232	1,736,004
Revenue from agriculture commodities merchandizing	1,724,811	2,069,714
Revenue from bottled sunflower oil	132,973	114,526
Revenue from farming	29,616	29,983
Revenue from transshipment services	5,099	4,085
Revenue from grain silo services	5,049	5,919
Total	4,106,780	3,960,231

The transaction price allocated to unsatisfied performance obligations as of 30 June 2020 is USD 1,164 thousand (30 June 2019: USD 1,952 thousand). This amount represents revenue from carriage, freight and insurance services under CIF/CFR Incoterms contracts which are to be executed in July 2020, when the goods are delivered to the point of destination and under which the Group has already recognized revenue from sale of goods at a point in time as of 30 June 2020.

Revenue for the year ended 30 June 2019 was changed as a result of IFRIC decision on the physical settlement of contracts adoption (see Note 3). As a result of this change, for the year ended 30 June 2019, revenue from edible oils sold in bulk, meal and cake was decreased by USD 8,283 thousand and revenue from agriculture commodities merchandizing by USD 23,619 thousand (USD 31,902 thousand in total).

26. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Cost of goods for resale and raw materials used	3,000,366	3,099,276
Shipping and handling costs	363,175	307,525
Amortization and depreciation	100,636	71,947
Payroll and payroll related costs	84,889	65,666
Rental payments	53,060	71,765
Other operating costs	21,686	19,331
Total	3,623,812	3,635,510

Starting from 1 July 2019, the Group decided to change the policy and recognize result on operations with commodity futures within Cost of sales line (Note 3), previously recognized in the Other operating income, net line. Presentation of Cost of sales for the year ended 30 June 2019 was changed accordingly, as a result of which it increased for the amount of USD 13,650 thousand (Cost of goods for resale and raw materials used line). Additionally, as result of adoption IFRIC decision on the physical settlement of contracts (Note 3), Cost of sales decreased by USD 31,902 thousand (Cost of goods for resale and raw materials used line).

27. Other Operating Income, net

Other operating income/(expenses), net was as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Contracts wash-out (price difference settlement)	(15,796)	2,838
Stock-take	8,850	9,693
Transshipment quota entitlement	6,773	8,000
VAT benefits and other government grants	1,255	6,922
(Loss)/Gain on sale of hard currency	234	1,989
Demurrage, dispatch fees and other fines	205	8,803
Other operating income	5,496	3,633
Total	7,017	41,878

Starting from 1 July 2019, the Group decided to change the policy and recognize result on operations with commodity futures within Cost of sales line (Note 3), previously recognized in the Other operating income, net line. Presentation of Other operating income, net for the year ended 30

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June 2019 was changed accordingly, as a result of which it increased for the amount of USD 13,650 thousand (loss on operations with commodity futures).

28. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Payroll and payroll related costs	78,634	60,381
Audit, legal and other professional fees	16,007	11,052
Repairs and material costs	8,358	7,454
Amortization and depreciation	4,728	3,805
Business trip expenses	4,681	4,955
Bank services	4,664	1,444
Taxes other than income tax	2,501	2,287
Rental payments	2,484	2,158
Bad debts expenses	2,367	7,905
Communication expenses	1,760	1,522
Insurance	1,299	1,918
Other expenses	4,247	1,651
Total	131,730	106,532

Audit, legal and other professional fees for the year ended 30 June 2020 include the auditor's remuneration in the amount of USD 739 thousand and consultancy and assurance fees in the amount of USD 249 thousand for the respective period (for the year ended 30 June 2019: USD 659 thousand and nil, respectively).

29. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Interest on corporate bonds (Note 23)	57,496	44,886
Interest on lease liabilities	53,951	—
Interest expense on bank loans	21,878	26,520
Other finance costs, net	13,895	10,913
Total	147,220	82,319

30. Foreign Exchange Gain/(Loss), net

For the year ended 30 June 2020, foreign exchange loss, net amounted to USD 1,012 thousand (30 June 2019: gain USD 12,860 thousand). The result for the period is mostly connected with fluctuations of the Ukrainian hryvnia exchange rate which influenced on revaluation of balances denominated in other than functional currencies, VAT and borrowings (including intra-group balances: the Company's subsidiaries operate with different functional currencies and during the normal course of business issue intercompany financing which, when revalued, causes either foreign exchange gains or losses at one of the Company's subsidiaries if they had different functional currencies).

For the years ended 30 June 2020 and 2019, the Ukrainian hryvnia rate remained relatively stable against the US dollar.

31. Other Expenses, net

Other expenses, net were as follows:

	For the year ended 30 June 2020	For the year ended 30 June 2019
Loss/ (Gain) on disposal of Subsidiaries and Joint Ventures (Note 7, 32)	36,634	(4,833)
Charity	7,714	2,303
Loss on derivatives sales, net	2,351	—
Fines and penalties (Note 34)	2,114	1,610
Other material expenses	1,865	1,341
Impairment/(Reduction of impairment) of intangible assets and goodwill, net (Note 16, 17)	658	(116)
Gain on disposal of property, plant and equipment	(969)	(605)
Gain on write-off of trade payables	(1,421)	—
Revaluation losses of property, plant and equipment (Note 14)	—	10,234
Other expenses/(income), net	1,578	(1,558)
Total	50,524	8,376

32. Investments in Joint Ventures

During the year ended 30 June 2020, the Company disposed of its share in a joint venture, a deep-water grain export terminal in Taman port (see Note 7). For the year ended 30 June 2020 and up to the date of disposal, the share of revenue of joint venture (Taman) amounted to USD 16,712 thousand (for the year ended 30 June 2019: USD 11,609 thousand). Share of profit and other comprehensive income for the year ended 30 June 2020 and up to the date of disposal equaled USD 6,305 thousand (for the year ended 30 June 2019: other comprehensive loss USD 966 thousand).

The aforementioned result includes depreciation and amortization expenses in the amount of USD 1,394 thousand (for the year ended 30 June

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2019: USD 2,043 thousand) and interest expenses in the amount of USD 307 thousand (for the year ended 30 June 2019: USD 672 thousand).

33. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Related party balances as of 30 June 2020	Total category as per consolidated state- ment of financial posi- tion as of 30 June 2020	Related party balances as of 30 June 2019	Total category as per consolidated statement of financial position as of 30 June 2019
Trade accounts receivable, net (Note 9)	586	215,279	785	183,196
Prepayments to suppliers and other current assets, net (Note 10)	22,366	148,916	9,675	129,822
Other non-current assets (Note 18)	32,528	101,298	19,769	155,732
Advances from customers and other current liabilities (Note 19)	8,706	170,534	4,462	104,976

As of 30 June 2020 and 30 June 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 30 June 2019, prepayments to suppliers and other current assets included a trade prepayment to Zernovoy Terminalny Complex Taman LLC according to the transshipment agreement in the amount of USD 4,358 thousand, which was repaid as of 30 June 2020 in full amount.

As of 30 June 2019, prepayments to suppliers and other current assets and other non-current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,575 thousand provided to Taman Grain Terminal Holding, which was repaid as of 30 June 2020 in full amount.

As of 30 June 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 30,882 thousand provided to the company under control of the Beneficial Owner (30 June 2019: USD 10,459 thousand).

As of 30 June 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 18,084 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 (30 June 2019: USD 5,493 thousand and USD 1,000 thousand, respectively).

As of 30 June 2020, advances from customers and other current liabilities included USD 6,669 thousand in bonuses payable to the management (30 June 2019: USD 3,099 thousand).

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

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

Transactions with related parties were as follows:

	Amount of opera- tions with related parties, for the year ended 30 June 2020	Total category as per consolidated statement of finan- cial position as of 30 June 2020	Amount of opera- tions with related parties, for the year ended 30 June 2019	Total category per consolidated state- ment of profit or loss for the year ended 30 June 2019
Revenue (Note 25)	402	4,106,780	1,165	3,960,231
Cost of sales (Note 26)	(1,913)	(3,623,812)	(4,192)	(3,635,510)
General and administrative expenses (Notes 28)	(11,479)	(131,730)	(8,377)	(106,532)
Finance costs, net (Note 29)	(365)	(147,220)	(611)	(82,319)
Other expenses, net (Note 31)	714	(50,524)	3,178	(8,376)

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

As of 30 June 2020, the Board of Directors consisted of the following eight directors: the chairman of the board, three non-executive directors and four directors employed by Subsidiaries. Remuneration of the Board of Directors (8 Directors) for the year ended 30 June 2020 amounted to USD 500 thousand (30 June 2019: 8 directors, USD 500 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 USD 8,834 thousand for the year ended 30 June 2020 (2019: 12 people, USD 5,518 thousand) including USD 6,326 thousand of variable bonus as per approved remuneration scheme (2019: USD 3,099 thousand).

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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).

34. Commitments and Contingencies

Operating Environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. During the year 30 June 2020, the Ukrainian economy declined and real GDP showed decrease of around 2% (2019: 3%), modest annual inflation of 2.4% (2019: 9%), and stabilization of the national currency (appreciation of the national currency by around 7% to USD and 10% 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 Luhansk and Donetsk regions. As a result of this, the Ukrainian economy is refocusing on the European Union (the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (the "NBU") starting from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019 and gradually decreased its discount rate for the first time during the recent two years, from 18.0% in April 2019 to 11.0% in January 2020 with further decrease to 6.0% in June 2020.

The degree of macroeconomic uncertainty in Ukraine in 2020 still remains high due to a significant amount of public debt scheduled for repayment in 2019-2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. At the same time, Ukraine has passed through the period of presidential and parliamentary elections. All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have 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 a 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 (the "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. 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 Ukrainian economy.

Retirement and Other Benefit Obligations

Employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 30 June 2020 were USD 21,124 thousand (2019: USD 18,619 thousand).

The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance some post-retirement benefits of its former employees. The only obligation of the Group with respect to this pension plan is to make the specified contributions. For the year ended 30 June 2020, there were no retirement and other pension obligation expenses of the Group recognized (2019: USD 222 thousand). As of 30 June 2020 and 2019, the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Capital Commitments

As of 30 June 2020, the Group had commitments under contracts with a group of suppliers for a total amount of USD 61,488 thousand, mostly for the construction of an oil-crushing plant and port terminal (30 June 2019: USD 152,851 thousand, mostly for the purchase of agricultural equipment and reconstruction of a terminal).

Contractual Commitments on Sales

As of 30 June 2020, the Group had entered into commercial contracts for the export of 761,000 tons of grain, 307,902 tons of sunflower oil and 416,036 tons of sunflower meal and other related products, corresponding to an amount of USD 146,112 thousand, USD 233,685 thousand and USD 84,371 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2019, the Group had entered into commercial contracts for the export of 802,375 tons of grain, 225,449 tons of sunflower oil and 320,668 tons of sunflower meal and other related products, corresponding to an amount of USD 156,194 thousand, USD 158,883 thousand and USD 68,567 thousand, respectively, in contract prices as of the reporting date.

Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire Stiom Holding, a farming company located in the Khmelnytskyi region of Ukraine. As of 30 June 2018, the consideration paid for Stiom Holding by the Group comprised US\$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 (the "Stiom Sellers") in respect of the non-fulfilment of the Stiom Sellers' obligations. In December 2012, the Group received a request for arbitration from the Stiom Sellers in which the Stiom Sellers claimed amounts alleged to be payable to them. The arbitral tribunal delivered its award in late February 2018. That award was in part subject to challenge by the Group in the High Court in London. In March 2019, the High Court remitted the award to the tribunal for reconsideration in certain respects and a further hearing

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took place before the tribunal in September 2019. Pursuant to the tribunal's revised award, which was delivered in December 2019, the Group is required to pay the sellers an aggregate amount of approximately US\$30.3 million.

The Stiom Sellers have made further claims against the Group for interest on the amounts due to them at the rate of 10% per annum (corresponding to US\$5,944 per day since the date of the initial arbitral award in late February 2019), and have initiated court proceedings in Luxembourg and Switzerland in respect of such interest due, as well as took actions enforce the payment of the arbitral award. The Group disputes the Stiom Seller's claims for interest due. In Switzerland, the Stiom Sellers have obtained attachment orders against certain bank accounts of the Group. In Luxembourg, the Stiom Sellers have initiated attachment proceedings to put in place conservatory measures against Kernel's bank accounts. Furthermore, former counsel to the Stiom Sellers has also obtained an attachment order against the Group, which prevents the Group from paying any amounts to the Stiom Sellers until the attachment order is lifted. Finally, a third party brought claims in Swiss courts asserting that one of the Stiom Seller's claims has been assigned to them, which the Stiom Sellers dispute. As a result of these conflicting claims and proceedings, the Group has been unable to discharge its payment obligations in respect of the arbitral award to the Stiom Sellers, pending the resolution of these issues.

As of 30 June 2018, the Group recognised a provision regarding the arbitral and the related proceedings. The provision represents the directors' best estimate of the maximum future outflow that will be required in respect of the award. The carrying amount of the payables for legal claims was US\$34,047 thousand as of 30 June 2020 (2019: US\$31,872 thousand), and related expenses in the amount of US\$2,175 thousand were recognised within the year ended 30 June 2020 (2019: US\$2,901 thousand) and included within the line "Other expenses, net".

The Group performed certain sale and acquisition transactions and other concentrations which could have required the obtaining of the prior approval of the Antimonopoly Committee of Ukraine ("AMC"). In February 2019, the Group acquired RTK-Ukraine LLC (the "Acquisition"). In July 2019, the AMC initiated investigation in respect of the Acquisition claiming that the Group had to obtain the AMC approval for the concentration prior to acquisition of RTK Ukraine. The Group believes that the AMC approval for the concentration was not required as the Acquisition falls under the exemption allowing not to obtain the AMC approval for the concentration. In December 2019, the AMC decided to drop the investigation and close the case, thus confirming that no AMC approval for the concentration prior to acquisition of RTK Ukraine was required.

As of 30 June 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 24,812 thousand (30 June 2019: USD 21,493 thousand), from which USD 18,240 thousand related to VAT recoverability (30 June 2019: USD 7,797 thousand), USD 4,847 thousand related to corporate income tax (30 June 2019: 10,592 thousand) and USD 1,724 thousand related to other tax issues (30 June 2019: 3,104 thousand).

As of 30 June 2020, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 24,144 thousand (30 June 2019: USD 20,471 thousand), included in the abovementioned amount. Out of this amount, USD 1,924 thousand relates to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2019: USD 7,613 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

Ukraine's tax environment characterizes by complexity in tax administration, arbitrary interpretation by tax authorities of tax laws and regulations that could increase fiscal pressure on taxpayers. Inconsistent application, interpreting, and enforcement of tax laws can lead to lawsuits resulting in the imposition of additional taxes, penalties, and interest.

Key characteristics of Ukrainian tax system:

- Ukraine operates a classic corporate income tax system, under which taxable profit of companies (i.e. financial profit adjusted by tax differences) is subject to 18% tax rate.
- Transfer pricing rules apply to transactions with related non-residents and "low-tax" non-residents (i.e. non-residents, taxed domestically at a significantly lower corporate income tax rate than the Ukrainian tax rate of 18%), subject to a company's minimum income threshold of UAH 150 million and transactions volume threshold with each individual non-resident of UAH 10 million.
- Domestic supply of goods and services, as well as the import of goods and certain services, are subject to value-added tax at the standard rate of 20%. Reduced tax rate of 0% applies to the export of goods from Ukraine.
- Payment of passive income (i.e. interest, royalties, dividends etc.) to non-residents of Ukraine is subject to withholding tax at a standard 15% rate unless double tax treaties or the Tax Code of Ukraine provide another tax rate.
- Agrarian producers of raw materials are allowed to apply a simplified tax system, given that at least 75% of their income is attributable to sales of agricultural raw materials produced by such company. Under the simplified tax system, companies are subject to a fixed tax, which depends on the type, location and monetary value of farmland used by such companies.

By the end of 2019, MLI Convention (BEPS Action plan step 15) entered into force in Ukraine, which allows Ukraine to amend its double tax treaties with other countries, which have also ratified MLI Convention. Ukraine has already amended a part of its double tax treaties and may amend more treaties in the future.

Recently, the new anti-BEPS Law entered into force, which significantly changed the Ukrainian Tax Code, introducing a significant portion of BEPS Action plan steps (3, 4, 6, 7, 8, 13 and 14) to the local tax legislation. Among other changes, the new Law has introduced:

- Controlled foreign companies regulations, which allow taxing undistributed profits of CFCs at the level of the Ukrainian tax resident – owner (controlling shareholder) of the CFC. An income of CFC would be taxable unless an exemption is applicable. If a controlling shareholder (resident of Ukraine) meets the minimum control threshold, income would be attributed to that shareholder (based on the proportion of ownership), included to the annual income of a controlling shareholder and reported within an annual tax return. An 18% tax applies to the undistributed income of a CFC. Distributed income of a CFC could be subject to an 18% or 9% rate depending on the period of distribution. A 9% rate applies if CFC's income is distributed to the resident controlling shareholder as dividends before filing the CFC report in Ukraine or by the end of the second calendar year that follows the reporting year. An 18% rate applies if the distribution is made at a later date. The new CFC rules will be

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introduced in phases over the period 2021 to 2023. The first CFC report should be filed in 2022 for the reporting year 2021.

- Principal purpose test, alongside with beneficial ownership regulation for double tax treaties application purposes. If the tax authority identifies that the main purpose of a transaction is obtaining a double tax treaty benefits, they may disallow the application of a reduced WHT rate.
- Mutual agreement procedure, which allows resolving tax disputes under double tax treaties in case either resident or non-resident of Ukraine believes actions or decisions of the tax authorities (both Ukrainian and foreign) have resulted or will result in taxation incompliant with the relevant tax treaty.
- New thin capitalization rules, which apply to transactions with both related and unrelated parties (whether or not resident in Ukraine) starting from 1 January 2021. Under the new rules, if the debt-to-equity ratio of 3.5 is exceeded, only a portion of a company's interest expense, which is equal to 30% of its EBITDA, would be tax-deductible. The residual amount of interest expenses may be carried forward to future periods, subject to 5% annual disallowance.
- Three-tiered transfer pricing reporting, which added requirements for multinational enterprises to prepare a master file and a country-by-country report (CbCR), subject to the revenue threshold of EUR 50 million for master file and EUR 750 million for CbCR. The first reporting year is expected to be 2021.
- New upward adjustment (an increase of taxable base) by 30% of sales of goods and services to "low-tax" non-residents (i.e. non-residents, taxed domestically at a significantly lower corporate income tax rate than the Ukrainian tax rate of 18%).
- Abolishment of the temporary VAT exemption of soybean and rapeseed export transactions (i.e. 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).

The further amendment of anti-BEPS Law is expected, which would allow adjusting some of its provisions, which quickly became controversial and rather fiscal for Ukrainian companies. However, most of the previous attempts to amend the Law have failed and, therefore, we are not able to assess the probability of its further amendment.

Additionally, by the end of 2019, the Law on the market of agricultural land has been adopted. The Law introduced changes to the Land Code of Ukraine aimed at the abolishment of the moratorium for sale of land. However, the Law will enter into force on 1 July 2021 and provides a set of restrictions related to the maximum land size, which can be sold to an individual buyer, restrictions to sell land in certain areas and to certain types of buyers. Also, regardless of the expected abolishment of moratorium, sale of land is subject to provisions and/or restrictions of the Land Code of Ukraine, as well as other branch laws in certain cases.

35. Financial risk management

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing return to shareholders through a combination of debt and equity capital. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and risks associated with each class of capital. Based on recommendations from management, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital based on the carrying amount of borrowings less cash and cash equivalents as presented in the statement of financial position. The Group is not subject to any externally imposed capital requirements.

Gearing Ratio

Management reviews the capital structure of the Group, taking into consideration the seasonality of the activity of the Group. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Following its listing on the WSE, the Group's management considers that the gearing ratio should not exceed 150%.

	As of 30 June 2020	As of 30 June 2019
Equity ¹	1,492,667	1,350,946
Debt liabilities ² (Notes 20, 21, 22, 23)	1,349,577	770,319
Net debt	980,460	693,518
Less cash and cash equivalents (Note 8)	(369,117)	(76,801)
Net debt liabilities to capital	66%	51%

Financial instruments risk

Due to its activity, the Group is exposed to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

Risk management policies have been established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

¹ Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings, other reserve and translation reserve attributable to Kernel Holding S.A. shareholders.

² Debt includes short-term and long-term borrowings, obligations under finance leases, bonds issued and accrued interest.

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The carrying amount of trade receivables and other current assets, cash and cash equivalents and other financial assets represent the maximum credit exposure.

The Group's most significant customer is an international customer, which accounted for USD 24,003 thousand out of total trade accounts receivable as of 30 June 2020 (30 June 2019: one international customer accounted for USD 26,198 thousand).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which the major customers operate, has less of an influence on credit risk.

The management of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references, and also counterparty recommendations. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the management of the Group. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk in international markets, the Group presents title documents via banking channels and uses payment instruments such as letters of credit and bank guarantees. The Group holds collaterals against loans provided to farmers in the form of future harvest and immovable property in the quantity that covers loans provided according to market price.

Guarantees

As of 30 June 2020, the Company has guaranteed to unrelated party that certain subsidiaries of the group will release the assets pledged under the 3-year loan provided by the Company to unrelated party. In case subsidiaries do not release those after the loan repayment, then the Company has to pay the amount that is equal to the market price of the assets or USD 29,900 thousand. The guarantee is valid for the term of the loan agreement.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

As of 30 June 2020, the carrying amount of the Group's maximum exposure to financial obligations (including lease liabilities) was USD 1,578,092 thousand (30 June 2019: USD 1,041,369 thousand).

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The average credit period on purchases of goods is 14 days.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2020 and 2019. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
30 June 2020						
Trade accounts payable	87,508	(87,508)	(87,508)	—	—	—
Short-term borrowings (Note 20)	44,581	(45,033)	(45,033)	—	—	—
Long-term borrowings (Note 21)	179,274	(207,344)	(13,101)	(27,599)	(82,851)	(83,793)
Bonds issued (Note 23)	815,722	(975,250)	(63,250)	(563,250)	(348,750)	—
Other current liabilities	102,495	(108,710)	(108,710)	—	—	—
Other non-current liabilities	2,230	(2,230)	—	(1,002)	(1,228)	—
Total	1,231,810	(1,426,075)	(317,602)	(591,851)	(432,829)	(83,793)
30 June 2019						
Trade accounts payable	136,043	(136,043)	(136,043)	—	—	—
Short-term borrowings (Note 20)	183,692	(184,754)	(184,754)	—	—	—
Long-term borrowings (Note 21)	64,913	(82,988)	(4,510)	(7,802)	(30,141)	(40,535)
Obligations under finance leases	7,714	(9,095)	(3,113)	(2,924)	(3,058)	—
Bonds issued (Note 23)	514,000	(631,250)	(43,750)	(43,750)	(543,750)	—
Other current liabilities	55,297	(55,297)	(55,297)	—	—	—
Other non-current liabilities	43,843	(60,236)	(1,868)	(52,651)	(5,717)	—
Total	1,005,502	(1,159,663)	(429,335)	(107,127)	(582,666)	(40,535)

Financial liabilities, which were not included above, are repayable within one year.

The concentration of liquidity risk is limited due to different repayment terms of financial liabilities and sources of borrowing facilities.

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

Market Risk

The Group's activities expose it primarily to the market risks of changes in foreign currency exchange rates, interest rates and commodity risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Group measures and manages market risk using a variety of tools and metrics such as Drawdown and Value at Risk.

Value at Risk (VaR) is a statistical estimate of the potential loss in value of our positions due to adverse market movements. The Avere companies calculate VaR over a one-day time horizon with a 95 percent confidence level based on a Log-Normal assumption of Returns. Parameters are estimated using an Exponentially Weighted Moving Average over a 75 days period with a weight of 0.94. Market risk VaR was USD 6,338 thousand as of 30 June 2020.

The Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include the following:

- VaR model does not capture the liquidity of different risk positions and therefore does not estimate potential losses if the company liquidates large positions over a short period of time.
- VaR is based on historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.

The Group does not disclose sensitivity analysis based on VaR as of year-end since such analysis is unrepresentative of a risk inherent in financial instruments during the year.

Drawdown measures the difference in value from the most recent peak to the most recent trough in the market. Maximum drawdown is an indicator used to assess the relative riskiness of one instrument screening strategy versus another, as it focuses on capital preservation.

Currency Risk

The major sources of financing of the Group, prices of sales contracts with customers, and prices of significant contracts for the purchase of goods and services from suppliers are denominated in USD.

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in USD. This provides the Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The table below covers UAH and USD denominated assets and liabilities carried by Subsidiaries having distinct functional currencies.

The Group's exposure to foreign currency risk as of 30 June 2020 and 2019 was as follows:

	30 June 2020		30 June 2019	
	UAH	USD	UAH	USD
Cash and cash equivalents	16,142	9,026	1,242	146
Trade accounts receivable, net	9,042	—	11,069	—
Other current assets	534	1,666	4,798	—
Other non-current assets	320	—	5,373	4,500
Trade accounts payable	(25,234)	(4)	(30,442)	—
Other current liabilities	(43,768)	(1,923)	(1,323)	(1,479)
Current portion of lease liabilities (Note 3, 22)	(252)	(1,070)	—	—
Other non-current liabilities	(615)	(680)	(35,936)	—
Short-term borrowings from Ukrainian subsidiary of European bank (Note 20)	—	—	(24,650)	—
Long-term borrowings European Bank (Note 21)	—	(90,233)	—	(62,140)
Obligations under finance leases	—	—	—	(4,015)
Lease liabilities (Note 3, 22)	(1,725)	(1,871)	—	—
Net exposure	(45,556)	(85,089)	(69,869)	(62,988)

10% change of the UAH against the USD would prompt a fluctuation in the equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

A strengthening/ depreciation of the Ukrainian hryvnia against US dollar at 30 June would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below:

	30 June 2020		30 June 2019	
	Strengthening	Depreciation	Strengthening	Depreciation
UAH (10% movement)	3,180	(4,899)	(1,261)	(12)

During the year ended 30 June 2020, the Ukrainian hryvnia held out quite steadily against major foreign currencies. Foreign exchange gains and losses reflected the Ukrainian hryvnia fluctuation against the US dollar for the years ended 30 June 2020 and 2019. The Group recognized a net foreign exchange loss in the amount of USD 1,012 thousand for the year ended 30 June 2020 and USD 12,860 thousand gain for the year ended 30 June 2019 (Note 30). In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year. Foreign exchange gain mostly consisted of gain incurred from operations resulted from normal operating activity during the year ended 30 June 2020.

The concentration of currency risk is limited due to not significant net open position of balances in foreign currencies.

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Management of the Group optimizes the influence of currency risk in Ukrainian hryvnia through export sales expressed in USD and EUR: out of total sales amounting to USD 4,106,780 thousand, sales in USD comprised USD 3,785,044 thousand and in EUR comprised USD 195,735 thousand for the year ended 30 June 2020. Export sales represented 97% of the total sales volume.

Interest Rate Risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates.

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2020	Carrying amount as of 30 June 2019
Fixed rate instruments	1,120,491	595,226
Variable rate instruments	229,086	210,960
Total	1,349,577	806,186

The Group does not use any derivatives to manage interest rate risk exposure.

The sensitivity analysis below has been determined based on exposure to interest rates for financial liabilities at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100-basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's profit for the year (before income tax) ended 30 June 2020 would decrease/increase by USD 2,291 thousand (2019: decrease/increase by USD 2,101 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Commodity price risk

The Group enters into derivative financial instruments to manage its exposure using commodity options, futures contracts for managing the exposures associated with agricultural commodity prices. Fair value of future contracts is evaluated based on quoted prices on international markets. Changes in the fair value of these contracts are recognized in the Consolidated Statement of Profit and Loss (Note 27). For the years ended 30 June 2020 and 2019, net gain/(loss) arising on financial assets and financial liabilities mandatorily measured at FVTPL amounted to gain of USD 79,166 thousand and loss in the amount USD 13,650 thousand, respectively.

Financial instruments with commodity price risk are entered into in relation to following activities: hedging of prices realized on commodity contracts and starting from FY 2020 cash flow hedging of revenues from sunflower oil, forecasted highly probable transactions as disclosed in Note 3.

36. Financial Instruments

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

As at 30 June 2020 and 2019, the financial assets and liabilities are presented by class in the tables below at their carrying values:

	As at 30 June 2020			As at 30 June 2019		
	Amortized cost	FVTPL ¹	Total	Amortized cost	FVTPL ²	Total
Assets						
Cash and cash equivalents (Note 8)	369,117	—	369,117	76,801	—	76,801
Trade accounts receivable, net (Note 9)	215,279	—	215,279	183,196	—	183,196
Other current assets (Note 10)	32,803	—	32,803	20,221	—	20,221
Other financial assets	63,339	45,353	108,692	48,533	22,302	70,835
Other non-current assets	50,489	7,513	58,002	33,833	7,341	41,174
Liabilities						
Trade accounts payable	87,508	—	87,508	136,043	—	136,043
Borrowings (Note 20, 21)	223,855	—	223,855	248,605	—	248,605
Lease liabilities (Note 3, 22)	310,000	—	310,000	—	—	—
Obligations under finance lease	—	—	—	7,714	—	7,714
Bonds issued and interest accrued (Note 23)	815,722	—	815,722	514,000	—	514,000
Other financial liabilities	—	36,282	36,282	—	35,867	35,867
Other current liabilities	102,495	—	102,495	55,297	—	55,297
Other non-current liabilities	2,230	—	2,230	43,843	—	43,843

As of 30 June 2020, other financial assets include initial margin used as collateral for derivatives in the amount of USD 19,022 thousand (30 June 2019: USD 22,147 thousand). The cash collateral does not meet the offsetting criteria in IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and in accordance with associated collateral arrangements.

¹ FVTPL – Fair value through profit and loss.

² FVTPL – Fair value through profit and loss.

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

The derivative asset and liability meet the offsetting criteria per IAS 32. Consequently, the gross derivative liability is set off against the gross derivative asset, on a net basis in the consolidated statement of financial position only if there is a legally enforceable right to set off the recognized amounts and intention either to settle on a net basis, or to realize the asset and settle the liabilities simultaneously.

The financial assets and liabilities, which meet the criteria of offsetting as at 30 June 2020 were as follows:

	As of 30 June 2020					Total as presented in the consolidated statements of financial position
	Amounts set off in the statement of financial position			Amounts not set off in the statement of financial position		
	Gross amount of financial assets	Gross amount of financial liabilities	Net amount	Margin account with brokers	Not under master netting agreements	
Derivative assets	147,348	(133,174)	14,174	—	31,171	45,345
Derivative liabilities	4,048	(11,893)	(7,845)	—	(27,946)	(35,791)
Margin account with brokers	—	—	—	45,388	—	45,388
Payable to brokers	—	—	—	(490)	—	(490)
Total	151,396	(145,067)	6,329	44,898	3,225	54,452

The financial assets and liabilities, which meet the criteria of offsetting as at 30 June 2019 were as follows:

	As of 30 June 2019					Total as presented in the consolidated statements of financial position
	Amounts set off in the statement of financial position			Amounts not set off in the statement of financial position		
	Gross amount of financial assets	Gross amount of financial liabilities	Net amount	Margin account with brokers	Not under master netting agreements	
Derivative assets	392	(174)	218	—	31,101	31,319
Derivative liabilities	8,238	(17,608)	(9,370)	—	(26,397)	(35,767)
Margin account with brokers	—	—	—	39,075	—	39,075
Total	8,630	(17,782)	(9,152)	39,075	4,704	34,627

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial liabilities ¹	As of 30 June 2020		As of 30 June 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note 21)	179,274	180,284	64,913	65,066
Obligations under finance lease	—	—	7,714	7,709
Bonds issued (Note 23)	815,722	816,230	514,000	527,330

For the year ended 30 June 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 3.39% (2019: 5.12%) that is within level 2 of the fair value hierarchy.

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

The following table below represents the fair values of the derivative financial instruments including trade related financial and physical forward purchase as at 30 June 2020 and 2019.

	As at 30 June 2020			As at 30 June 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Other financial assets						
Physical forwards	—	31,180	31,180	—	21,591	21,591
Futures	6,679	—	6,679	318	—	318
Options	7,494	—	7,494	393	—	393
Total	14,173	31,180	45,353	711	21,591	22,302
Other financial liabilities						
Physical forwards	—	22,303	22,303	—	26,397	26,397
Futures	1,358	—	1,358	9,470	—	9,470
Derivatives held for hedging	—	5,644	5,644	—	—	—
Options	6,977	—	6,977	—	—	—
Total	8,335	27,947	36,282	9,470	26,397	35,867

¹ Including accrued interests

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

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

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

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

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

For the year ended 30 June 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 year ended 30 June 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.

As of 30 June 2020, fair value of other non-current assets and 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 year ended 30 June 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.

There were no transfers between levels of fair value hierarchy.

There were no changes in the valuation technique since the previous year.

37. Earnings per Share

Basic earnings per share from continuing and discontinued operations are computed by dividing net income from continuing and discontinued operations available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (as of 30 June 2020 and 2019, 84,031,230 and 81,941,230 shares and 82,983,367 and 81,941,230 weighted average number of ordinary shares for the periods ended then, respectively), excluding any dilutive effects of stock options. Diluted earnings per share are computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such an exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share, an average number of 83,328,986 ordinary shares is taken into account (30 June 2019: 82,820,378).

As of 30 June 2020 and 2019, total of 3,000,000 options granted under the management incentive scheme were excluded from the weighted-average number of ordinary shares calculation for the purpose of diluted earnings per share as antidilutive.

Impact from adoption of new standards on both basic and diluted earnings per share was not material.

38. Subsequent Events

As of 18 September 2020, the agency has affirmed Kernel Holding S.A.'s Long-Term Foreign and Local-Currency (LC) Long-Term Issuer Default Ratings (IDR) at 'BB-' with Stable Outlook, according to a report on the rating agency's website.

Corporate information

Headquarters

3 Tarasa Shevchenka Lane,
Kyiv, Ukraine, 01001
Tel.: +38044 4618801
Fax: +38044 4618864

Registered office

Kernel Holding S.A.
19, rue de Bitbourg
L-1273 Luxembourg

Registered number

B109173

Auditors

Deloitte Audit S.a.r.l.,
560, rue du Neudorf,
L-2220 Luxembourg

Investor relations

Mr. Yuriy Kovalchuk,
Corporate Investment Director
Mr. Michael Iavorskyi, IR Manager
ir@kernel.ua

3 Tarasa Shevchenka Lane,
Kyiv, Ukraine, 01001
Tel.: +38044 4618801, ext. 72-75

Investor calendar

Q1 FY2021 Operations Update	26 October 2020
Q1 FY2021 Financial Report	27 November 2020
Annual general shareholders' meeting	10 December 2020
Q2 FY2021 Operations Update	21 January 2021
H1 FY2021 Financial Report	26 February 2021
Q3 FY2021 Operations Update	23 April 2021
Q3 FY2021 Financial Report	28 May 2021
Q4 FY2021 Operations Update	22 July 2021
FY2021 Financial Report	4 October 2021

Stock information

Exchange.	Warsaw Stock Exchange
Stock quote currency	PLN
Shares issued as of 30 June 2020	84,031,230
Bloomberg	KER PW
Reuters ticker	KERN.WA
ISIN code	LU0327357389

Cautionary statement

Certain statements in this document are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this document or to correct any inaccuracies which may become apparent in such forward-looking statements.

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