

Q1 FY2021

KERNEL

Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020



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for the three months ended 30 September 2020

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Key Highlights

for the three months ended 30 September 2020

Financial highlights

- **Revenue** of Kernel Holding group of companies on the consolidated basis (*hereinafter "Kernel", the "Company", or the "Group"*) in Q1 FY2021 totaled to US\$ 940 million, up 11% y-o-y, driven mainly by stronger sunflower oil sales prices.
- Kernel **EBITDA** in Q1 FY2021 effectively tripled as compared to the same period of the previous year, reaching US\$ 290 million (*or US\$ 249 million if excluding IFRS 16 impact*).
 - **Oilseed Processing** EBITDA added 39% y-o-y to US\$ 31 million on the back of stronger crushing margin driven by growing sunflower oil prices and record high 2019 sunflower seed harvest in Ukraine.
 - **Infrastructure and Trading** segment EBITDA jumped to US\$ 111 million in Q1 FY2021, 3.1x growth y-o-y, driven by strong Avere performance and accelerated grain export volumes from Ukraine in the reporting quarter, despite weaker contribution from grain railcars and silo businesses.
 - **Farming** segment contributed with US\$ 161 million EBITDA in July-September 2020 (*or US\$ 120 million if excluding IFRS 16 impact*), a 2.8x increase y-o-y. A key driver was a growth in grain and oilseeds prices amid relatively mild effect of summer drought on our crop yield, which resulted in non-cash gain from revaluation of biological assets and agricultural produce, but also in strong "cash" EBITDA of this business line during the reporting period.
 - **Unallocated corporate expenses** increased to US\$ 13 million in the reporting period due to growing labor costs, including accrued FY2021 bonuses. In FY2021, we changed the principle of annual bonuses accrual: historically, all bonuses were accrued in Q4, and now we accrue annual bonuses in each quarter of the year.

- Net profit attributable to shareholders in Q1 FY2021 amounted to US\$ 204 million, representing a 3.4x growth y-o-y.
- **Net debt** as of 30 September 2020 reduced 11% y-o-y, to US\$ 1,017 million. **Readily marketable inventories** ("RMI") as of 30 September 2020 doubled from 30 June 2020 level to US\$ 489 million but remained 14% below the amount observed as of 30 September 2019, reflecting the lower size and a few weeks delay in grain harvest in Ukraine. As a result, **Net debt adjusted for RMI** reduced 8% y-o-y, to US\$ 528 million as of 30 September 2020.
- Consequently, Company's leverage improved to 1.6x Net-debt-to-EBITDA and 4.3x EBITDA-to-Interest ratio as of 30 September 2020.

Corporate highlights

- In October 2020, **S&P upgraded Kernel to "B+",** one notch above the Ukrainian sovereign.
- In October-November 2020, **Kernel successfully completed liability management exercise**, improving its debt maturity profile. In the purely refinancing transaction, Company tendered US\$ 287 million out of US\$ 500 million 8.75% 2022 notes outstanding and issued new US\$ 300 million 6.75% 7-year notes.
 - With the new issue, Kernel achieved the **highest ever discount** (ca. 115pbs) **to the sovereign** curve in the CEEMEA region¹ and a second-lowest yield ever for a non-sovereign borrower from Ukraine for a 7-year or longer new issue².
- In November 2020, the **Board of Directors of Kernel recommended the shareholders to approve the dividend of US\$ 0.42 per share** for FY2020. The recommended dividend implies 30% payout ratio and represents 68% dividend increase year-on-year. Since FY2014, Kernel paid a fixed annual dividend of US\$ 0.25 per share.

US\$ million except ratios and EPS

Income statement highlights

	Q1 FY2020	Q1 FY2021	y-o-y
Revenue ³	850	940	11%
EBITDA ⁴	107	290	2.7x
Net profit / (loss) attributable to equity holders of Kernel Holding S.A.	59	204	3.4x
EBITDA margin	13%	31%	18pp
Net margin	7%	22%	15pp
Earnings per share ⁵ , US\$	0.73	2.43	3.3x

Cash flow highlights

Operating profit before working capital changes	58	189	3.3x
Change in working capital	(110)	(159)	1.4x
Finance costs paid, net	(31)	(23)	(26%)
Income tax paid	(3)	(7)	2.8x
Net cash used in operating activities	(86)	(0)	(100%)
Net cash used in investing activities	(61)	(36)	(41%)

Liquidity and credit metrics

	30 Sep 2019	30 Jun 2020	30 Sep 2020	q-o-q
Net debt	1,144	980	1,017	4%
Readily marketable inventories ⁶	568	252	489	94%
Adjusted net debt ⁷	576	729	528	(27%)
Shareholders' equity	1,483	1,493	1,636	10%
Net debt / EBITDA ⁸	3.3x	2.2x	1.6x	-0.6x
Adjusted net debt / EBITDA ⁸	1.6x	1.6x	0.8x	-0.8x
EBITDA / Interest ⁹	3.7x	3.0x	4.3x	+1.3x

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

1 Source: J.P. Morgan, as of 20 October 2020

2 Source: Bondradar database, as of 20 October 2020

3 Due to the change in accounting policy to recognize operations with commodity futures, and as a result of adoption of IFRIC, certain reclassifications happened between "revenue", "cost of sales", and "other operating income" lines of Profit or Loss statement for FY2020 quarterly figures (see Notes 14 and 15 for details). These changes had no impact on profit from operating activities or EBITDA of the Group.

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

5 EPS is measured in US Dollars per share based on 84.0 million shares for Q1 FY2021 and 81.9 million for Q1 FY2020.

6 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.

7 Adjusted net financial debt is net debt less readily marketable inventories.

8 Calculated based on 12-month trailing EBITDA.

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

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

Segment Results and Discussion

for the three months ended 30 September 2020

Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons ¹			EBITDA margin, US\$/t ²		
	Q1 FY2020	Q1 FY2021	y-o-y	Q1 FY2020	Q1 FY2021	y-o-y	Q1 FY2020	Q1 FY2021	y-o-y	Q1 FY2020	Q1 FY2021	y-o-y
Oilseed Processing	296	293	(1%)	22	31	39%	301	296	(2%)	74	104	41%
Infrastructure and Trading	691	811	17%	35	111	3.1x	1,621	2,126	31%	22	52	2.4x
Farming	134	90	(33%)	58	161	2.8x						
Unallocated corporate expenses				(9)	(13)	35%						
Reconciliation	(276)	(254)	(8%)									
Total	846	940	11%	107	290	2.7x						

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

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

Oilseed Processing

- Generally supportive **market environment** prevailed in Q1 FY2021:
 - A record 16.4 million tons FY2020 harvest of sunflower seeds secured **sufficient supply of oilseeds** on the market to be processed in the last months of the oilseed processing season (July-August 2020), ensuring feedstock for crushing plant and contributing in such a way to higher margins;
 - At the same time, new harvest of sunflower seeds in Ukraine is expected to reduce by 15% y-o-y, to 14 million tons;
 - Sunflower oil prices** demonstrated strong growth breaking maximum since 2014, driven by envisaged lower harvest of sunflower seeds in Ukraine and Russia, supportive dynamics in prices of other vegetable oils, and weather-driven delay in the 2020 sunflower harvesting campaign. Strong prices positively impacted profitability in the whole sunflower oil production value chain.

Sunflower oil price

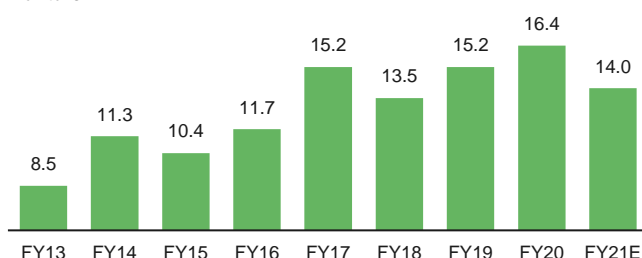
US\$ per ton of unrefined oil sold in bulk, FOB-Chornomorsk (Ukraine)



Source: Bloomberg

Sunflower seed harvest in Ukraine

million tons



Source: Kernel estimates

- Oilseed crush** in Q1 FY2021 amounted to **663 thousand tons of sunflower seeds** – the largest ever volume in the first quarter of the financial year, up 5% y-o-y.
- Kernel **sunflower oil sales volume** in Q1 FY2021 totaled at 296 thousand tons, a 2% decline y-o-y. Bottled sunflower oil sales constituted 11.5% of total sales volume in the reporting period.
- Profitability of this business remained strong at US\$ 104 **EBITDA margin per ton of oil sold**, up 41% y-o-y, driven by the supportive market fundamentals.
- Consequently, segment **EBITDA** totaled at US\$ 31 million in Q1 FY2021, a 39% y-o-y growth.
- Outlook for the whole year is uninspiring:**
 - We keep a plan to **process 3.5 million tons of sunflower seeds**, but there are significant downside risks to this target, which may materialize closer to the end of the season due to relatively weak harvest of sunflower seeds this year in Ukraine.
 - On top of that, **concerns** come also **on the margin side**. Cost of sunflower seeds in Ukraine mirror the dynamics of sunflower oil prices, and slow-selling farmers erode the margin for crushers in the current season. There are significant risks to end up the season with the margin materially below US\$ 100 EBITDA per ton oil sold observed in FY2020.

Segment volumes

metric tons	Q1 FY2020	Q1 FY2021	y-o-y
Oilseeds processed	628,726	662,613	5%
Sunflower oil sales	301,465	296,241	(2%)
Grain and oilseeds received in inland silos	1,958,971	1,254,649	(36%)
Export terminal throughput (Ukraine)	1,195,183	1,868,593	56%
Grain export from Ukraine	1,620,951	2,125,650	31%

Differences are possible due to rounding.

Segment Results and Discussion

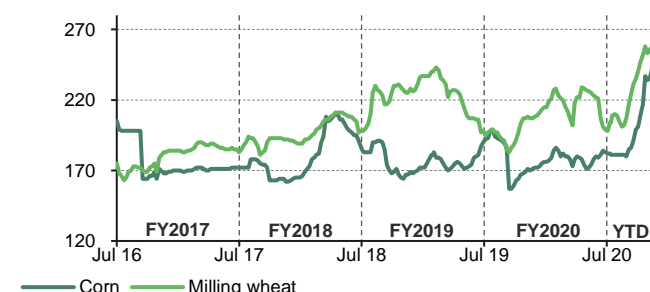
for the three months ended 30 September 2020

Infrastructure and Trading

- Grain harvest decline in Ukraine this season will translate into a downbeat **market environment**. We estimate the harvest of three key grains (corn, wheat, and barley) in Ukraine to reduce to 64 million tons, down 13% from the FY2020 level of 73 million tons. Decline in the exportable surplus may serve as a catalyst for **trading and infrastructure margins contraction** in FY2021 and cause a lower grain infrastructure capacity utilization as compared to the previous year.
- Nevertheless, Q1 FY2021 segment volumes were rather strong. Kernel **exported 2.1 million tons of grain from Ukraine**, up 31% y-o-y. Also, Group **transshipped 1.9 million tons of goods through its terminals**, up 56% y-o-y driven by incremental volume coming from Company's new grain export terminal in the port of Chornomorsk.
 - Kernel share in total grain export from Ukraine during Q1 FY2021 increased to 15%¹, solidifying company's position as the largest grain exporter from Ukraine.
- Segment **EBITDA** spiked to US\$ 111 million, 3.1x growth y-o-y, with the key tailwinds being:
 - Astounding Avere performance stemming from a proper trading position taken just before the soft commodities prices rallied; and
 - Growing grain export volumes from Ukraine together with incremental transshipment volumes handled by Group's new TransGrainTerminal.
- Outlook of the whole year** is currently positive. While infrastructure and grain export business may underperform this season due to lower margins, Avere trading activities year-to-date remain very profitable, pushing the whole segment's EBITDA to the above FY2020 level.

Ukraine grain export prices

US\$ per ton, FOB-Black Sea



Source: Bloomberg

Farming

- Market environment** this season is rewarding for the Farming segment owing to the strong growth in global prices albeit lower-than-normal crop yields in Ukraine:
 - Q1 of FY2021 has seen remarkable **gains in grain prices** amid the northern hemisphere crop reductions and extraordinary rise in Chinese demand. Corn crop prospects remained optimistic in July, but then concerns of persisting lack of rains in USA, Ukraine, and to lesser extent in EU made the market turn sharply bullish. On top of that, China, world's largest pork consumer, made good progress rebuilding its massive hog herd after swine fever losses, and has started buying grains at a record pace, above and beyond any expectations. This resulted in a surge in animal feed demand on the background of largely emptied domestic stocks.
 - Global sunflower oil prices elevation also caused a huge growth in prices for sunflower seeds in Ukraine, positively impacting Group's farming operations as well.
 - Arid summer in Ukraine **negatively impacted crop yields**, although Kernel landbank suffered less than other Ukrainian regions.
- As a result, Group faced 10-16% y-o-y **decline in crop yields**. At the date of this report, harvesting campaign is almost completed, with only 3% of corn acreage still unharvested.
 - Kernel corn yield reduced 9% y-o-y (to 7.8 tons per hectare) vs 20% y-o-y decline estimated for Ukraine average
 - Kernel sunflower seed yield reduced 13% y-o-y (to 3.0 tons per hectare) vs 19% y-o-y decline estimated for Ukraine average
 - Kernel wheat yield reduced 16% y-o-y (to 4.9 tons per hectare) vs 6% y-o-y decline estimated for Ukraine average, as, unluckily, spring frosts and dryness hit our regions of operations more severely than most other regions in Ukraine.
- Segment **EBITDA** boosted to US\$ 161 million (or US\$ 120 million if excluding IFRS 16 impact), up 2.8x y-o-y. The key growth driver was a supportive price dynamic, which positively impacted "cash" segment EBITDA, but also significantly contributed to US\$ 107 million gain from the revaluation of biological assets and agricultural produce recognized in Q1 FY2021.
- At the date of this report, we remain long for almost 700 thousand tons of grain of own produce. With the majority of our farming volumes already hedged, we keep a **positive outlook** for Farming segment for this year, targeting to reach US\$ 200 million "cash" EBITDA (i.e. EBITDA excluding IFRS 16 impact and effect from revaluation of biological assets) for the whole FY2021, as compared to US\$ 128 million result booked in FY2020.

Harvest update

	Acreage, thousand hectares			Net yields ¹ , tons / hectare			Harvest size, thousand tons		
	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y
Corn	231.4	255.4	10%	8.5	7.8	(9%)	1,975	1,992	1%
Sunflower	136.5	148.5	9%	3.5	3.0	(13%)	473	446	(6%)
Wheat	97.1	73.1	(25%)	5.9	4.9	(16%)	569	359	(37%)
Other ²	47.6	23.9	(50%)						
Total	512.7	501.0	(2%)				3,017	2,771	(8%)

Note 1 Net crop yields are projections based on 97% corn, 100% of sunflower, and 100% of wheat acreage harvested as of 26 November 2020. One ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat.

Note 2 Includes soybean, rapeseed, barley, rye, oats, forage crops and other minor crops, as well as fallow land. Differences are possible due to rounding.

¹ Source: Stark Research

Financial Highlights

for the three months ended 30 September 2020

Income statement highlights

- Kernel **revenue** in Q1 FY2021 amounted to US\$ 940 million, up 11% y-o-y, driven mainly by stronger sunflower oil sales prices.
- **Net gain from revaluation of biological assets** reached US\$ 107 million, reflecting mostly recent corn price rally.
- Group **cost of sales** in the reporting period totaled to US\$ 763 million, down 3% y-o-y, driven by lower costs of goods for resale and raw material used in Farming and Infrastructure and Trading segments.
- Consequently, **gross profit** in July-September 2020 tripled as compared to the same period of the previous year, reaching US\$ 284 million.
- **Other operating income** in Q1 FY2021 ended up at US\$ 18 million, 2.4x up y-o-y, driven primarily by contracts wash-out (price difference settlement) resulted mostly from Avere operations.
- Company's **general and administrative expenses** in the reporting period increased by 39% y-o-y, to US\$ 36 million, with such growth being solely explained by higher payroll and payroll related costs reflecting the change in the principle of the annual bonus accrual.
- As a result, **operating profit** in Q1 FY2021 increased 3.2x y-o-y, to an all-time-high quarter metric of US\$ 266 million.
- **Net finance costs** for the reporting period reduced 6% y-o-y, to US\$ 31 million. Of that, US\$ 12 million constitute land-rent-related interest on lease liabilities arising from implementation of IFRS 16.
- **Other non-operating items** resulted in a gain of US\$ 1.5 million.
- **Income tax expense** for the period totaled to US\$ 3 million.
- At a bottom line, **net profit** of the group resulted in US\$ 233 million, a 3.9x growth y-o-y. US\$ 204 million of that is attributable to shareholders of Kernel Holding S.A., and US\$ 29 million is a profit attributable to non-controlling interest.

Cash flow highlights

- Kernel generated the highest ever for one single quarter **operating profit before working capital changes** of US\$ 189 million, 3.3x growth y-o-y...
- ... but major portion of that was expectedly consumed by the **seasonal working capital accumulation** in the beginning of the new crop season, which stipulated US\$ 159 million cash outflow in Q1 FY2021. Accounting also for interest and taxes paid, Group consumed a mere US\$ 0.2 million in operating activities, as compared to US\$ 86 million depleted in July-September 2019.

- **Net cash used in investing activities** in Q1 FY2021 settled at US\$ 36 million. While purchase of PP&E under Kernel CapEx program reached US\$ 53 million, other investing activities generated in total a cash inflow of US\$ 17 million.

Credit metrics highlights

- Company's **debt liabilities** increased by 5% over Q1 FY2021, to US\$ 1,412 million, driven by increased utilization of long-term EIB facility to finance Kernel CapEx program and seasonally growing short-term debt.
- Group **cash** accumulation continued also during the reporting period, with balances reaching US\$ 395 million as of 30 September 2020.
- As a result, **net debt**, increased by a mere 4% during the reporting period, to US\$ 1,017 million.
- **Readily marketable inventories** ("RMI") doubled over Q1 FY2021, to US\$ 489 million, driven by seasonal accumulation of sunflower seeds and grain over the course of the harvesting campaign in Ukraine. Given the Company's liquidity profile, such inventory accumulation was financed mostly with own funds.
- As a result, **net debt adjusted for RMI** as of 30 September 2020 reduced 28% over three previous months, to US\$ 528 million, demonstrating a solid improvement in the Group's credit profile.
- All credit metrics also improved: **net-debt-to-EBITDA** at the end of Q1 FY2020 reduced to 1.6x from 2.2x as of 30 June 2020, **adjusted-net-debt-to-EBITDA** reached 0.8x, and interest coverage increased to 4.3x EBITDA-to-interest calculated on the 12-months trailing basis.
- Kernel had US\$ 976 million of undrawn borrowings as of 30 September 2020, of which US\$ 906 million of undrawn short-term credit lines and US\$ 70 million of undrawn long-term borrowings (EIB facility).

Credit metrics

US\$ million, except ratios	30 Sep 2019	30 Jun 2020	30 Sep 2020	q-o-q	y-o-y
Short-term interest-bearing debt	349	73	97	32%	(72%)
Long-term interest-bearing debt	71	172	226	31%	3.2x
Lease liabilities	307	310	295	(5%)	(4%)
Eurobond	496	794	794	0%	60%
Debt liabilities	1,225	1,350	1,412	5%	15%
Cash and cash equivalents	80	369	395	7%	4.9x
Net debt	1,144	980	1,017	4%	(11%)
Readily marketable inventories	568	252	489	94%	(14%)
of which sunflower oil and meal	69	96	92	(4%)	34%
Sunflower seeds	296	121	307	2.5x	4%
Grains and other RMIs	203	34	90	2.6x	(56%)
Adjusted net debt	576	729	528	(27%)	(8%)
Shareholders' equity ¹	1,483	1,493	1,636	10%	10%
Net debt / EBITDA ²	3.3x	2.2x	1.6x	-0.6x	-1.7x
Adjusted net debt / EBITDA ²	1.6x	1.6x	0.8x	-0.8x	-0.8x
EBITDA / Interest ³	3.7x	3.0x	4.3x	+1.3x	+0.7x

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

Note 2 Calculated based on 12-month trailing EBITDA.

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

Financial Highlights

for the three months ended 30 September 2020

Effect of IFRS 16 introduction on Group's Q1 FY2021 financial statements¹

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

- Company recognized US\$ 335 million right-of-use assets (mainly rights to lease land) and US\$ 295 million corresponding lease liabilities as of 30 September 2020.
- Rental payments disappeared and were replaced by amortization of right-of-use assets and finance expenses attached to lease liabilities. This effect was not fully observable in FY2020 (as company was expensing rental payments which have occurred before IFRS 16 introduction) and will be fully observable only starting from FY2021.

Effect on Statement of Profit or Loss

in US\$ million	Q1 FY2020			Q1 FY2021		
	prior to IFRS 16	IFRS 16 effect	with IFRS 16	prior to IFRS 16	IFRS 16 effect	with IFRS 16
Revenues	850	-	850	940	-	940
Revaluation of biological assets	30	4	34	80	27	107
Cost of sales	(785)	2	(783)	(774)	11	(763)
of which amortization and depreciation	(21)	(2)	(23)	(20)	(3)	(23)
Rental payments	(17)	4	(13)	(17)	14	(3)
Gross profit	95	5	101	246	38	284
Other operating income	8	-	8	18	-	18
General and administrative expenses	(26)	(0)	(26)	(36)	(0)	(36)
Operating profit	77	5	82	228	38	266
Finance costs	(20)	(13)	(33)	(19)	(12)	(31)
Other non-operating items	12	0	13	2	(0)	2
Profit before income tax	70	(8)	62	210	26	236
Income tax	(2)	-	(2)	(3)	-	(3)
Net profit	68	(8)	60	207	26	233
Net profit attributable to shareholders	67	(8)	59	178	26	204
Depreciation and amortization	(21)	(3)	(24)	(21)	(3)	(24)
EBITDA	99	8	107	249	41	290

Effect on Statement of Financial Position

in US\$ million	30 June 2020			30 Sep 2020		
	prior to IFRS 16	IFRS 16 effect	with IFRS 16	prior to IFRS 16	IFRS 16 effect	with IFRS 16
Current assets	1,533	(2)	1,531	1,871	3	1,875
Non-current assets	1,331	303	1,634	1,332	293	1,626
of which right-of-use assets	-	347	347	-	335	335
other non-current assets	1,331	(44)	1,286	1,332	(42)	1,291
Total assets	2,864	301	3,165	3,204	296	3,500
Current liabilities	392	21	413	501	26	527
of which current portion of lease liabilities	-	45	45	-	37	37
other current liabilities	392	(24)	368	501	(11)	490
Non-current liabilities	998	260	1,258	1,052	253	1,305
of which lease liabilities	-	265	265	-	258	258
other non-current liabilities	998	(5)	993	1,052	(5)	1,047
Equity	1,474	20	1,494	1,651	18	1,668
Total liabilities and equity	2,864	301	3,165	3,204	296	3,500

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

Alternative Performance Measures

for the three months ended 30 September 2020

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

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

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

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

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

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

EBITDA and EBITDA margin

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

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

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

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

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

- **EBITDA** and **EBITDA margin** do not reflect the impact of depreciation and amortization on the Group's performance. The assets of the Group, which are being depreciated and/or amortized, will need to be replaced in the future and such depreciation and amortization expense may approximate the cost of replacing these assets in the future. By excluding this expense from **EBITDA** and **EBITDA margin**, such measures do not reflect the Group's future cash requirements for these replacements;
- **EBITDA** and **EBITDA margin** do not reflect the impact of share of income / loss of joint ventures, which are accounted under equity method;
- **EBITDA** and **EBITDA margin** do not reflect the impact of foreign exchange gain/(loss), which the Group does not consider to be part of its core operating performance because the main difference arise on transactions between entities of the Group with different functional currencies;
- **EBITDA** and **EBITDA margin** do not reflect the impact of other expenses; as such expenses are not a part of Group's core operations. Segment EBITDA and Segment EBITDA margin

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

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

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

<i>in thousand US\$ except the margin</i>	Q1 FY2020	Q1 FY2021
Profit from operating activities	82,490	265,977
<i>add back:</i>		
Amortization and depreciation	24,049	23,978
EBITDA	106,539	289,955
Revenue	849,996	940,261
EBITDA margin	12.5%	30.8%

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

for the three months ended 30 September 2020

Investing Cash Flows less Net Fixed Assets Investments

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

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

Net Fixed Assets Investments

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

Operating Cash Flows before Working Capital Changes

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

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

Calculation of Segment EBITDA and Segment EBITDA margin:

<i>in thousand US\$</i>	Q1 FY2020	Q1 FY2021
Oilseed Processing		
Profit from operating activities	18,384	25,749
plus Amortization and depreciation	3,907	5,130
Segment EBITDA	22,291	30,879
Segment revenue	296,148	293,471
Segment EBITDA margin	8%	11%
Trading and Infrastructure		
Profit from operating activities	30,202	105,539
plus Amortization and depreciation	5,144	5,725
Segment EBITDA	35,346	111,264
Segment revenue	695,023	810,868
Segment EBITDA margin	5%	14%
Farming		
Profit from operating activities	43,800	147,891
plus Amortization and depreciation	14,537	12,635
Segment EBITDA	58,337	160,526
Segment revenue	134,417	89,527
Segment EBITDA margin	43%	179%
Other		
Loss from operating activities	(9,896)	(13,202)
plus Amortization and depreciation	461	488
Segment EBITDA	(9,435)	(12,714)

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

<i>in thousand US\$</i>	Q1 FY2020	Q1 FY2021
Net cash used in investing activities	(61,313)	(36,291)
<i>Adding back:</i>		
Purchase of property, plant and equipment	(66,267)	(52,924)
Proceeds from disposal of property, plant and equipment	1,907	872
Investing Cash Flows net of Fixed Assets Investments	3,047	15,761

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

<i>in thousand US\$</i>	Q1 FY2020	Q1 FY2021
Net cash used in investing activities	(61,313)	(36,291)
<i>less:</i>		
Investing Cash Flows less Net Fixed Assets Investments	3,047	15,761
Net Fixed Assets Investments	(64,360)	(52,052)

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

<i>in thousand US\$</i>	Q1 FY2020	Q1 FY2021
Net cash used in operating activities	(85,934)	(161)
<i>Less:</i>		
Changes in working capital, including:	(110,337)	(159,131)
Change in trade and other accounts receivable	2,306	(49,690)
Change in prepayments and other current assets	17,437	7,831
Change in restricted cash balance	(152)	1,909
Change in taxes recoverable and prepaid	(58,964)	(33,642)
Change in biological assets	207,310	117,540
Change in inventories	(308,728)	(276,292)
Change in trade accounts payable	20,136	65,405
Change in advances from customers and other current liabilities	10,318	7,808
Operating Cash Flows before Working Capital Changes	24,403	158,970

Alternative Performance Measures

for the three months ended 30 September 2020

Free Cash Flows to the Firm

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

Readily Marketable Inventories

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

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

Debt Liabilities

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

- bonds issued, interest on bonds issued;
- long-term borrowings;
- current portion of long-term borrowings;
- short-term borrowings; and
- lease liabilities (including current portion).

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

Adjusted Working Capital

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

Calculation of Free Cash Flows to the Firm:

<i>in thousand US\$</i>	Q1 FY2020	Q1 FY2021
Net cash used in operating activities	(85,934)	(161)
Net cash used in investing activities	(61,313)	(36,291)
Free Cash Flows to the Firm	(147,247)	(36,452)

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

<i>in thousand US\$</i>	As of 30 September 2019	As of 30 September 2020
Sunflower oil & meal	68,679	92,347
Sunflower seed	296,232	306,709
Grains	202,054	89,715
Other	107,560	85,775
Total	674,526	574,546
<i>of which: Readily Marketable Inventories</i>	568,368	488,914

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

<i>in thousand US\$</i>	As of 30 September 2019	As of 30 September 2020
Bonds issued	496,355	794,359
Interest on bonds issued	7,131	15,975
Long-term borrowings	71,465	226,086
Current portion of long-term borrowings	1,233	10,007
Short-term borrowings	340,940	70,683
Lease liabilities	290,105	257,659
Current portion of lease liabilities	17,366	37,085
Debt Liabilities	1,224,595	1,411,854
less: cash and cash equivalents	80,134	394,667
Net Debt	1,144,461	1,017,187
less: readily marketable inventories	568,368	488,914
Adjusted Net Debt	576,093	528,273

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

<i>in thousand US\$</i>	As of 30 September 2019	As of 30 September 2020
Total current assets	1,487,525	1,874,665
<i>less:</i>		
Cash and cash equivalents	80,134	394,667
Assets classified as held for sale	521	404
Total current liabilities	681,286	527,289
<i>add back:</i>		
Short-term borrowings	340,940	70,683
Current portion of long-term borrowings	1,233	10,007
Current portion of lease liabilities	17,366	37,085
Interest on bonds issued	7,131	15,975
Adjusted Working Capital	1,092,254	1,086,055

Alternative Performance Measures

for the three months ended 30 September 2020

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

APM	Calculation	Why APM is the most important for management
EBITDA	Profit from operating activities adding back amortization and depreciation.	EBITDA is the main metric used by management of the Group to measure operating performance. It is also widely used by investors when evaluating businesses, and by rating agencies and creditors to evaluate the leverage.
EBITDA margin	EBITDA divided by revenue during the reporting period.	EBITDA margin is a metric widely used to measure profitability of Group's operations.
Segment EBITDA	Segment profit from operating activities adding back amortization and depreciation.	EBITDA is the main metric used by management of the Group to measure segment operating performance.
Segment EBITDA margin	Segment EBITDA divided by segment revenue during the reporting period.	Segment EBITDA margin is a metric widely used to measure profitability of Group's segment operations.
Investing Cash Flows less Net Fixed Assets Investments	Net cash used in investing activities adding back purchase of property, plant and equipment, and proceeds from disposal of property, plant and equipment.	As the Group grew and developed through acquisitions, this APM helps to monitor the M&A and other investing activities of the Group.
Net Fixed Assets Investments	Net cash used in investing activities less Investing Cash Flows less Net Fixed Assets Investments , or alternatively may be calculated as cash used for purchase of property, plant and equipment less proceeds from disposal of property, plant and equipment.	The Group is executing a solid investment program as a part of Strategy 2021, and fixed assets investment is an important measure to monitor capital expenditure as a part of the execution of investment program.
Operating Cash Flows before Working Capital Changes	Net cash generated by operating activities less changes in working capital activities, including: <ul style="list-style-type: none"> • change in trade and other accounts receivable; • change in prepayments and other current assets; • change in restricted cash balance; • change in taxes recoverable and prepaid; • change in biological assets; • change in inventories; • change in trade accounts payable; and • change in advances from customers and other current liabilities. 	The Group uses this APM as a pre-working capital measure that reflects Group's ability to generate cash for investment, debt servicing and distributions to shareholders.
Free Cash Flows to the Firm	Sum of net cash generated by operating activities and net cash used in investing activities.	The Group uses this APM as it reflects the cash generating capability of the Group to repay debt and distribute dividends to shareholders.
Readily Marketable Inventories	Agricultural inventories, such as corn, wheat, barley, soybean, sunflower seed, meal and oil.	The Group uses this APM as an additional measure of its liquidity, which the Group uses to provide a supplemental tool to assist management and investors in evaluating current business performance and in calculating credit ratios under certain of the Group's financing arrangements.
Debt Liabilities	Sum of bonds issued, interest on bonds issued, long-term borrowings, current portion of long-term borrowings, short-term borrowings; and lease liabilities (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 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.

Selected Financial Data

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

		USD ¹		PLN		EUR	
		30 September 2020	30 September 2019	30 September 2020	30 September 2019	30 September 2020	30 September 2019
I.	Revenue	940,261	849,996	3,574,872	3,301,894	804,675	764,486
II.	Profit from operating activities	265,977	82,490	1,011,245	320,441	227,623	74,192
III.	Profit before income tax	236,171	61,685	897,922	239,622	202,115	55,479
IV.	Profit for the period from continuing operations	233,385	59,608	887,330	231,553	199,731	53,611
V.	Net cash used in operating activities	(161)	(85,934)	(612)	(333,820)	(138)	(77,289)
VI.	Net cash used in investing activities	(36,291)	(61,313)	(137,978)	(238,176)	(31,057)	(55,145)
VII.	Net cash generated by financing activities	63,890	150,539	242,910	584,784	54,677	135,395
VIII.	Total net cash flow	27,438	3,292	104,320	12,788	23,482	2,961
IX.	Total assets	3,500,188	3,096,952	13,531,027	12,387,808	2,989,161	2,832,472
X.	Current liabilities	527,289	681,286	2,038,394	2,725,144	450,305	623,104
XI.	Non-current liabilities	1,304,767	934,232	5,043,968	3,736,928	1,114,271	854,449
XII.	Issued capital	2,219	2,164	8,578	8,656	1,895	1,979
XIII.	Total equity	1,668,132	1,481,434	6,448,665	5,925,736	1,424,585	1,354,919
XIV.	Number of shares	84,031,230	81,941,230	84,031,230	81,941,230	84,031,230	81,941,230
XV.	Profit per ordinary share (in USD/PLN/EUR)	2.43	0.73	9.23	2.82	2.08	0.65
XVI.	Diluted number of shares	84,031,230	82,741,022	84,031,230	82,741,022	84,031,230	82,741,022
XVII.	Diluted profit per ordinary share (in USD/PLN/EUR)	2.43	0.72	9.23	2.79	2.08	0.65
XVIII.	Book value per share (in USD/PLN/EUR)	19.47	18.10	75.27	72.40	16.63	16.55
XIX.	Diluted book value per share (in USD/PLN/EUR)	19.47	17.92	75.27	71.68	16.63	16.39

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

Condensed Consolidated Interim Statement of Financial Position

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Assets				
Current assets				
Cash and cash equivalents	7	394,667	369,117	80,134
Trade accounts receivable, net		244,371	215,279	194,898
Prepayments to suppliers and other current assets, net		136,308	148,916	110,106
Corporate income tax prepaid		1,397	247	9,165
Taxes recoverable and prepaid, net		160,201	132,748	190,363
Inventory	8	574,546	303,402	674,526
Biological assets	9	221,510	252,184	165,084
Other financial assets		141,261	108,692	62,728
Assets classified as held for sale		404	432	521
Total current assets		1,874,665	1,531,017	1,487,525
Non-current assets				
Property, plant and equipment, net	10	998,851	984,368	864,766
Right-of-use assets		334,905	347,296	354,720
Intangible assets, net		63,898	68,085	91,714
Goodwill		122,163	123,487	109,793
Investments in joint ventures		—	—	55,913
Deferred tax assets		10,315	9,152	6,372
Corporate income tax prepaid		—	—	4,992
Other non-current assets		95,391	101,298	121,157
Total non-current assets		1,625,523	1,633,686	1,609,427
Total assets		3,500,188	3,164,703	3,096,952
Liabilities and equity				
Current liabilities				
Trade accounts payable		151,341	87,508	162,944
Advances from customers and other current liabilities		173,609	170,534	122,551
Short-term borrowings	11	70,683	44,581	340,940
Current portion of long-term borrowings		10,007	6,871	1,233
Current portion of lease liabilities		37,085	44,872	17,366
Interest on bonds issued	13	15,975	21,945	7,131
Other financial liabilities		68,589	36,282	29,121
Total current liabilities		527,289	412,593	681,286
Non-current liabilities				
Long-term borrowings	12	226,086	172,403	71,465
Bonds issued	13	794,359	793,777	496,355
Lease liabilities		257,659	265,128	290,105
Deferred tax liabilities		24,575	24,449	27,294
Other non-current liabilities		2,088	2,230	49,013
Total non-current liabilities		1,304,767	1,257,987	934,232
Equity attributable to Kernel Holding S.A. equity holders				
Issued capital		2,219	2,219	2,164
Share premium reserve		500,378	500,378	481,878
Additional paid-in capital		39,944	39,944	39,944
Equity-settled employee benefits reserve		4,624	4,624	9,391
Revaluation reserve		62,249	62,249	62,249
Other reserves		(7,058)	(3,523)	—
Translation reserve		(750,825)	(697,555)	(659,551)
Retained earnings		1,784,354	1,584,331	1,546,808
Total equity attributable to Kernel Holding S.A. equity holders		1,635,885	1,492,667	1,482,883
Non-controlling interests		32,247	1,456	(1,449)
Total equity		1,668,132	1,494,123	1,481,434
Total liabilities and equity		3,500,188	3,164,703	3,096,952
Book value		1,635,885	1,492,667	1,482,883
Number of shares		84,031,230	84,031,230	81,941,230
Book value per share (in USD)		19.47	17.76	18.10
Diluted number of shares		84,031,230	83,328,986	82,741,022
Diluted book value per share (in USD)		19.47	17.91	17.92
On behalf of the Board of Directors				

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

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

Condensed Consolidated Interim Statement of Profit or Loss

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2020	3 months ended 30 September 2019
Revenue	14, 17	940,261	849,996
Net change in fair value of biological assets and agricultural produce	9	106,722	33,948
Cost of sales	15, 17	(763,197)	(783,221)
Gross profit		283,786	100,723
Other operating income, net		18,451	7,786
General and administrative expenses	16	(36,260)	(26,019)
Profit from operating activities		265,977	82,490
Finance costs, net		(31,348)	(33,409)
Foreign exchange gain, net		2,118	5,175
Other (expenses)/income, net		(576)	2,768
Share of income of joint ventures		—	4,661
Profit before income tax		236,171	61,685
Income tax expenses		(2,786)	(2,077)
Profit for the period from continuing operations		233,385	59,608
Profit for the period		233,385	59,608
Profit/(Loss) for the period attributable to:			
Equity holders of Kernel Holding S.A.		204,052	59,443
Non-controlling interests		29,333	165
Earnings per share			
From continuing operations			
Weighted average number of shares		84,031,230	81,941,230
Profit per ordinary share (in USD)		2.43	0.73
Diluted number of shares		84,031,230	82,741,022
Diluted profit per ordinary share (in USD)		2.43	0.72

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

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

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2020	3 months ended 30 September 2019
Profit for the period		233,385	59,608
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(53,485)	75,520
Loss arising on cash flow hedge		(6,841)	—
Income tax related to this item		950	—
Other comprehensive (loss)/income, net		(59,376)	75,520
Total comprehensive income for the period		174,009	135,128
Total comprehensive income attributable to:			
Equity holders of Kernel Holding S.A.		147,247	134,288
Non-controlling interests		26,762	840

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Condensed Consolidated Interim Statement of Changes in Equity

for the three months ended 30 September 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 reserves	Translation reserve	Retained Earnings	Total	Non-controlling interests	Total equity
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	—	—	—	—	—	—	—	59,443	59,443	165	59,608
Other comprehensive income	—	—	—	—	—	—	74,845	—	74,845	675	75,520
Total comprehensive income for the period	—	—	—	—	—	—	74,845	59,443	134,288	840	135,128
Effect of changes on minority interest	—	—	—	—	—	—	—	(2,631)	(2,631)	2,631	—
Recognition of share-based payments	—	—	—	280	—	—	—	—	280	—	280
Balance as of 30 September 2019	2,164	481,878	39,944	9,391	62,249	—	(659,551)	1,546,808	1,482,883	(1,449)	1,481,434
Profit for the period	—	—	—	—	—	—	—	40,981	40,981	4,168	45,149
Other comprehensive (loss)/income	—	—	—	—	—	(29,513)	13,693	—	(15,820)	(11,122)	(26,942)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(29,513)	13,693	40,981	25,161	(6,954)	18,207
Increase of share capital	55	13,555	—	—	—	—	—	—	13,610	—	13,610
Distribution of dividends	—	—	—	—	—	—	—	(20,485)	(20,485)	—	(20,485)
Recognition of share-based payments	—	4,945	—	(4,767)	—	—	—	109	287	—	287
Balance as of 31 December 2019	2,219	500,378	39,944	4,624	62,249	(29,513)	(645,858)	1,567,413	1,501,456	(8,403)	1,493,053
(Loss)/Profit for the period	—	—	—	—	—	—	—	(24,875)	(24,875)	2,681	(22,194)
Other comprehensive income/(loss)	—	—	—	—	—	36,265	(93,867)	—	(57,602)	12,986	(44,616)
Total comprehensive income/(loss) for the period	—	—	—	—	—	36,265	(93,867)	(24,875)	(82,477)	15,667	(66,810)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(16)	(16)
Balance as of 31 March 2020	2,219	500,378	39,944	4,624	62,249	6,752	(739,725)	1,542,538	1,418,979	7,248	1,426,227
Profit/(Loss) for the period	—	—	—	—	—	—	—	42,316	42,316	(2,129)	40,187
Other comprehensive (loss)/income	—	—	—	—	—	(10,275)	42,170	—	31,895	(3,663)	28,232
Total comprehensive (loss)/income for the period	—	—	—	—	—	(10,275)	42,170	42,316	74,211	(5,792)	68,419
Distribution of dividends	—	—	—	—	—	—	—	(523)	(523)	—	(523)
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
Profit for the period	—	—	—	—	—	—	—	204,052	204,052	29,333	233,385
Other comprehensive loss	—	—	—	—	—	(3,535)	(53,270)	—	(56,805)	(2,571)	(59,376)
Total comprehensive (loss)/income for the period	—	—	—	—	—	(3,535)	(53,270)	204,052	147,247	26,762	174,009
Effect of changes on minority interest	—	—	—	—	—	—	—	(4,029)	(4,029)	4,029	—
Balance as of 30 September 2020	2,219	500,378	39,944	4,624	62,249	(7,058)	(750,825)	1,784,354	1,635,885	32,247	1,668,132

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

Condensed Consolidated Interim Statement of Cash Flows

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

	Notes	3 months ended 30 September 2020	3 months ended 30 September 2019
Operating activities:			
Profit before income tax		236,171	61,685
Adjustments for:			
Amortization and depreciation		23,978	24,049
Finance costs, net		31,348	33,409
Movement in allowance for doubtful receivables	16	32	2,178
Other accruals		(649)	475
Loss/(Gain) on disposal of property, plant and equipment		436	(128)
Net foreign exchange gain		(1,397)	(7,145)
Net change in fair value of biological assets and agricultural produce	9	(106,722)	(33,948)
Share of income of joint ventures		—	(4,661)
Gain on sales of subsidiaries	6	(1,249)	(2,845)
Net loss/(gain) arising on financial assets classified as at fair value through profit or loss		6,808	(15,450)
Operating profit before working capital changes		188,756	57,619
Changes in working capital:			
Change in trade and other accounts receivable ¹		(49,690)	2,306
Change in prepayments and other current assets		7,831	17,437
Change in restricted cash balance		1,909	(152)
Change in taxes recoverable and prepaid		(33,642)	(58,964)
Change in biological assets		117,540	207,310
Change in inventories		(276,292)	(308,728)
Change in trade accounts payable		65,405	20,136
Change in advances from customers and other current liabilities		7,808	10,318
Cash generated from/(used in) operations		29,625	(52,718)
Interest paid		(24,363)	(31,893)
Interest received		1,828	1,246
Income tax paid		(7,251)	(2,569)
Net cash used in operating activities		(161)	(85,934)
Investing activities:			
Purchase of property, plant and equipment		(52,924)	(66,267)
Proceeds from disposal of property, plant and equipment		872	1,907
Payment for lease agreements		(538)	—
Purchase of intangible and other non-current assets		(960)	(104)
Disposal of subsidiaries	6	1,446	1,879
Amount advanced for subsidiaries		—	546
Amount advanced to related parties		(1,887)	—
Proceeds from return of loans by related parties		17,700	—
Proceeds from disposal of financial assets		—	726
Net cash used in investing activities		(36,291)	(61,313)
Financing activities:			
Proceeds from borrowings		116,673	213,534
Repayment of borrowings		(32,443)	(52,100)
Repayment of lease liabilities		(19,015)	(11,947)
Net cash generated by financing activities		65,215	149,487
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,325)	1,052
Net increase in cash and cash equivalents		27,438	3,292
Cash and cash equivalents, at the beginning of the period	7	367,204	76,417
Cash and cash equivalents, at the end of the period	7	394,642	79,709

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

¹ Includes movement in other financial assets

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 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 September 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. All the Group's manufacturing facilities are based in Ukraine.

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

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

The primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest and voting rights as of		
			30 September 2020	30 June 2020	30 September 2019
Jerste S.a.r.l. ¹	Holding companies.	Luxembourg	0.0%	0.0%	100.0%
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%	100.0%
Avere Commodities SA		Switzerland	60.0%	72.5%	72.5%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%	100.0%
Kropyvnytskyi OEP PJSC		Ukraine	99.2%	99.2%	99.2%
BSI LLC		Ukraine	100.0%	100.0%	100.0%
Prydniprovskyi OEP LLC		Ukraine	100.0%	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.0%	94.0%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0%	100.0%	100.0%
Bilovodskyi KHP PJSC		Ukraine	91.12%	91.12%	91.12%
Hliborob LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%	100.0%
Prydniprovskyi Kray ALLC		Ukraine	100.0%	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%	100.0%
AF Semerenky LLC		Ukraine	100.0%	100.0%	100.0%
Hovtva ALLC		Ukraine	100.0%	100.0%	100.0%

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 23 November 2020.

2. Change in Issued Capital

Since 15 September 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg). The issued capital of the Holding as of 30 September 2020, 30 June 2020 and 31 September 2019 consisted of 84,031,230, 84,031,230 and 81,941,230 ordinary electronic shares without indication of the nominal value, respectively. Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

			As of 30 September 2020		As of 30 June 2020		As of 30 September 2019	
			Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders								
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')			32,903,278	39.16%	32,903,278	39.16%	32,716,775	39.93%
Free float			51,127,952	60.84%	51,127,952	60.84%	49,224,455	60.07%
Total			84,031,230	100.00%	84,031,230	100.00%	81,941,230	100.00%

¹ The company was merged to Kernel Holding S.A. in March 2020

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

As of 30 September 2020, 30 June 2020 and 30 September 2019, 100% of the beneficial interest in the Major Equity Holder was held by Andrii Mykhailovych Verevskyi (hereinafter the 'Beneficial Owner').

As of and during the three months ended 30 September 2020, the fair value of the share-based options granted to the management was USD 4,624 thousand and no expenses were recognized (part of payroll and payroll related expenses), since all the existing options have been already vested (as of and during the three months ended 30 September 2019: USD 9,391 thousand and USD 280 thousand, respectively).

3. Summary of Significant Accounting Policies

Basis of Preparation and Accounting

The consolidated interim financial statements of the Group for the three months ended 30 September 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) 34 Interim Financial Reporting and do not include all the information and disclosures required in the annual consolidated financial statements.

The 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

At the date of authorization of these interim consolidated financial statements, the following standards and interpretations, as well as amendments to the standards had been adopted:

Standards and Interpretations	Effective for annual period beginning on or after
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 September 2020	Average rate for the 3 months ended 30 September 2020	Closing rate as of 30 September 2019	Average rate for the 3 months ended 30 September 2019
USD/UAH	28.2989	27.5996	24.0828	25.2613
USD/EUR	0.8540	0.8558	0.9146	0.8994
USD/PLN	3.8658	3.8020	4.0000	3.8846

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.

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

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 Interim Statement of Profit or Loss.

Reclassifications

Certain reclassifications have been made to the condensed consolidated interim financial statements as of 30 September 2019 and for the period then ended to conform to the current period's presentation.

4. 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 the 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 the 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).

In the 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, 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 September-November, respectively. The Infrastructure and Trading segment usually experiences somewhat higher volumes in the several months after the commencement of the harvesting campaign (July for early grains and September for crops harvested in autumn). In addition, the farming segment usually reflects a higher effect from the IAS 41 valuation of biological assets in the last quarter of the financial year when more acreage is revalued to fair value less costs to sell and a higher effect from the IAS 41 valuation of agricultural produce in the first half of the financial year due to the completion of the harvesting campaign.

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

5. Key Data by Operating Segment

Key data by operating segment for the three months ended 30 September 2020:

	Oilseed Processing	Infrastructure and Trading	Farming	Other ¹	Reconciliation	Continuing operations
Revenue (external)	129,113	803,803	7,345	—	—	940,261
Intersegment sales	164,358	7,065	82,182	—	(253,605)	—
Total revenue	293,471	810,868	89,527	—	(253,605)	940,261
Net change in fair value of biological assets and agricultural produce	—	—	106,722	—	—	106,722
Other operating income, net	(1,068)	17,527	1,290	702	—	18,451
Profit/(Loss) from operating activities	25,749	105,539	147,891	(13,202)	—	265,977
Finance costs, net	—	—	—	—	—	(31,348)
Foreign exchange gain, net	—	—	—	—	—	2,118
Other expenses, net	—	—	—	—	—	(576)
Share of gain of joint ventures	—	—	—	—	—	—
Income tax expenses	—	—	—	—	—	(2,786)
Profit for the period from continuing operations	—	—	—	—	—	233,385
Total assets	1,353,253	1,194,175	872,921	79,839	—	3,500,188
Capital expenditures	24,012	15,858	30,807	598	—	71,275
Amortization and depreciation	5,130	5,725	12,635	488	—	23,978
Liabilities	136,140	165,069	359,757	1,171,090	—	1,832,056

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

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Reconciliation	Continuing operations
Revenue (external)	154,955	687,560	7,481	—	—	849,996
Intersegment sales	141,193	7,463	126,936	—	(275,592)	—
Total revenue	296,148	695,023	134,417	—	(275,592)	849,996
Net change in fair value of biological assets and agricultural produce	—	—	33,948	—	—	33,948
Other operating income, net	43	(3,501)	10,737	507	—	7,786
Profit/(Loss) from operating activities	18,384	30,202	43,800	(9,896)	—	82,490
Finance costs, net	—	—	—	—	—	(33,409)
Foreign exchange gain, net	—	—	—	—	—	5,175
Other income, net	—	—	—	—	—	2,768
Share of income of joint ventures	—	—	—	—	—	4,661
Income tax expenses	—	—	—	—	—	(2,077)
Profit for the period from continuing operations	—	—	—	—	—	59,608
Total assets	1,111,922	911,770	1,015,743	57,517	—	3,096,952
Capital expenditures	53,408	26,757	23,286	948	—	104,399
Amortization and depreciation	3,907	5,144	14,537	461	—	24,049
Liabilities	106,697	124,349	402,312	982,160	—	1,615,518

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

	For the 3 months ended 30 September 2020				For the 3 months ended 30 September 2019			
	Oilseed Processing	Infrastructure and Trading	Farming	Continuing Operations	Oilseed Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	122,435	776,292	7,345	906,072	148,034	671,663	7,481	827,178
Freight and other services	6,678	27,511	—	34,189	6,921	15,897	—	22,818
Total external revenue from contracts with customers	129,113	803,803	7,345	940,261	154,955	687,560	7,481	849,996

During the three months ended 30 September 2020, revenues of approximately USD 75,606 thousand (2019: USD 74,882 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 96.0% of total external sales (2019: 95.7%).

For the three months ended 30 September 2020, revenue from the Group's top five customers accounted for approximately 29.5% of total revenue (for the three months ended 30 September 2019, revenue from the top five customers accounted for 30.4% of total revenue).

¹ Income, expenses, assets and liabilities unallocated to any segment, included in the 'Other' line

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

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 3 months ended 30 September 2020		As of and for the 3 months ended 30 September 2019	
	Revenue from external customers	Non-current assets	Revenue from external customers	Non-current assets
Ukraine	580,088	1,554,738	483,131	1,543,843
Europe	336,820	3,315	300,771	2,503
North America	23,353	480	66,094	275
Other locations	—	380	—	56,434
Total	940,261	1,558,913	849,996	1,603,055

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 September 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.

6. Acquisition and Disposal of Subsidiaries

No entities were acquired during the three months ended 30 September 2020 and 2019.

During the three months ended 30 September 2020, as a result of the optimization process of the logistic assets, the Group disposed of two grain elevators located in Kharkov regions. The net assets of the disposed entities as of the date of disposal were equal to USD 197 thousand and the cash consideration received was USD 1,446 thousand.

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

7. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Cash in banks in USD	380,642	340,737	63,996
Cash in banks in UAH	3,796	18,140	14,177
Cash in banks in other currencies	10,223	10,235	1,955
Cash on hand	6	5	6
Total	394,667	369,117	80,134
Less restricted and blocked cash on security bank accounts	—	(1,909)	(290)
Less bank overdrafts (Note 11)	(25)	(4)	(135)
Cash for the purposes of cash flow statement	394,642	367,204	79,709

8. Inventory

The balances of inventories were as follows:

	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Raw materials	355,648	148,517	357,553
Finished products	83,796	94,744	64,306
Goods for resale	78,237	35,575	92,973
Agricultural products	30,598	4,268	120,087
Work in progress	11,142	2,547	23,975
Fuel	5,212	6,383	5,820
Packaging materials	1,287	1,429	1,878
Other inventories	8,626	9,939	7,934
Total	574,546	303,402	674,526

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

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

As of 30 September 2020, raw materials mostly consisted of sunflower seed stock in the amount of USD 306,709 thousand (as of 30 June 2020 and 30 September 2019: USD 121,402 thousand and USD 296,353 thousand, respectively).

As of 30 September 2020, finished goods mostly consisted of sunflower oil sold in bulk in the amount of USD 63,264 thousand (as of 30 June 2020 and 30 September 2019: USD 78,893 thousand and USD 44,060 thousand, respectively).

As of 30 September 2020, write-downs of inventories to net realizable value amounted to USD 121 thousand (30 September 2019: USD 3,136 thousand) and were recognized as an expense within the line "Cost of sales".

As of 30 September 2020, inventory balances in the amounts of USD 122,453 thousand (as of 30 June 2020 and 30 September 2019: USD 118,657 thousand and USD 212,439 thousand, respectively) were pledged as security for short-term borrowings (Note 11).

9. Biological Assets

The balances of biological assets were as follows:

	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Non-current assets			
Non-current cattle	6,467	6,786	5,264
Total	6,467	6,786	5,264
Current assets			
Crops in fields	220,066	250,672	162,990
Current cattle	1,444	1,512	2,094
Total	221,510	252,184	165,084

The following table represents the changes in the carrying amounts of crops in fields during the three months ended 30 September 2020 and 2019:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 30 June 2019	252,923	54,192	307,115
Expenditures capitalized in biological assets (harvest and sowing under harvest 2019)	75,585	—	75,585
Decrease due to harvest (harvest 2019)	(208,469)	(52,627)	(261,096)
Gain arising from changes in fair value biological assets (sowing under harvest 2019)	—	35,330	35,330
Exchange difference	5,892	164	6,056
As of 30 September 2019	125,931	37,059	162,990
As of 30 June 2020	210,135	40,537	250,672
Expenditures capitalized in biological assets (harvest and sowing under harvest 2020)	75,865	—	75,865
Decrease due to harvest (harvest 2020)	(148,296)	(45,425)	(193,721)
Gain arising from changes in fair value biological assets (sowing under harvest 2020)	—	99,630	99,630
Exchange difference	(10,039)	(2,341)	(12,380)
As of 30 September 2020	127,665	92,401	220,066

For the three months ended 30 September 2020, gain in the Net change in the fair value of biological assets and agricultural produce of USD 106,722 thousand introduced in the Interim Condensed Consolidated Statement of Profit or Loss (for the three months ended 30 September 2019: gain USD 33,948 thousand) mainly reflects the revaluation of crops in fields balances to its fair value. The considerable surge in the revaluation of biological assets was due to growth in corn market prices, explained by a lower harvest of the indicated crop in Ukraine and other major growers with the steadily high demand.

10. Property, Plant and Equipment, net

During the three months ended 30 September 2020, the Group acquired property, plant and equipment in the amount of USD 53,337 thousand (30 September 2019: USD 98,875 thousand). These purchases were related mainly to the construction of an oilseed-crushing plant and a port terminal for both periods.

The decrease in property, plant and equipment in the amount of USD 19,906 thousand resulted from the devaluation of the Ukrainian hryvnia during the three months ended 30 September 2020 (30 September 2019: increase USD 28,501 thousand as a result of revaluation of the Ukrainian hryvnia).

Notes to the Condensed Consolidated Interim Financial Statements

for the three months ended 30 September 2020 (in thousands of US dollars, unless otherwise stated)

During the three months ended 30 September 2020, depreciation of property, plant and equipment amounted USD 17,406 thousand (as of 30 September 2019: USD 17,176 thousand).

As of 30 September 2020, the Group had CIP and uninstalled equipment amounted to USD 336,742 thousand, which is mostly related to the construction of an oilseed-crushing plant and a port terminal (30 September 2019: USD 203,198 thousand, mostly related to the construction of an oilseed-crushing plant and a port terminal).

As of 30 September 2020, property, plant and equipment with a carrying amount of USD 252,517 thousand (as of 30 June 2020 and 30 September 2019: USD 254,939 and USD 190,209 thousand, respectively) were pledged by the Group as collateral against short-term and long-term bank borrowings (Notes 11, 12).

As of 30 September 2020, property, plant and equipment with a carrying amount of USD 27,479 thousand (30 June 2020 and 30 September 2019: USD 28,462 thousand and USD 29,264 thousand, respectively) were pledged by the Group as a collateral for amount due and payable within the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016.

11. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Bank credit lines	69,269	43,166	339,224
Interest accrued on long-term borrowings	1,160	931	114
Interest accrued on short-term borrowings	229	480	1,467
Bank overdrafts (Note 7)	25	4	135
Total	70,683	44,581	340,940

The balances of short-term borrowings as of 30 September 2020 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.45%	USD	October 2020	21,699
European bank	Libor+1.90%	USD	February 2021	19,063
European bank	Libor+2.50%	USD	June 2021	13,468
Ukrainian subsidiary of European bank	6.50%	UAH	October 2020	11,096
European bank	Libor+2.00%	USD	October 2020	2,735
Ukrainian subsidiary of European bank	Libor+4.50%	USD	August 2021	1,233
Total bank credit lines				69,294
Interest accrued on long-term borrowings				1,160
Interest accrued on short-term borrowings				229
Total				70,683

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 borrowings				931
Interest accrued on short-term borrowings				480
Total				44,581

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

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

As of 30 September 2020, undrawn short-term bank credit lines amounted to USD 906,291 thousand (as of 30 June 2020 and 30 September 2019: USD 831,204 thousand and USD 636,454 thousand, respectively).

Short-term borrowings from banks were secured as follows:

	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Assets pledged			
Inventory (Note 8)	122,453	118,657	212,439
Future sales receipts	44,022	46,005	130,281
Property, plant and equipment (Note 10)	—	722	682
Total	166,475	165,384	343,402

12. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Long-term bank borrowings	236,093	179,274	72,698
Current portion of long-term borrowings	(10,007)	(6,871)	(1,233)
Total	226,086	172,403	71,465

The balances of long-term borrowings as of 30 September 2020 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.84%	USD	July 2030	58,360
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
Total				236,093

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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 September 2019 were as follows:

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

As of 30 September 2020, undrawn long-term bank borrowings amounted to USD 69,907 thousand (as of 30 June 2020 and 30 September 2019: USD 128,267 thousand and USD 235,767 thousand, respectively).

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

Assets pledged	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
Property, plant and equipment (Note 10)	252,517	254,217	189,527
Total	252,517	254,217	189,527

13. Bonds issued

The balances of bonds issued were as follows:

	Maturity	As of 30 September 2020	As of 30 June 2020	As of 30 September 2019
US 300,000 thousand 6.5% coupon bonds	October 2024	296,472	296,229	—
US 500,000 thousand 8.75% coupon bonds	January 2022	497,887	497,548	496,355
Total		794,359	793,777	496,355

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

As of 30 September 2020, accrued interest on bonds issued was USD 15,975 thousand (as of 30 June 2020 and 30 September 2019: USD 21,945 thousand and USD 7,131 thousand respectively).

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.

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14. Revenue

The Group's revenue was as follows:

	3 months ended 30 September 2020	3 months ended 30 September 2019
Revenue from agriculture commodities merchandizing	500,838	513,583
Revenue from edible oils sold in bulk, meal and cake	395,142	300,532
Revenue from bottled sunflower oil	33,154	25,382
Revenue from farming	7,345	7,250
Revenue from transshipment services	2,887	1,527
Revenue from grain silo services	895	1,722
Total	940,261	849,996

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

Revenue for the three months ended 30 September 2019 was changed as a result of IFRIC decision on the physical settlement of contracts adoption. As a result of this change, for the three months ended 30 September 2019, revenue from edible oils sold in bulk, meal and cake was decreased by USD 5,245 thousand and revenue from agriculture commodities merchandizing increased by USD 9,403 thousand (USD 4,158 thousand increase in total).

15. Cost of Sales

Cost of sales was as follows:

	3 months ended 30 September 2020	3 months ended 30 September 2019
Cost of goods for resale and raw materials used	631,882	664,110
Shipping and handling costs	80,830	61,021
Amortization and depreciation	22,915	23,072
Payroll and payroll related costs	21,187	17,799
Rental payments	3,032	12,776
Other operating costs	3,351	4,443
Total	763,197	783,221

As of 30 June 2020, the Group decided to change the policy and recognize result on operations with commodity futures within Cost of sales line, previously recognized in the Other operating income, net line. Presentation of Cost of sales for the three months ended 30 September 2019 was changed accordingly, as a result of which it decreased for the amount of USD 5,385 thousand (Cost of goods for resale and raw materials used line). Additionally, as result of adoption IFRIC decision on the physical settlement of contracts, Cost of sales increased by USD 4,158 thousand (Cost of goods for resale and raw materials used line).

16. General and Administrative Expenses

General and administrative expenses were as follows:

	3 months ended 30 September 2020	3 months ended 30 September 2019
Payroll and payroll related costs	25,308	13,459
Audit, legal and other professional fees	2,470	2,186
Bank services	1,993	1,604
Repairs and material costs	1,815	2,069
Amortization and depreciation	872	808
Rental payments	778	297
Taxes other than income tax	764	634
Communication expenses	505	670
Insurance	162	90
Business trip expenses	78	592
Bad debts expenses	32	2,178
Other expenses	1,483	1,432
Total	36,260	26,019

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

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17. 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 September 2020	Total category as per consolidated balance sheet as of 30 September 2020	Related party balances as of 30 June 2020	Total category as per consolidated balance sheet as of 30 June 2020	Related party balances as of 30 September 2019	Total category as per consolidated balance sheet as of 30 September 2019
Trade accounts receivable, net	571	244,371	586	215,279	900	194,898
Prepayments to suppliers and other current assets, net	5,888	136,308	22,366	148,916	9,427	110,106
Other non-current assets	33,416	95,391	32,528	101,298	17,150	121,157
Trade accounts payable	439	151,341	172	87,508	532	162,944
Advances from customers and other current liabilities	12,275	173,609	8,706	170,534	4,670	122,551

As of 30 September 2020, 30 June 2020 and 30 September 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 September 2019, prepayments to suppliers and other current assets included a loan at rate comparable to the average commercial rate of interest in the amount of USD 2,597 thousand provided to Taman Grain Terminal Holding, which was repaid as of 30 June 2020 in full amount.

As of 30 September 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 13,308 thousand provided to the company under control of the Beneficial Owner (as of 30 June 2020 and 30 September 2019: USD 30,882 thousand and USD 10,585 thousand, respectively).

As of 30 September 2020, other non-current assets included an interest-free 3-year term financing in the amount of USD 18,010 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 2020: USD 18,084 thousand and USD 1,750 thousand, respectively; 30 September 2019: USD 5,565 thousand and USD 1,000 thousand, respectively).

As of 30 September 2020, advances from customers and other current liabilities included USD 10,200 thousand in bonuses payable to the management (as of 30 June 2020 and 30 September 2019: USD 6,669 thousand and USD 3,099 thousand, respectively).

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

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

Transactions with related parties were as follows:

	3 months ended 30 September 2020		3 months ended 30 September 2019	
	Amount of operations with related parties,	Total category as per consolidated statement of financial position	Amount of operations with related parties,	Total category as per consolidated statement of financial position
Revenue (Note 14)	69	940,261	243	849,996
Cost of sales (Note 15)	(43)	(763,197)	(484)	(783,221)
General and administrative expenses (Note 16)	(4,929)	(36,260)	(1,072)	(26,019)
Finance income/(costs), net	476	(31,348)	244	(33,409)
Other income/(expenses), net	20	(576)	592	2,768

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

As of 30 September 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 three months ended 30 September 2020 amounted to USD 125 thousand (30 September 2019: 8 directors, USD 125 thousand). The non-executive directors were also refunded, to a reasonable extent, any expenses incurred by them in performing their duties, including reasonable traveling expenses.

Four directors employed by Subsidiaries are entitled to remuneration for their services as members of the management team of the Group. Remuneration of the management team of the Group, totaling 15 people, amounted to USD 4,747 thousand for the three months ended 30 September 2020 (30 September 2019: 12 people, USD 599 thousand), including USD 4,034 thousand of variable bonus as per approved remuneration scheme (30 September 2019: nil).

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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).

18. 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 ended 30 September 2020, the Ukrainian economy declined and real GDP showed decrease of around 3.5% (2019: increase 3.9%), modest annual inflation of 2.3% (2019: 7.5%), and stabilization of the national currency (appreciation of the national currency by around 3% to USD and 4% 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 September 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 stable 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.

Capital Commitments

As of 30 September 2020, the Group had commitments under contracts with a group of suppliers for a total amount of USD 57,231 thousand, mostly for the construction of an oilseed-crushing plant and port terminal (30 June 2020 and 30 September 2019: USD 61,488 thousand and USD 108,616 thousand, respectively, mostly for the construction of an oilseed-crushing plant and port terminal).

Contractual Commitments on Sales

As of 30 September 2020, the Group had entered into commercial contracts for the export of 1,769,839 tons of grain, 494,632 tons of sunflower oil and 668,939 tons of sunflower meal and other related products, corresponding to an amount of USD 340,535 thousand, USD 417,915 thousand and USD 155,685 thousand, respectively, in contract prices as of the reporting date.

As of 30 September 2019, the Group had entered into commercial contracts for the export of 1,144,416 tons of grain, 465,211 tons of sunflower oil and 517,546 tons of sunflower meal and other related products, corresponding to an amount of USD 206,751 thousand, USD 329,468 thousand and USD 123,555 thousand, respectively, in contract prices as of the reporting date.

Taxation and Legal Issues

In April 2012, the Group entered into a call option agreement to acquire Stiomi Holding, a farming company located in the Khmelnytskyi region of Ukraine. As of 30 September 2020, the consideration paid for Stiomi 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 "Stiomi Sellers") in respect of the non-fulfilment of the Stiomi Sellers' obligations. In December 2012, the Group received a request for arbitration from the Stiomi Sellers in which the Stiomi 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 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 Stiomi 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 Stiomi Seller's claims for interest due. In Switzerland, the Stiomi Sellers have obtained attachment orders against certain bank accounts of the

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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 September 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\$34,594 thousand as of 30 September 2020 (30 June 2020 and 30 September 2019: US\$34,047 thousand and US\$32,419 thousand, respectively), and related expenses in the amount of US\$557 thousand were recognised within the three months ended 30 September 2020 (three months ended 30 September 2019: US\$547 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 September 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 23,403 thousand (as of 30 June 2020 and 30 September 2019: USD 24,812 thousand and USD 23,353 thousand, respectively), from which USD 17,204 thousand related to VAT recoverability (as of 30 June 2020 and 30 September 2019: USD 18,240 thousand and USD 8,472 thousand, respectively), USD 4,572 thousand related to corporate income tax (as of 30 June 2020 and 30 September 2019: USD 4,847 thousand and USD 11,508 thousand, respectively) and USD 1,627 thousand related to other tax issues (as of 30 June 2020 and 30 September 2019: USD 1,724 thousand and USD 3,373 thousand, respectively).

As of 30 September 2020, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 22,773 thousand (as of 30 June 2020 and 30 September 2019: USD 24,144 thousand and USD 22,242 thousand, respectively), included in the abovementioned amount. Out of this amount, USD 1,815 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 (as of 30 June 2020 and 30 September 2019: USD 1,924 thousand and USD 8,272 thousand, respectively). 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.

19. 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table below represents comparison of carrying amounts and fair value of the financial instruments:

	30 September 2020		30 June 2020		30 September 2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities ¹						
Long-term borrowings (Note 12)	236,093	236,314	179,274	180,284	72,698	71,130
Bonds issued (Note 13)	810,334	823,025	815,722	816,230	503,486	532,170

For the three months ended 30 September 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 2.82% (2019: 5.53%) that is within level 2 of the fair value hierarchy.

¹ Including accrued interests

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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:

	30 September 2020			30 June 2020			30 September 2019		
Other financial assets	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Physical forwards	—	75,109	75,109	—	31,180	31,180	—	14,498	14,498
Futures	33,625	—	33,625	6,679	—	6,679	2,526	—	2,526
Options	681	—	681	7,494	—	7,494	855	—	855
Total	34,306	75,109	109,415	14,173	31,180	45,353	3,381	14,498	17,879

Other financial liabilities	Level 1	Level 2	Total	Level 1	Level 2	Total	Level 1	Level 2	Total
Physical forwards	—	55,144	55,144	—	22,303	22,303	—	21,261	21,261
Futures	960	—	960	1,358	—	1,358	5,907	—	5,907
Derivatives held for hedging	—	12,485	12,485	—	5,644	5,644	—	—	—
Options	—	—	—	6,977	—	6,977	1,953	—	1,953
Total	960	67,629	68,589	8,335	27,947	36,282	7,860	21,261	29,121

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

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

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

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

For the three months ended 30 September 2020, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

For the three months ended 30 September 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 September 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.

There were no transfers between levels of fair value hierarchy.

There were no changes in the valuation technique since the previous year.

20. Subsequent Events

As of 5 October 2020, S&P Global Ratings (hereinafter "The Agency") has upgraded Kernel long-term issuer credit rating to 'B+' with Stable Outlook on sound credit metrics and planned refinancing. The stable outlook reflects the agency's assumption that the low risk of disruption on export volumes from the COVID-19 pandemic and reduction of CapEx in FY2022 should support cash flows.

On 27 October 2020, the Company completed issuing USD 300,000,000 aggregate principal amount of 6.75% Notes due 2027 (the "Notes") priced at par. The Notes are rated BB- by Fitch and B+ by S&P, two and one notches above Ukrainian sovereign, respectively.

Simultaneously with the launch of this issue, the Company initiated a tender offer for the Company's 2022 notes, with its core objective to keep both transactions as debt-neutral for the Company. Following the results of the transaction, the total tender amount of USD 286,890,000 was received and accepted. "Early" tender price was set at 105.625% with total "early" tenders received and accepted of USD 285,890,000, and the "late" tender price was set at 102.625%, with total "late" tenders received and accepted of USD 1,000,000. The transaction was completed on 5 November 2020.

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