

KERNEL

# Kernel Holding S.A.

Sustainable development approach

December 2020





## Content

**1. Kernel today**

2. Environmental impact

3. Social impact

4. Economic impact

5. Corporate governance

# 1.1 Kernel today

## 1 Farming

- **#1 crop producer in Ukraine**, 514k ha of leasehold farmland
- 2.8m tons of grain and oilseeds produced in 2020 (export-oriented crop mix)
- Modern large-scale operations with sustainable agronomic practices

## 2 Procurement

- **8.1m tons of grain and oilseeds procured** from >4k farmers in Ukraine in FY2020
  - 5.1m t of grains
  - 3.0m t of sunflower seeds

## 3 Grain storages

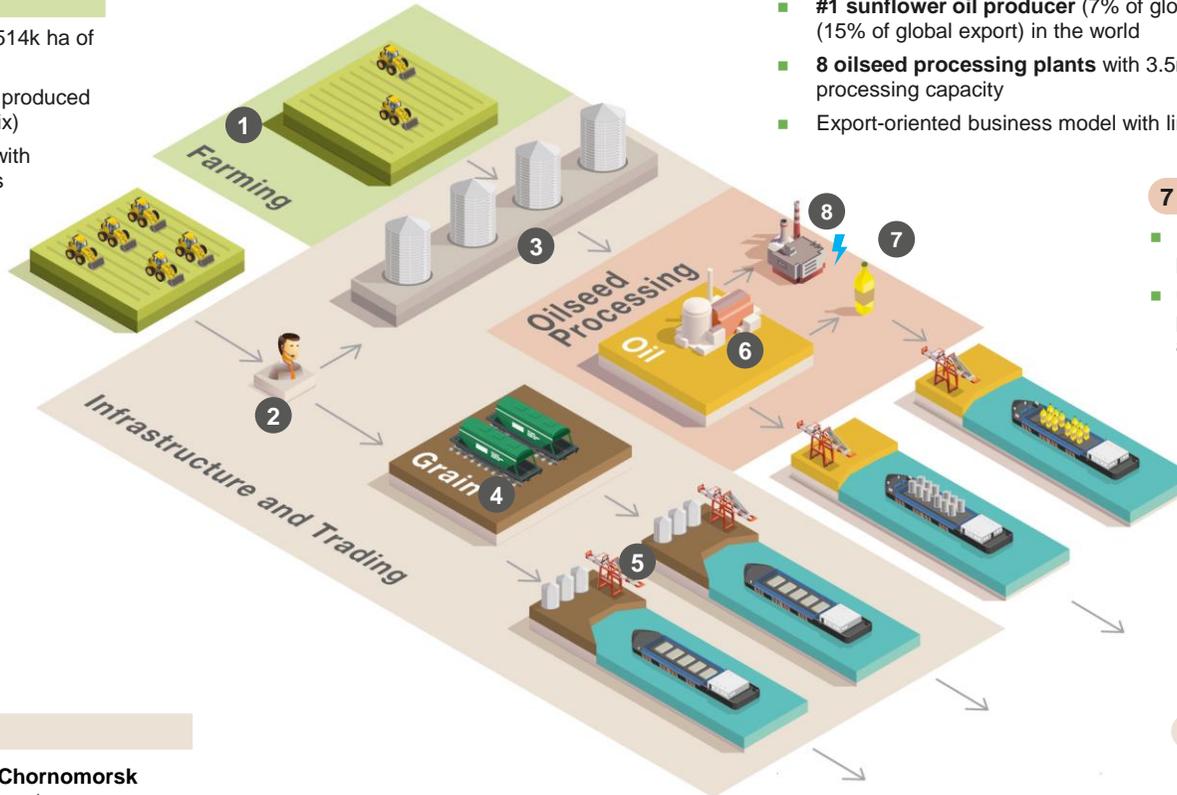
- **#1 private inland grain silo network** in Ukraine with **2.4 million tons** of storage capacity

## 4 Grain railcars

- **#1 private grain railcars fleet** in Ukraine (3.4k hoppers)

## 5 Export terminals

- 2 deep-water grain terminals in **Chornomorsk** (Ukraine) with 8.8m tons annual grain transshipment capacity
- **#1 grain exporter** from Ukraine with 14% of country's total grain exports in FY2021



## 6 Oilseed processing

- **#1 sunflower oil producer** (7% of global production) and **exporter** (15% of global export) in the world
- **8 oilseed processing plants** with 3.5m t annual sunflower seed processing capacity
- Export-oriented business model with limited reliance on local economy

## 7 Refining and bottling

- Leading bottled sunflower oil producer and marketer in Ukraine
- up to 10% of crude sunflower oil produced is further refined, bottled and sold domestically and abroad.

## 8 Renewable energy

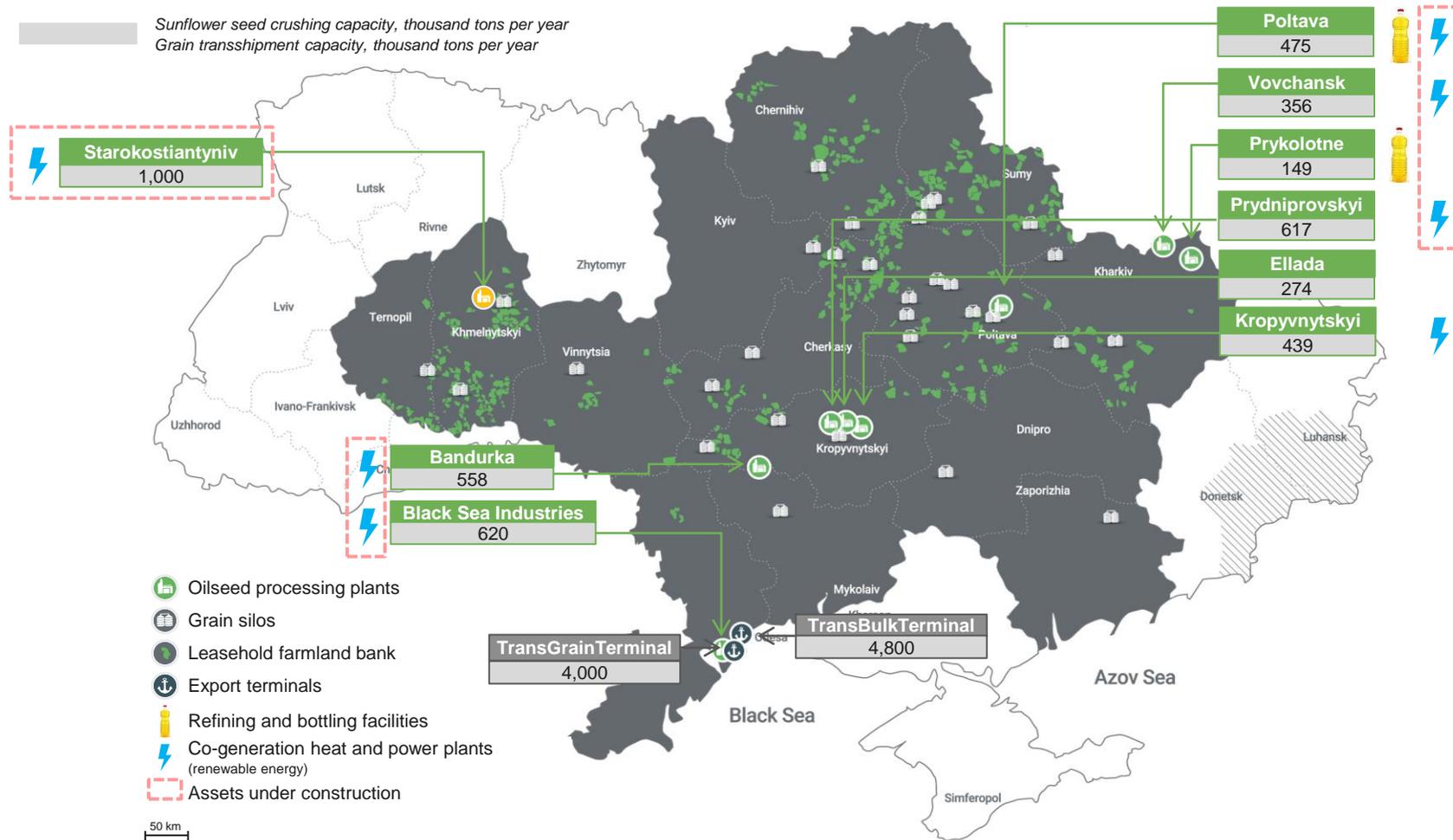
- Sunflower husk (biomass) is used to produce renewable energy
- 7.5MW cogeneration heat&power plant currently in operation;
- 95MW total installed capacity by FY2022 producing annually >700 GWh and renewable energy

## 9 Avere operations

- research, knowledge and trading platform involved in the sale of Kernel's sunflower oil, help with hedging of grain produced by farming, and proprietary trading

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

## 1.2 Efficient and well-invested asset base



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

## 1.3 ESG rating and relevant initiatives

### Rating agencies



ESG Risk Rating  
38.1 High Risk



Rank | Percentile

Industry (Food Products) 281 / 511 | 55th  
Subindustry (Agriculture) 20 / 85 | 23th



Sustainable Ukraine

Kernel became top-3 Ukrainian company in the first Ukrainian rating of corporate sustainability Sustainable Ukraine 2019

### Membership



CDP scores improvement from E in FY2015 to C in FY2019



In June 2020, Kernel as a Signatory joined the UN Global Compact – the world's largest corporate sustainability initiative



Since September 2019, Kernel shares have been added to the WIG ESG index of the Warsaw Stock Exchange.

### Relevant initiatives



Attracting long-term financing from EIB and EBRD after in-depth sustainability audit and taking certain environmental obligations



Full compliance with GRI disclosure requirements



Independent assurance of Sustainability disclosure by Baker Tilly



## Content

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3. Social impact

4. Economic impact

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## 2.1 Energy

### Commitment to energy efficiency

#### Energy consumption

terajoules

	FY16	FY17	FY18	FY19	FY20
<b>Non-renewable fuel consumed</b>	<b>1,874</b>	<b>2,600</b>	<b>2,879</b>	<b>2,798</b>	<b>2,531</b>
Natural gas	549	1,108	1,044	899	805
Diesel, gasoline	1,324	1,492	1,835	1,899	1,726
Other non-renewable	0.0	0.0	0.1	0.0	0.0
<b>Renewable fuel consumed</b>	<b>2,566</b>	<b>3,096</b>	<b>3,231</b>	<b>3,215</b>	<b>3,628</b>
<b>Electricity consumed</b>	<b>652</b>	<b>798</b>	<b>853</b>	<b>844</b>	<b>903</b>
<b>Heat consumed</b>	<b>3</b>	<b>292</b>	<b>354</b>	<b>319</b>	<b>3</b>
<b>(less) Renewable energy produced and sold</b>	<b>46</b>	<b>42</b>	<b>34</b>	<b>37</b>	<b>65</b>
Electricity	35	41	34	37	65
Heating	10	1	-	-	-
<b>Total energy consumption (net)</b>	<b>5,049</b>	<b>6,743</b>	<b>7,282</b>	<b>7,139</b>	<b>6,998</b>

#### by division

Oilseed Processing	3,066	4,146	4,223	4,167	4,415
Infrastructure and Trading	598	1,154	1,225	1,107	868
Farming	1,360	1,418	1,810	1,840	1,693
Other	25	26	25	25	23

#### Energy intensity

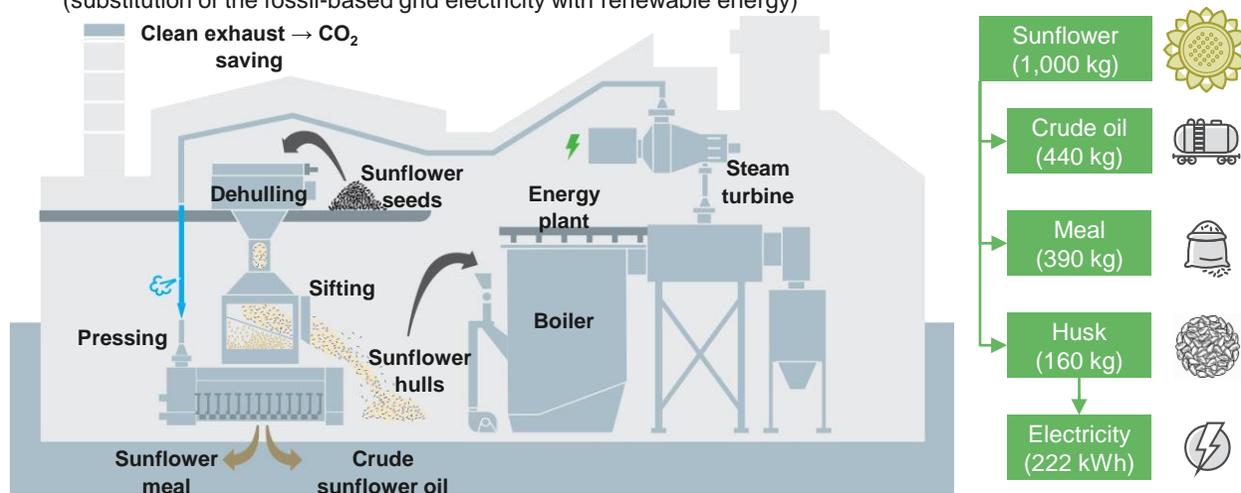
megajoules

#### Energy spent per:

ton of sunflower seed crushed	1,455	1,517	1,446	1,420	1,285
ton-% of grain dried	62	68	61	67	63
ton of grain grown	708	618	662	538	524

#### Our approach

- Focus on **renewable energy consumption**: in FY2020 renewable energy consumption exceeded fossil-fuel energy consumption
- Energy intensity improvements** → record low energy intensity ratios in Oilseed Processing and Farming
  - Investments in **more efficient equipment** on crushing plants
  - Constant **replacement of agricultural machinery** with more efficient ones
  - Precision farming approaches, GPS trackers, fuel consumption remote monitoring system** → same production technology at lower fuel intensity
  - Goal to reduce energy intensity** by 5% in next 5 years in the Oilseed Processing
- Production of renewable energy**
  - US\$ 169 million project initiated in 2018 to construct 7 co-generation heat and power plants with combined capacity of 95MW by 2022
  - 700 GWh expected annual production of biomass-based electric energy → >700k tons of CO<sub>2</sub>e savings (substitution of the fossil-based grid electricity with renewable energy)



## 2.2 Greenhouse gas (GHG) emissions

### On the way to emissions intensity reduction

#### Greenhouse gas emissions

thousand tons of CO<sub>2</sub> equivalent

	FY16	FY17	FY18	FY19	FY20
<b>Gross direct (Scope 1) GHG emissions</b>	<b>662</b>	<b>748</b>	<b>922</b>	<b>981</b>	<b>955</b>
by gas type					
CO <sub>2</sub>	129	174	200	192	174
CH <sub>4</sub>	34	32	33	25	22
N <sub>2</sub> O	498	542	688	764	759
by division					
Oilseed Processing	4	14	3	3	9
Infrastructure and Trading	29	63	70	59	44
Farming	627	670	847	918	900
Other	1	1	2	1	1
by source					
Fuel-sourced	138	184	211	203	186
Cattle Farming	38	35	37	28	25
Fertilizers application	486	529	673	750	744
<b>Biogenic GHG emissions</b>	<b>339</b>	<b>587</b>	<b>401</b>	<b>710</b>	<b>628</b>
Sunflower seed husk combustion	252	304	317	316	356
Changes in organic C stocks in soils	86	283	83	394	272
<b>Gross indirect (Scope 2) GHG emissions</b>	<b>73</b>	<b>83</b>	<b>94</b>	<b>90</b>	<b>96</b>
Electricity	73	83	94	90	96
Heat	0.2	0.2	0.5	0.1	0.2
<b>Total GHG emissions</b>	<b>1,074</b>	<b>1,418</b>	<b>1,417</b>	<b>1,781</b>	<b>1,679</b>

#### GHG emissions intensity ratios

kg of CO<sub>2</sub> equivalent

	FY16	FY17	FY18	FY19	FY20
GHG emissions per ton of					
Sunflower seeds processed	147	139	134	131	128
Grain grown	375	419	343	386	365

Improved accounting of GHG emissions → better future planning of GHGs management approaches

#### Our approach

Key emission sources	GHG	Mitigation approach
Application of mineral and organic fertilizers	N <sub>2</sub> O	<ul style="list-style-type: none"> <li>differentiated mineral fertilization → 10-15% lower volumes of fertilizers applied → prevention of excessive N<sub>2</sub>O emissions</li> <li>proper application timing, form and approach</li> <li>application of nitrification inhibitors</li> <li>cover crops cultivation</li> </ul>
Fuel consumption (field works and grain transportation)	CO <sub>2</sub>	<ul style="list-style-type: none"> <li>reduce both specific fuel consumption and mileage of the field machinery through regular modernization of the fleet and optimized routing</li> </ul>
Enteric fermentation from our cattle business	CH <sub>4</sub>	
Sunflower seed husk combustion	CO <sub>2</sub>	<ul style="list-style-type: none"> <li>More efficient boilers on crushing plants</li> </ul>
Changes in organic carbon stocks in soils	CO <sub>2</sub>	<ul style="list-style-type: none"> <li>Application of organic fertilizer and plant residues. Other regenerative agriculture techniques to be assessed.</li> </ul>
Electricity consumption → indirect emissions	CO <sub>2</sub>	<ul style="list-style-type: none"> <li>More efficient equipment on plants, silos and terminals</li> </ul>

#### Plans and targets

- Substitution of the fossil-based grid electricity with renewable energy (>700k tons of CO<sub>2</sub>e annual savings)
- **Goal to reduce emissions intensity** by 5% in next 5 years in the Oilseed Processing
- **Investigation of further opportunities and risk:**
  - assessment of climate-related risks;
  - development of low-carbon pathways;
  - assessment of carbon sequestration in soils;
  - setting both ambitious and realistic corporate carbon goals and targets;
  - formulation and disclosure of the climate strategy;
  - Improvement of climate corporate governance;
  - aligning reporting with TCFD recommendations.

## 2.3 Water and Effluents (1/2)

Rational use of water resources to keep in line with applicable legislation and permit conditions

### Kernel water withdrawal



Oilseed Processing

1.9m m<sup>3</sup>

- Management approach disclosed in FY2020 report



Farming

~4.2m m<sup>3</sup>

- Improvement of water use accounting methodology



Infrastructure and Trading

16k m<sup>3</sup>

- Agribusiness relies mainly on natural precipitations
- Only 0.4% of our landbank is irrigated
- Withdrawn water, predominantly from underground sources, is mainly used for technological purposes (e.g. application of crop protection agents/liquid fertilizers).

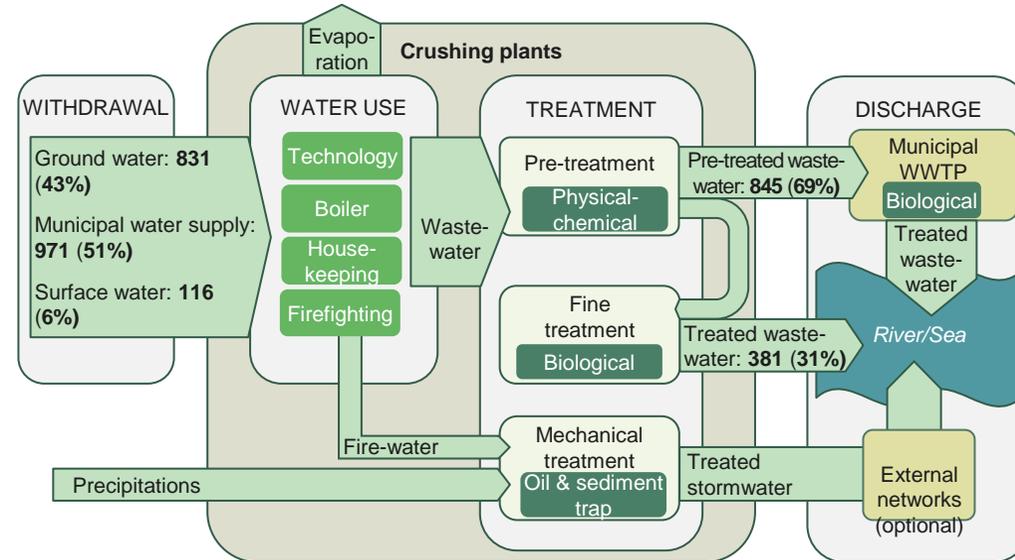


- Kernel inland silos and transshipment terminal consumed c.15 ths m<sup>3</sup> of withdrawn water (mainly for housekeeping).
- c. 1 ths m<sup>3</sup> was used for the needs of the truck fleet



### Typical water use pattern for Kernel oilseed-processing plants

Aggregated figures on annual water withdrawal and discharge, thousand m<sup>3</sup>

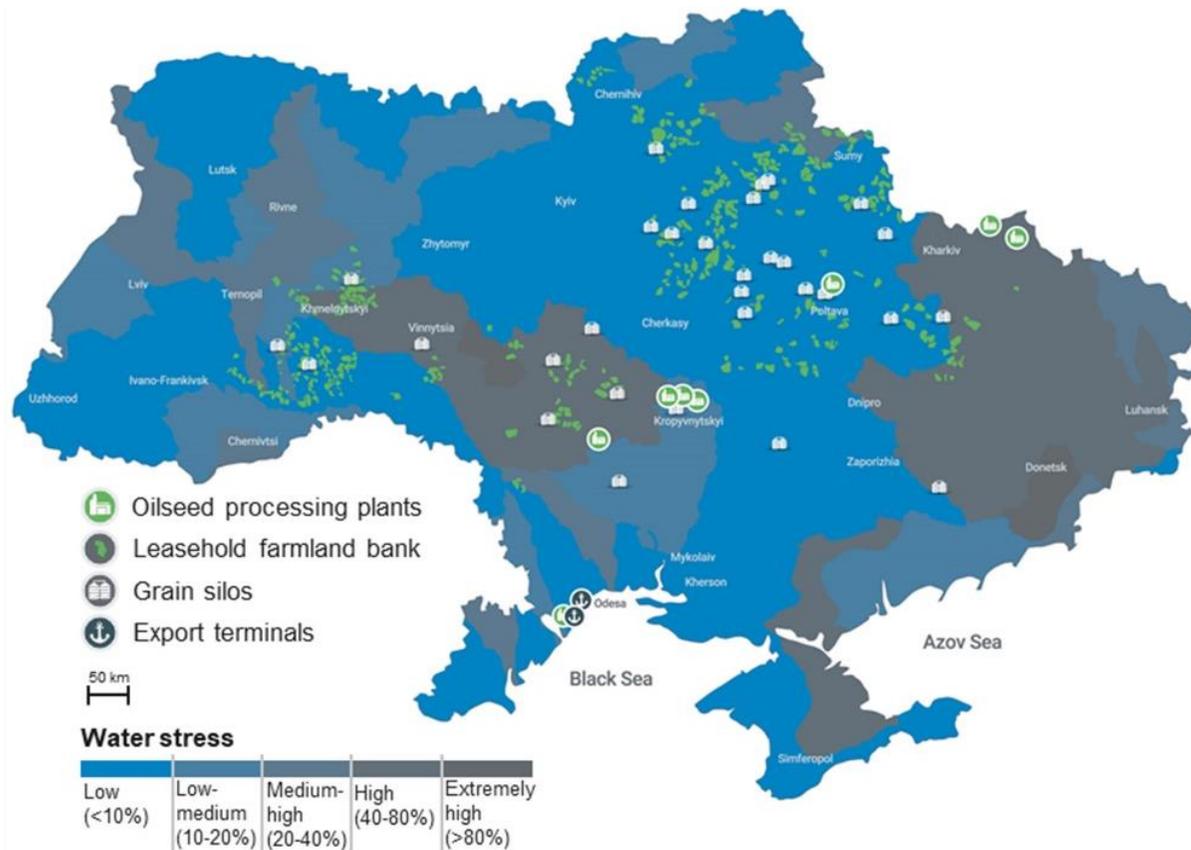


- 3 plants operate in areas with high water stress, 3 plants are located in medium, and 2 plants in low water stress areas.
- Water is mainly used for technological needs (e.g. steam production), and housekeeping.
- The quality of treatment is permanently controlled by onsite laboratories and complies with requirements of municipal WWTP or national legislation

## 2.3 Water and Effluents (2/2)

### Kernel's presence in water stress areas

Source: [Water Risk Atlas](#)



- 3 plants (32% of segment water withdrawal) operate in **areas with high water stress**
  - 2 of them provide local communities with access to water supply and wastewater treatment (18,038 m<sup>3</sup> of water supplied to 316 households in FY2020).
  - Wastewater from all households returns to the plants for treatment
- 3 plants (48% of segment water withdrawal) are located in **medium water stress areas**
- 2 plants (20% segment water withdrawal) operate in **low water stress areas**

## 2.4 Biodiversity

### Commitment to sustainable long-term crop production practices with no impact on biodiversity

- Our [Environmental Protection Policy](#) prioritizes preservation of biodiversity. Our management approach starts with thorough due diligence of the landbank and follows through the entire farming cycle.
- We do not operate in areas with high biodiversity value
- We carefully select and precisely apply farming techniques that minimize adverse impacts of our operations. This includes but are not limited with:
  - Seeds selection;
  - Maintaining proper soil nutrients;
  - Preventing soil over-compaction;
  - Prevention of soil erosion;
  - Integrated pest management system
- 395k ha have been ISCC-verified\* in FY2020.

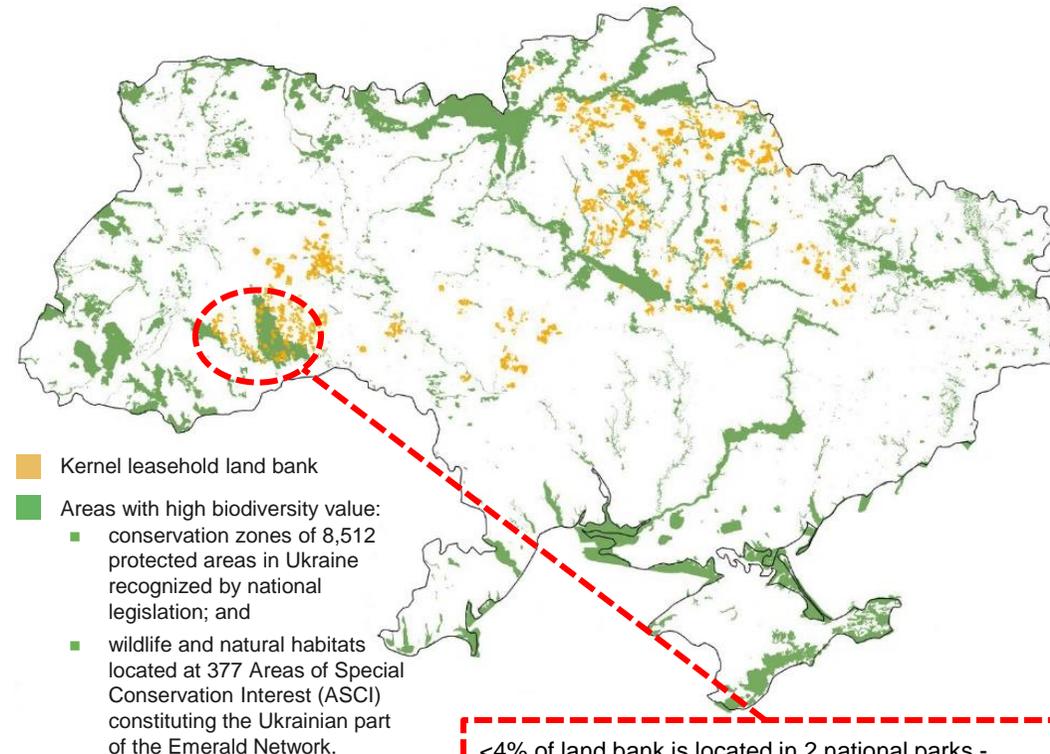


#### Pollination by Bees

In 2020, Kernel, with several beekeepers' associations, has launched a largescale project "Pollination by Bees" aimed at testing an innovative business model of paid pollination services. The model suggests beekeepers being contracted and paid for placing beehives to farmers' fields with entomophilic crops such as sunflower, rape, buckwheat. Benefits for farmers include expected yields rise by 0.2-0.5 tons/ha.

We believe that development of pollination services market will be beneficial for biodiversity as well through prevalence of safer pesticides and improved application practices.

#### Areas with high biodiversity value in Ukraine



<4% of land bank is located in 2 national parks - Podilski Tovtry and Dnistrovskiy Kanion. However, **all Kernel's operations within these areas take place at dedicated economic zones**, and do not interfere conservation and other zones of the national parks where natural or wildlife habitats of special conservation interest are located.

\* ISCC is a globally leading certification system focused on securing traceable and deforestation-free supply chains, and protection of land with high biodiversity value.

# 2.5 Waste

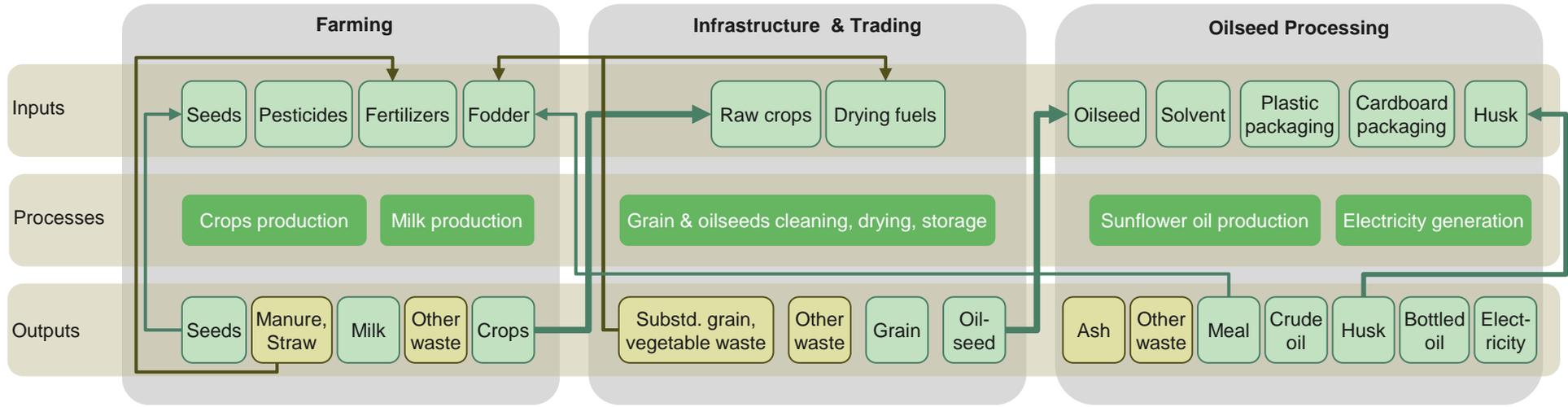
- An overall goal of minimizing waste at all stages of our production is stated in the group's [Code of Conduct](#).
- The [Environmental policy](#) prioritize modernization of technological process aimed reaching this goal, and sets controls on generation, storage and transportation of waste.
- Most waste is low-hazard. It is biomass which is reused. Those which is not reused, is properly treated.
- With our approach, we contribute to Sustainable Development Goal 12: Responsible Consumption and production, by implementing environmentally sound waste management and preventing and reducing waste through reuse and recycling.
- Besides actions taken to avoid and mitigate waste-related impacts associated with our own activities, Kernel puts controls on waste management practices by its contractors working at Kernel's sites.

**Waste generated**  
thousand tons

	FY2020
<b>Waste generated</b>	<b>142.4</b>
by hazard classes*	
extremely dangerous	0.01
highly dangerous)	0.02
moderately dangerous)	0.7
low-hazard	141.7
by division	
Oilseed Processing	123.3
Infrastructure and Trading	19.1

**Note:** Farming segment waste volumes to be in FY2021 year disclosure after finalization of the accounting methodology.

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



## 2.6 Sustainable supply chain management

### Our path to sustainability cannot be limited with our own operations

#### Our commitment

Kernel is committed to spreading sustainable practices in its supply chains because of:

- Alignment of this goal with our mission and vision – there are no leaders anymore who can disengage from impacts of their supply chains;
- Associated risks/opportunities for our business – business disruption, reputation/resource efficiency;
- Expectations of our external stakeholders – investors, lenders, customers.

#### Our approach

- [The Code of Interaction with Suppliers](#) states our ethical principles and requests our suppliers to respect and follow them.
  - key areas covered - Human Rights and Environmental Protection
- Formal obligations to comply with Code are taken by all Kernel's counterparts through signing the [Anti-Corruption Clause](#) that is a standard supplement of any Kernel's contract.
  - Kernel reserves the right to verify whether suppliers comply with its terms.
  - For any revealed violations, we apply business consequences up to termination of valid contracts.
- Oilseed Segment and Infrastructure and Trading segments assesses food safety, waste management, occupational health and safety, sanitary conditions at production premises and workplaces of its selected suppliers.
  - approach is formulated in the Procurement Policy and the process is guided by the Procurement Procedure.

#### ESG screening

- In FY2020, 12,876 counterparties have been screened against economic and compliance risks
- 20 suppliers were assessed using environmental and social criteria in FY2020
- In FY2020, all onsite contractors have been assessed for compliance with OHS clauses.

#### Expertise sharing

- Through the dedicated Open Agribusiness program, Kernel provides farmers with access to the state-of-the-art tools and techniques, contributing to the improvement of their production practices, efficiency, and crop yields.
- Program also helps our suppliers to adapt to toughening food safety requirements applied by our customers.

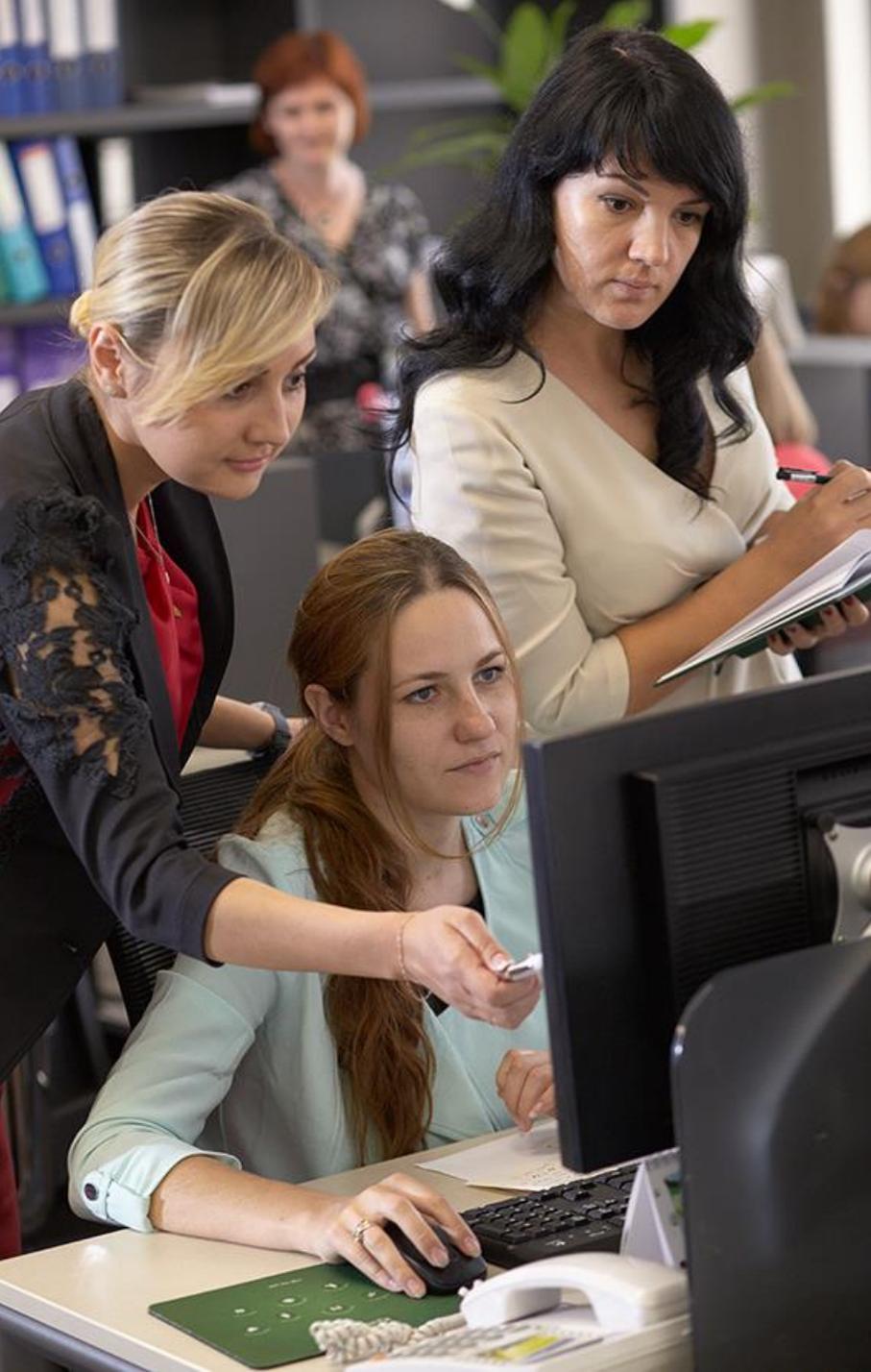


#### Corrective actions

- Based on the assessment result, cooperation with one supplier was terminated
- All assessed contractors received non-compliance notices or suggestions for improvements.
- All onsite contractors have implemented agreed upon improvement measures, that enabled further cooperation with them.

#### Control

- The contract clauses envisage measures to control onsite contractor's, including conducting OHS drill for personnel entering Kernel's site, development of OHS management plans, subject to Kernel's approval, obligation to provide Kernel with copies of written evidence of proper waste handling.



## Content

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2. Environmental impact

**3. Social impact**

4. Economic impact

5. Corporate governance

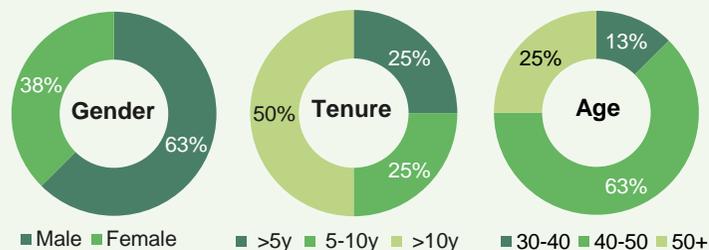
## 3.1 Employment

### Human capital indicators

As of 30 June of the respective year

	FY16	FY17	FY18	FY19	FY20
<b>Total number of employees</b>	<b>14.1</b>	<b>16.1</b>	<b>15.1</b>	<b>13.4</b>	<b>11.9</b>
by geography					
Ukraine	14.0	16.0	15.1	13.4	11.9
Other	0.07	0.06	0.05	0.04	0.05
by level					
Managers	1.0	1.2	1.0	0.9	0.9
Specialists	3.1	3.8	4.0	3.7	3.5
Workers	9.9	11.1	10.2	8.8	7.6
by business division					
Oilseed Processing	2.5	2.6	2.5	2.3	2.2
Infrastructure and Trading	3.3	3.5	3.4	3.0	2.7
Farming	7.8	9.4	8.4	7.4	6.2
Headoffice and other	0.6	0.6	0.7	0.7	0.8
by age					
less than 30 years old	2.8	2.8	2.6	2.3	6.7
up to 50 years old	7.8	8.6	7.6	7.6	3.2
more than 50 years old	3.5	4.7	4.8	3.5	2.0
by gender					
Male	10.0	11.3	11.1	9.9	8.8
Female	4.0	4.8	4.0	3.5	3.1

### Diverse and experienced Board of directors fully fulfils competence requirements



### Employment approach

- Our goal is to find and attract the best people and develop and retain them to ensure sustainability of our operations.
- The main focus in the company is on continuous labor productivity improvements
- Kernel is regularly named among best employees in Ukraine
  - top-20 best employers in Ukraine in ratings compiled by Vlast Deneg business magazine.
  - among the best 13 employers in Ukraine in the [Best Employer Survey](#) conducted by EY Ukraine among over 1,000 candidates.
  - #1 in human resources management and #2 in development and labor relations in the 1st Ukrainian sustainability rating [Sustainable Ukraine](#).

### Our approach to diversity

- Our approach is based on the [Equality, Diversity, and Inclusion Policy](#). We recognize that following diversity and equality principles is beneficial both for our business and for the society in general
- The Board of Directors follows the diversity approach in terms of gender, age, tenure and experience composition, as well as the Executive Management Team.
- In FY2020, Kernel signed a [Declaration on gender equality and preventing domestic violence](#).
- An e-learning course on equality, diversity and inclusion developed in FY2020 is among 5 mandatory courses for new employees.

### Freedom of association, collective bargaining and human rights assessment

- In June 2020, Kernel joined UN Global Compact initiative, thus declaring our support to following principles
  - uphold the freedom of association and the effective recognition of the right to collective bargaining
  - support of human rights, including support and respect of the protection of internationally proclaimed human rights and obligation not to be complicit in human rights abuses.
- We comply with all applicable local regulations on human rights, freedom of association and collective bargaining
- 93% of total employees are covered by collective bargaining agreements, and 9% belonged to trade unions.
- We oblige our counterparties to comply with Kernel's [Code of interaction with suppliers](#), including respect of human rights, following of the diversity approach, and a complete ban of child and forced labor.

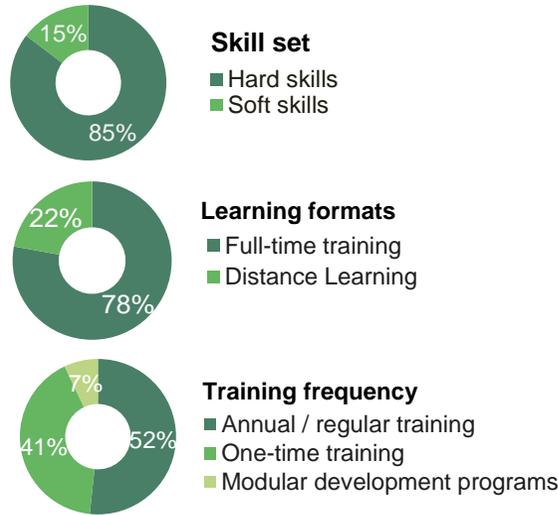
## 3.2 Training and education activities

Despite COVID-19, we substantially increased the scale of our training activities

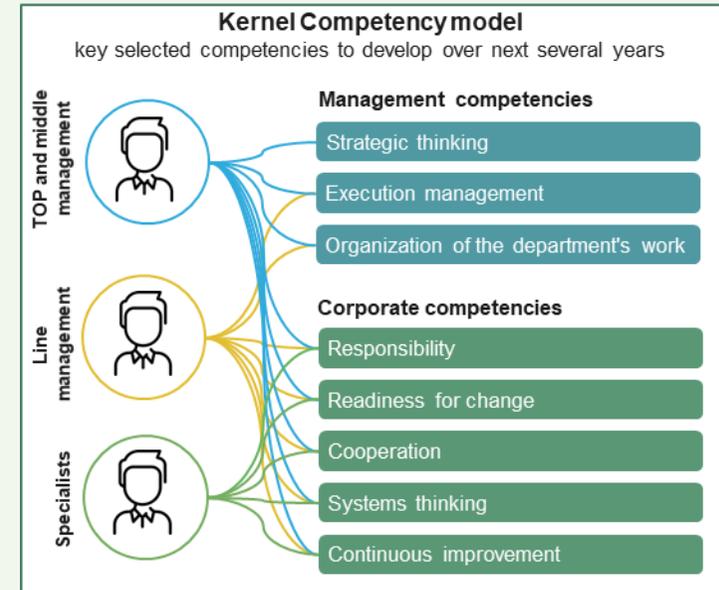
112,186 training hours in FY2020  
(92,000+ h in FY2019)



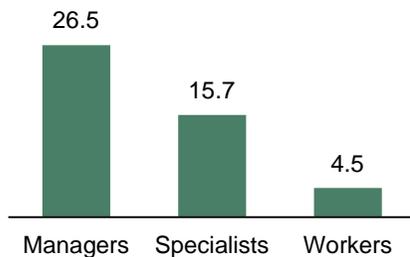
**Training and education activities**  
percentage of total training hours



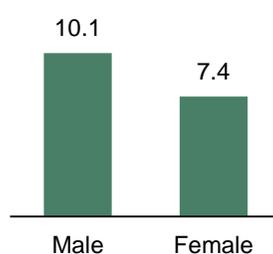
**New Kernel Competency model**



**Average training hours by profession**



**Average training hours by gender**



- A flagship achievement in FY2020 is an introduction of the new Competency model, which will have a substantial impact on structuring of our training and education activities in the future
- **Purpose:** to make our employees more successful and efficient by evaluating not only their results, but also their behavior / competencies
- We successfully adjusted our program to new COVID-19 related realities and in-creased the scale of on-line and distance education.

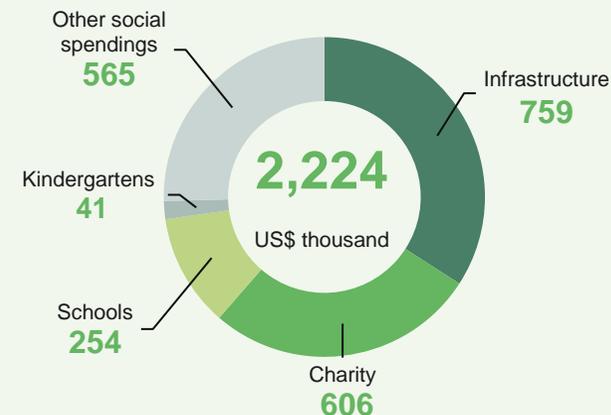
## 3.3 Local communities

### Contributing to the improvement of local communities' well-being in the regions of our operations

#### Our approach

- To identify and engage with local communities, **better understand their needs and get feedback** about our social activities, we benefit from:
  - a team of 241 dedicated relationship managers
  - a countrywide 24/7 toll-free hot line
  - website of our charity fund 'Together with Kernel'
  - a constant dialogue with local municipalities.
- In FY2020:
  - we adopted a [Good Neighborhood Policy](#), which proclaims the general principles of our cooperation with local communities.
  - we had US\$ 7.7m of charity expenses, of which
    - US\$ 4.7m as donations to fight COVID-19;
    - US\$ 2.2m local communities' social spending's (repairs, purchase of new equipment) touched 63 rural health posts, 84 schools and 48 kindergartens, 67 libraries and other cultural and public buildings located in 477 local communities;
  - We try to **engage local communities to co-finance the projects we do** – it allows us to select only the most important projects for communities. In FY2020, we supported over 2,000 such projects with total financing from our side of US\$ 1.7 million.
- Besides monetary donations, we provide various **other types of support** to local communities
  - support social entrepreneurship
  - simplify access to healthcare services
  - provide local communities with access to water supply and wastewater treatment
- **Indirect contributions** to local communities' development
  - creating jobs and opportunities
  - spreading through our employees a corporate culture, knowledge and skills
  - disseminating best farming practices, which are quickly adopted by small neighboring farmers

#### Local communities' social spending's in FY2020



**477**  
communities that received support



**60**  
kilometers of repaired roads



**84**  
schools that received support



**18**  
organizations that were provided with financial support for the implementation of initiatives



**1,688**  
people who received targeted material support

## 3.4 Occupational health & safety

### The ultimate goal – zero fatalities and work-related injuries

#### Work-related injuries

	FY16	FY17	FY18	FY19	FY20
<b>Recordable injuries</b>	<b>16</b>	<b>14</b>	<b>16</b>	<b>25</b>	<b>17</b>
Oilseed Processing	2	2	1	-	2
Infrastructure and Trading	3	2	3	17	8
Farming	11	10	12	8	7
<b>of which</b>					
<b>Fatalities</b>	<b>1</b>	<b>-</b>	<b>4</b>	<b>1</b>	<b>1</b>
Oilseed Processing	-	-	1	-	-
Infrastructure and Trading	-	-	1	1	1
Farming	1	-	2	-	-
<b>High-consequence injuries (excl. fatalities)</b>	<b>8</b>	<b>5</b>	<b>6</b>	<b>9</b>	<b>5</b>
Oilseed Processing	1	-	-	-	1
Infrastructure and Trading	2	2	1	5	3
Farming	5	3	5	4	1

#### Rate of recordable work-related injuries

accidents / million worked hours



- Ukraine is a region with historically poor work-related safety culture
- Active M&A activities → integration of assets with low OHS culture → spikes in work-related injuries

#### Our approach

- **Full transformation of OHS** management system initiated in FY2020:
  - Appointed a dedicated OHS manager on the Group level
  - Adopted a group-wise Workplace Health and Safety Policy and a 3-year OHS development strategy
  - Aim to **change the behavior of employees** by proactively engaging them to improve OHS culture
    - Employees are incentivized to identify and eliminate OHS discrepancies and constantly improve workplace safety conditions
  - **Modern OHS practices** introduced
    - Ishikawa (“fishbone”) diagram approach to investigate incidents. identify hazards and assess risks to determine corrective actions using the hierarchy of controls, and to determine improvements needed.
    - Near Miss and Stop-card practices
- **Intensive OHS trainings:**
  - Mandatory e-learning courses launched in May 2020 → 1,985 employees completed the course in FY2020;
  - 2,908 employees spent 22 thousand hours in total on special OHS trainings in FY2020 (incl specialized trainings on high-risk work with the obligatory exams and the subsequent authorization);
  - 370 emergency response drills with 3,680 employees attending in FY2020.
    - trainings on modeling dangerous situations and practicing actions in such situations, with the involvement of specialized equipment and state rescue services.
- **US\$ 1.3m investments** to improve OHS system in FY2020

#### Achievements

- # of work-related **injuries ↓ y-o-y** in FY2020
- 20 statutory OHS inspections in FY2020 → **no fines for breaching the labor safety requirements**
- #2 corporate in Ukraine in OHS practices in the first Ukrainian sustainability rating **Sustainable Ukraine**
- Crushing plants and Kernel-Trade **completed ISO 45001:2018 certification** (Bureau Veritas) in FY2020
  - *Plan to complete such certification for all assets in Ukraine by FY2023*



## Content

1. Kernel today

2. Environmental impact

3. Social impact

**4. Economic impact**

5. Corporate governance

## 4.1 Anti-corruption and anti-fraud

### Reducing the risks of misconduct internally and promoting anti-corruption principles externally

Full transformation of compliance function initiated in 2017 → recognitions from EIB, EBRD, and independent compliance auditor Baker Tilly

#### What we adhere to

- **Zero tolerance** to any fraudulent/corrupt activities. Dismissal of employees and immediate ban on cooperation with partners suspected in prohibited practices
- Proper **framework in place**:
  - [Code of Conduct](#) (since 2015); [Corporate Governance Charter](#) (since 2018) also covering compliance issues; [Anti-corruption policy](#);
- **Tone at the Top** initiative coming from the Board of Directors and Executive Management Team

#### How we do it

- [Anti-corruption clause](#) in all Kernel agreements and tendering processes (since 2017)
- [Code of Interaction with Suppliers](#) (since 2019). We require counterparties to respect human rights, ensure occupational safety, comply with environmental regulations, and maintain sustainable business practices. When signing agreements with Kernel, counterparties consent to comply with provisions of the code
- In-depth documented **due diligence during KYC** procedure, conducted by a security service and compliance officer
- Annual **conflict of interest declaration** procedure completed by >3,600 managers and specialists with high potential risks in FY2020
- **Business gifts and hospitality rules** (since 2018) prohibiting presents and attendance of events that may influence business decision-making
  - e-register of business gifts and hospitality
- **Channels for informing** on misconduct:
  - 24 / 7 / 365 toll-free hotline (0-800-501-483) allowing anonymous calls.
  - Form on company's [website](#) (since June 2019)
  - Special e-mails: [dovira@kernel.ua](mailto:dovira@kernel.ua) and [compliance@kernel.ua](mailto:compliance@kernel.ua);
  - Telegram-chatbot KernelHotline as a more convenient hotline alternative (since June 2020)
- **Whistleblower protection** mechanism (managed by compliance officer).
- Diligent additional **screening during the employee selection process**, with specific attention paid to the employment of former government officials
- **Regular assessment of risks** covering conflicts of interest, bribes, charitable contributions and sponsorships, gifts, hospitality.
- Increasing **compliance-culture awareness** among employees:
  - **Trainings and e-courses** (837 employees attended off-line and online trainings in FY2020; all new employees go through on-line trainings);
  - **Regular** e-mail distributions;
  - **Promo materials and warnings** on the company [website](#), intranet portal (with FAQ on the topic), corporate media, information boards at company's assets, 5,000 printed anti-corruption manuals;
  - **Surveys among employees** on compliance understanding. According to the results of internal survey conducted in FY2020, all our employees are informed about rules and principles of Code of Conduct and Anti-corruption Policy, and 99.9% them know how to report fraud and corruption;
  - **Compliance promo-activities** in external and internal media, conferences, and social networks.

## 4.2 Indirect economic impact

Increase the global food security by boosting productivity and reducing costs along the food supply value chain

### Boosting productivity of other farmers in Ukraine

- Kernel is **more productive in farming** than average farmer in Ukraine (20-40% higher key crop yields)
- Since 2018, we **share our crop production expertise** with other farmers in Ukraine through the special program [Open Agribusiness](#), designed to help farmers to increase their productivity / reduce cost:
  - **Knowledge sharing:** results of our agrochemical laboratories; our practices in precision farming, differentiated fertilizing and planting, satellite and GPS-monitoring; research results from our R&D center, access to our RTK-stations, etc;
  - **Providing high-quality services:** pre-crop financing (***the largest provider in Ukraine***), solutions through Kernel's #DigitalAgriBusiness platform, infrastructure services, and trainings;
  - **Site visits to our assets, field meetings** to demonstrate our farming approach;
  - Purchase of **crop inputs at cheapest prices**.



**#DigitalAgriBusiness**  
Kernel creates future

### Improving grain railway logistics in Ukraine

- Kernel is **#1 private operator of grain railcars** in Ukraine → we **actively contribute to the r/w logistics development:**
  - **New grain “Strict schedule shipments” approach** was first introduced by Kernel and national monopoly Ukrainian Railways in 2019 and now is **widely used by other players**
    - Fleet turnover increase → grain transportation costs reduction
  - We are an active participant of **working groups to transform the railway logistics market and introduce private traction**, which shall benefit all other players.

### Development of rural areas in Ukraine

- As the largest lessee of agri land in Ukraine, we contribute to the **development of rural areas in Ukraine:**
  - Investments in infrastructure (roads, schools, hospitals, kindergartens);
  - Simplifying access to medical services;
  - Contributing to local budgets as a responsible taxpayer.

### Providing access to our IT solutions for our counterparties

- In 2016-2018, we developed an electronic document flow (EDF) system for internal needs and started to **offer it to external counterparties:**
  - **100% of truckload carriers** we work with (except for “field-silo” leg) use EDF. Payment time reduced from 3-5 days to 0-1 day.
  - For **farmers who sell us grain and sunflower seeds** we developed a special “Partner’s cabinet”, where they can use various digital services, including electronic agreements and invoices.
    - In FY2020, Kernel purchased 28% of grains and sunflower seeds (~2.3m tons) using EDF. Cost of signing one document reduced 6-8 times, to just US\$ 0.03.
- As a first mover among the corporates in this field in Ukraine, we proactively helped the government to develop respective EDF regulatory acts

## Content

1. Kernel today

2. Environmental impact

3. Social impact

4. Economic impact

**5. Corporate governance**



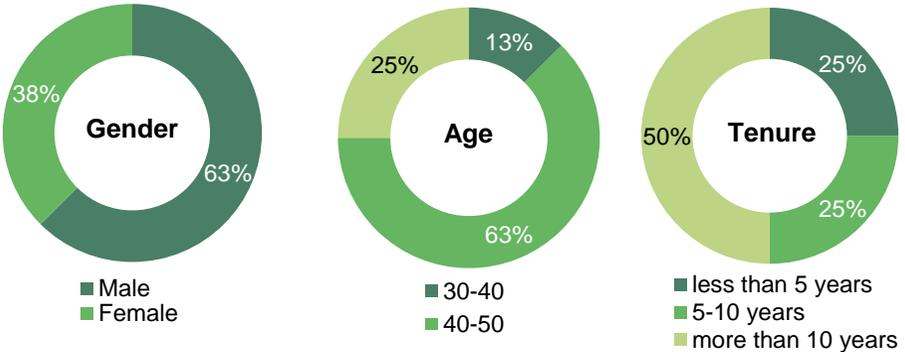
# 5.1 Corporate governance framework

- Kernel is committed to high standards of corporate governance and is subject to the corporate governance framework determined by:
  - the corporate law of the Grand Duchy of Luxembourg as a place of incorporation (including voluntary compliance with most of the provisions of the X Principles of Corporate Governance of the Luxembourg Stock Exchange); and
  - corporate governance rules set out in [the Best Practices of Warsaw Stock Exchange Listed Companies 2016](#) (“Best Practices”) as a place of shares listing. Kernel complies with most of the standards of “Best Practices”. The respective statement of compliance is published on [Company’s web-site](#) under section “Board of Directors and Corporate Governance”.
- Key internal documents laying out the principles of corporate governance are Kernel Holding S.A. [Articles of Association](#) and [Corporate Governance Charter](#)
- #2 corporate in Ukraine in corporate governance rating in the first Ukrainian sustainability rating [Sustainable Ukraine](#)
- The Company benefits from nationality, gender, age, experience and industry expertise diversity among Directors. The diversity within the Board is enhanced by [Kernel’s Equality, Diversity and Inclusion Policy](#), which was adopted in 2018.
- The Board has two committees appointed amongst its members:
  - Audit Committee;
  - Nomination & Remuneration Committee (hereinafter “N&R Committee”);

### Governance structure



### Composition of the Board of Directors as of 30 September 2020



I Independent Director  
A Member of the Audit Committee  
N Member of the Nominations and Remuneration Committee