



KERNEL

Kernel Holding S.A.

ANNUAL REPORT

For the year ended 30 June 2021

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

We are the world's largest exporter of sunflower oil, the largest grain exporter from Ukraine and the Black Sea region, operator of an extensive agricultural logistics network and the largest producer of grain and oilseeds in Ukraine. In FY2021, we supplied 11 million tons of agricultural products from Ukraine across the world.

01-40

Strategic Report

2	Key Highlights
3	Operating Highlights
4	Chairman's Statement
6	Our Business Model
7	Kernel at a Glance
8	Our Strategy 2026
9	Financial Performance in FY2021
13	Segment Performance
13	Oilseed Processing
19	Infrastructure and Trading
25	Farming
31	Risk Management
37	Alternative Performance Measures

41-87

Sustainability

88-96

Corporate Governance

97-155

Financial Statements

97	Independent Auditor's Report
103	Statement of Management Responsibilities
104	Selected Financial Data
105	Consolidated Statement of Financial Position
106	Consolidated Statement of Profit or Loss
107	Consolidated Statement of Profit or Loss and Other Comprehensive Income
108	Consolidated Statement of Changes in Equity
109	Consolidated Statement of Cash Flows
110	Notes to the Consolidated Financial Statements
155	Corporate Information

Key Highlights

US\$ million except ratios and EPS

	FY2020	FY2021	y-o-y
Income statement highlights			
Revenue	4,107	5,647	38%
EBITDA ¹	443	929	+2.1x
Net profit attributable to equity holders of Kernel Holding S.A.	118	513	+4.3x
EBITDA margin	10.8%	16.4%	5.7pp
Net margin	2.9%	9.1%	6.2pp
Earnings per share, US\$	1.42	6.10	+4.3x
Cash flow highlights			
Operating profit before working capital changes	422	792	88%
Change in working capital	(10)	(186)	+17.9x
Finance costs paid, net	(135)	(127)	(5%)
Income tax paid	(8)	(18)	2.2x
Net cash generated by operating activities	269	461	71%
Net cash used in investing activities	(203)	(206)	2%
Liquidity and credit metrics			
Net debt	980	836	(15%)
Readily marketable inventories ²	252	285	13%
Adjusted net debt ³	729	551	(24%)
Shareholders' equity	1,493	1,946	30%
Net debt / EBITDA	2.2x	0.9x	(1.3x)
Adjusted net debt / EBITDA	1.6x	0.6x	(1.1x)
EBITDA / Interest	3.0x	6.6x	3.5x
Non-financial highlights			
Number of employees (full-time equivalent) at 30 June	11,928	11,256	(6%)
Rate of recordable work-related injuries, accidents per million worked hours	0.68	0.46	(32%)
Social spending, US\$ million	7.7	3.9	(49%)
Greenhouse gas emissions, thousand tons of CO ₂ equivalent	1,679	1,462	(13%)
Total energy consumption, terajoules	6,998	7,391	6%

Note: Financial year ends 30 June.

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

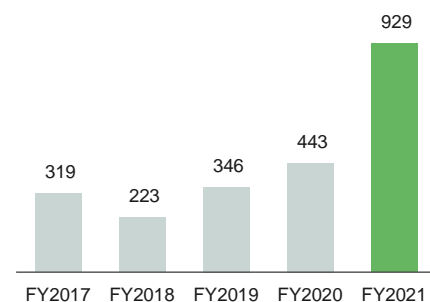
2. Readily marketable inventories are inventories such as corn, wheat, sunflower oil, and other products that could easily be converted into cash due to their commodity characteristics, widely available markets and the international pricing mechanism.

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

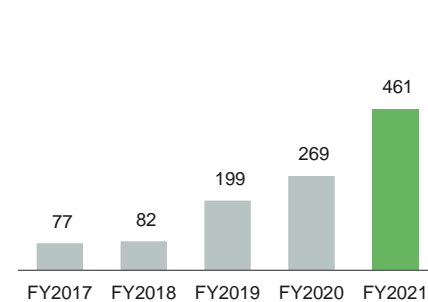
Hereinafter differences between totals and sums of the parts are possible due to rounding.

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

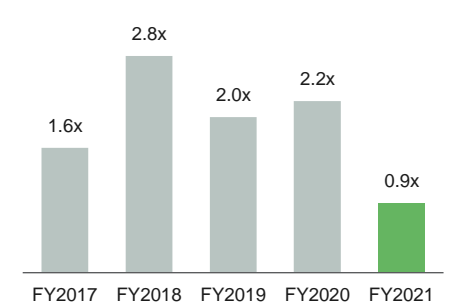
EBITDA
US\$ million



Net cash generated by operating activities
US\$ million



Net debt / EBITDA



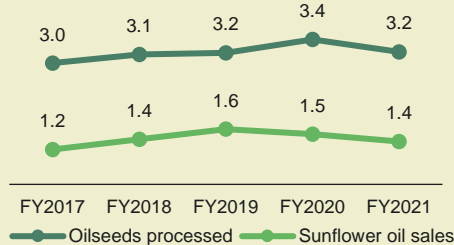
Operating Highlights



Oilseed Processing

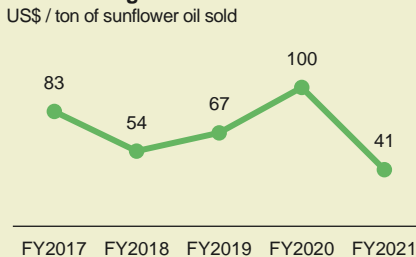
Segment volumes

million tons



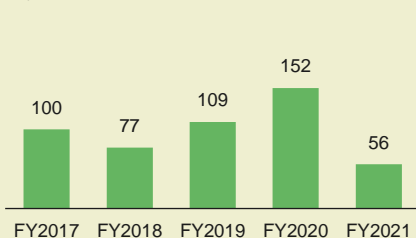
EBITDA margin

US\$ / ton of sunflower oil sold



EBITDA¹

US\$ millions



We **processed 3.2 million tons of sunflower seeds** in FY2021, down 7% y-o-y due to low harvest of sunflower seeds in Ukraine, implying 87% crushing capacity utilization (including tolling on third-party-owned crushing plant). Sunflower oil sales volumes reduced to 1.4 million tons, in line with production volume decrease.

EBITDA margin per ton of oil sold plummeted by 59% y-o-y, to US\$ 41, due to:

- intense competition for sunflower seeds given the poor harvest in FY2021;
- one-off trading loss on position** recognized in the Q4 FY2021; and
- one-off loss** due to several farmers' defaults under forward agreements to supply sunflower seeds to Kernel at pre-determined fixed price.

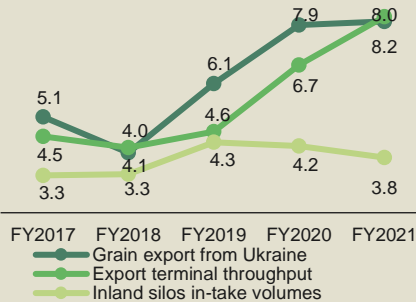
As a result, segment generated EBITDA of US\$ 56 million in FY2021, down 62% y-o-y.



Infrastructure and Trading

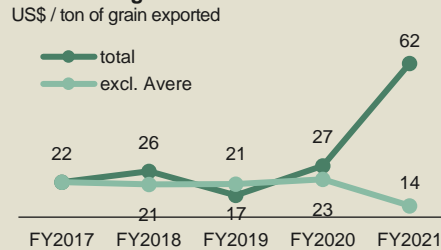
Segment volumes

million tons



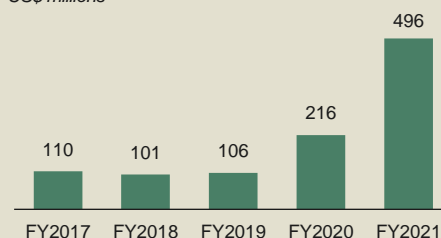
EBITDA margin

US\$ / ton of grain exported



EBITDA¹

US\$ millions



Astounding segment performance in FY2021 driven by trading profits:

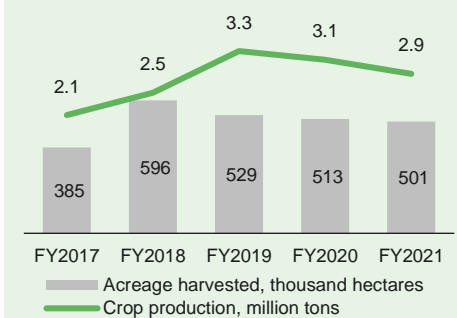
- Avere** delivered outstanding US\$ 385 million EBITDA, skillfully exploiting the volatility prevailing on the soft commodity markets.
- Grain export value chain in Ukraine reached **stronger y-o-y grain export and terminal transshipment volumes**, including first full-year contribution from recently constructed grain handling facility in Chornomorsk port...
- ...but suffered from **lower** trading and infrastructure **margins**, given that weak grain harvest in Ukraine stipulated 19% y-o-y decline in the volume grain export from Ukraine.

Total segment EBITDA amounted to US\$ 496 million in FY2021, a 2.3x growth y-o-y.



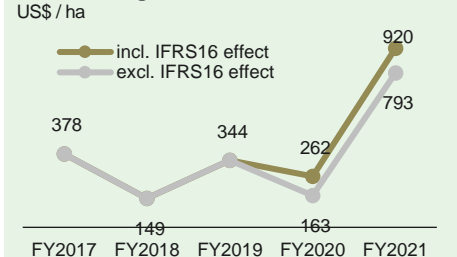
Farming

Kernel's production of key crops



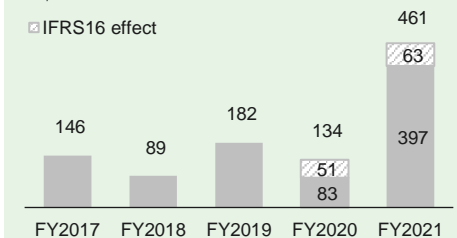
EBITDA margin

US\$ / ha



EBITDA¹

US\$ millions



Similar to Ukraine's trends, crop yields in our Farming segment declined y-o-y to below-normal level, resulting in **lower crop harvest size**.

On the contrary, grain and oilseeds **price surge** pushed farming profits to all-time highs, resulting in US\$ 461 million segment EBITDA in FY2021, or US\$ 920 EBITDA generated per hectare cultivated. This result also includes US\$ 133 million net gain from revaluation of biological assets, mostly attributable to the next season crop, as accounted under IAS 41 standard.

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

Chairman's Statement



Andrii Verevskyi

Chairman of the Board of Directors,
Founder

Dear Shareholders,

On behalf of the Board of Directors of Kernel Holding S.A., it is my pleasure to present the Group performance for the year ended 30 June 2021, summarize the execution of our Strategy 2021, announce a new Strategy 2026, and present our approach to the capital allocation going forward.

FY2021 highlights

The reported year EBITDA more than doubled year-on-year, reaching US\$ 929 million. Net profit attributable to shareholders exceeded half a billion US\$, equaling to the combined profits of four previous years. And the financial leverage reduced to 0.9x net-debt-to-EBITDA as of 30 June 2021, the lowest level for the past five years.

Strong global pricing environment was the major driver for the record financial performance of Kernel. Farming segment was a direct beneficiary of surging soft commodity prices while upward price volatility translated into forceful trading momentum for Avere. Consequently, Avere team was instrumental to capture market moves with perfect precision, delivering very strong US\$ 385 million trading EBITDA in FY2021 while Kernel's management team in Ukraine operated in a fundamentally challenging low-harvest environment, strengthening Kernel's market position, and securing US\$ 544 million EBITDA, a large portion of which was attributable to farming. No doubt, once soft commodity price cycle normalizes, we shall see the toll on our earnings especially in the farming division.

Focusing on the segment performance, our **Oilseed Processing** business fell a victim to weak sunflower seed supply, which was down 17% year-on-year, generating only US\$ 56 million of EBITDA, down 63% year-on-year. Additionally, we faced losses on trading position and farmers' default on pre-crop forward contracts both stipulated by extraordinary price volatility for vegetable oils and oilseeds. Finally, there was a limited contribution from the renewable energy business owing to commissioning delays. Accordingly, EBITDA margin declined to US\$ 41 per ton oil sold, a slump of 59% compared to the previous year.

Infrastructure and Trading segment EBITDA reached US\$ 496 million in FY2021, a 2.3x growth year-on-year, driven by Avere performance. Grain export value chain in Ukraine secured US\$ 111 million EBITDA, undermined by low margins due to poor grain harvest in Ukraine. Nevertheless, we strengthened our positions as the largest grain exporter from Ukraine, delivering 18% of total country's grain to international marketplace compared to 14% a year ago. The first full-year operation of our brand-new grain transshipment terminal in Chornomorsk port was instrumental to transship 8.2 million tons of soft commodities.

EBITDA of the **Farming** segment in FY2021 jumped 3.4x year-on-year, to US\$ 461 million. The growth is concurrent with the global price rally outweighing the negative impact of lower crop yields.

It was a second year under COVID-19 restrictions, and I am pleased to note that our flexible and resilient business model quickly adjusted to new challenges. Supply chains and business processes were not interrupted, and we successfully coped with the pandemic spread control.

At the same time some development-related risks materialized this year. We had to increase the CapEx budget for our new crushing plant in western Ukraine and delay the commissioning of our renewable energy projects.

In October-November 2020, **Kernel successfully completed public liabilities management**, improving the Company's debt maturity profile. In the refinancing transaction, the 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. At the time of the new issue, Kernel was priced ca. 115bps inside of the sovereign curve setting a record in the CEEMEA region.

Farmland market in Ukraine finally opened in July 2021, and by September there were transactions for a total area of 24 thousand hectares, which is very low compared to the total farm land area in Ukraine. Clearly, without further liberalization of the legislative base, we should not expect any acceleration of transactions with freehold rights for the farm land in Ukraine.

Last but not least, in compliance with best corporate governance practices on regular rotation of auditors we selected and appointed PwC as a new auditor of Kernel succeeding Deloitte next year.

Sustainability progress

To strengthen our environmental practices, we initiated a project "Climate Corporate Governance and Low-Carbon Pathway" together with EBRD and EY. A case in point assumes identification of opportunities for us to reduce Kernel's carbon footprint, set science-based emissions reduction targets and define a corporate climate strategy. The results are to be presented in the next annual report.

Delivering on our social agenda, we gave US\$ 4 million for charity in FY2021, supporting local communities in areas of our operations, and invested US\$ 1.4 million to protect our employees from COVID-19 pandemic. Over the reporting year, we reached a record-low number of work-related injuries and launched a voluntary medical insurance program for our employees and their children.

Chairman's Statement *continued*

I am pleased to confirm Kernel's continued support of the UN Global Compact Ten Principles and renewing the company's ongoing commitment to the initiative.

Completion of the Strategy 2021

With all the achievements presented above, we conclude our Strategy 2021. Looking backwards, Kernel successfully integrated a poorly managed landbank acquired in 2017 proving our strong ability to realign newly acquired business as we strive to upscale our platform. We transformed into the largest soft commodities export powerhouse in the Black Sea region and extended our global reach and expertise by launch of Avere. With over US\$ 1 billion invested in greenfield and M&A projects in Ukraine in last five years, Kernel developed into the largest vertically integrated agri business company in Ukraine.

Four years ago, we set a number of operational and financial targets within Strategy 2021. Now, I am pleased to report to our stakeholders that major operational goals are attained while strong tailwind supported financial performance well above our initial forecasts.

New Strategy 2026

A sensible question to ask: what is next? The operating environment in Ukraine has changed a lot over the last five years. Margins in oilseed processing and grain export infrastructure businesses gradually declined to normalized levels compared to international peers in other geographies with limited upside potential in the future. Therefore, to succeed we need to handle as much volume as possible at the lowest cost possible. Lower cost requires larger scale. We believe that Ukraine has a robust potential to further increase crop production in the mid-term perspective and this belief is a key fundamental pillar for our Strategy 2026.

A new action plan for the next five years includes ambitious targets to reach 6 million tons of annual sunflower seed processing and 15 million tons of grain export from Ukraine. It is expected that Kernel's own farming operations, Open Agribusiness program, pre-crop financing and pre-season forward contract programs with third party farmers will captively procure for 35% of sunflower seeds and 50% of grain origination needs. We also have an appetite to increase our leasehold farmland bank to 0.7 million hectares over the coming years. The growth will be driven predominantly by M&A expansion as opposed to greenfield which was a cornerstone of Strategy 2021. Our geographic focus remains intact with 100% of planned investments to be solely deployed in Ukraine. At the same time, our Avere subsidiary will remain an important part of Kernel business bringing the global expertise inhouse.

We will be strengthening Kernel by further developing the ecosystem in which third-party farmers will be able to earn more when

cooperating with Kernel than when working separately. Our priorities will be a comprehensive support and education of small and mid-size farmers in Ukraine to make their business more productive and efficient, and Kernel's Open Agribusiness initiative is playing a pivotal role in this direction.

While further growing our business, we shall stay agile as the super cycle in soft commodities will come to an end sooner rather than later. No doubt, the future will be even more volatile and challenging than the past. Acceleration of electric vehicles adoptions, new government-backed emission targets across the globe, sustainable fuel, food, and feed together with growing geopolitical tensions and supply chain disruptions would require us to be entrepreneurial regardless the size of our platform and ready to move and change fast as swings in supply and demand fundamentals might substantially accelerate.

We believe that Strategy 2026 combined with the new capital allocation policy will allow us to create the highest possible value for our shareholders.

FY2022 outlook

In the context of our new strategy, FY2022 will be a big step forward.

We expect Ukraine to deliver a record harvest of grain and oilseeds, exceeding in total 100 million tons, of which 79 million tons of grain (corn, wheat, and barley) and 16.8 million tons of sunflower seeds. A bumper crop shall fuel nearly full capacity utilization of our crushing plants and grain export infrastructure assets, as well as enable us to capture higher margins. Accordingly, we target export of 11 million tons of grains from Ukraine (+38% year-on-year), transship 10 million tons of soft commodities through our terminals (+23% year-on-year) and process 3.7 million tons of oilseeds (+16% year-on-year), including on our brand-new crushing plant in western Ukraine. On top of that, a sizable contribution is expected from our renewable energy investments.

In the Farming business, we will continue benefiting from high global grain and oilseeds prices, which are likely to stay strong as well next year. The major portion of our crop has been already hedged at prices higher than realized in FY2021, though we keep a material long position in corn to play with expected volatility. Regrettably crop yields might suffer in certain farming clusters as supportive weather was not distributed evenly in Ukraine thus undermining further upside risk from larger production.

Our CapEx guidance for FY2022 is US\$ 265 million, including incremental investments required for our crushing plant, maintenance CapEx, and carry-over investments not deployed in FY2021 due to execution delays.

Board changes

We continue to bring new skills and capabilities to the Board increasing its diversity. In August, we welcomed Mrs. Pieternel Boogaard as an Independent Non-Executive Director. Pieternel brings aboard a considerable sustainability experience, and she will chair the Sustainability committee of the Board to be created, enhancing our commitment to this area.

New capital allocation policy

To say simply, we propose a balanced mix of growth opportunities and capital return to shareholders, including disciplined investments and rigorous assessment of investment opportunities.

Our future capital deployment framework relies on four principles.

- *Firstly*, and above all we shall continue to invest in our platform to expand and consolidate our number one position across each business line we operate. We are working in very competitive low margin environment and Kernel constantly requires capital re-deployment to maintain our cost and market leadership positions in the global context.
- *Secondly*, we will continue paying a minimum baseline dividend of US\$ 35.6 million, to which we remain committed going forward. I emphasize that the level was increased in FY2021 from US\$ 20-21 million paid constantly for the six preceding years. The Board believes that current level of dividends shall be maintained for the foreseeable future as it adequately balances the interests of our shareholders and provides a cushion for executive management to mitigate the risks Kernel will face going forward.
- *Thirdly*, we recently launched a two-year US\$ 250 million share buyback program. The first US\$ 50 million tender offer was just completed in September 2021, with 3.2 million purchased shares to be kept in treasury unless the Board decides otherwise.
- *Finally*, any excessive liquidity will be used to reduce the debt level to further strengthen the financial position, allowing us to confidently navigate the future challenges and opportunities.

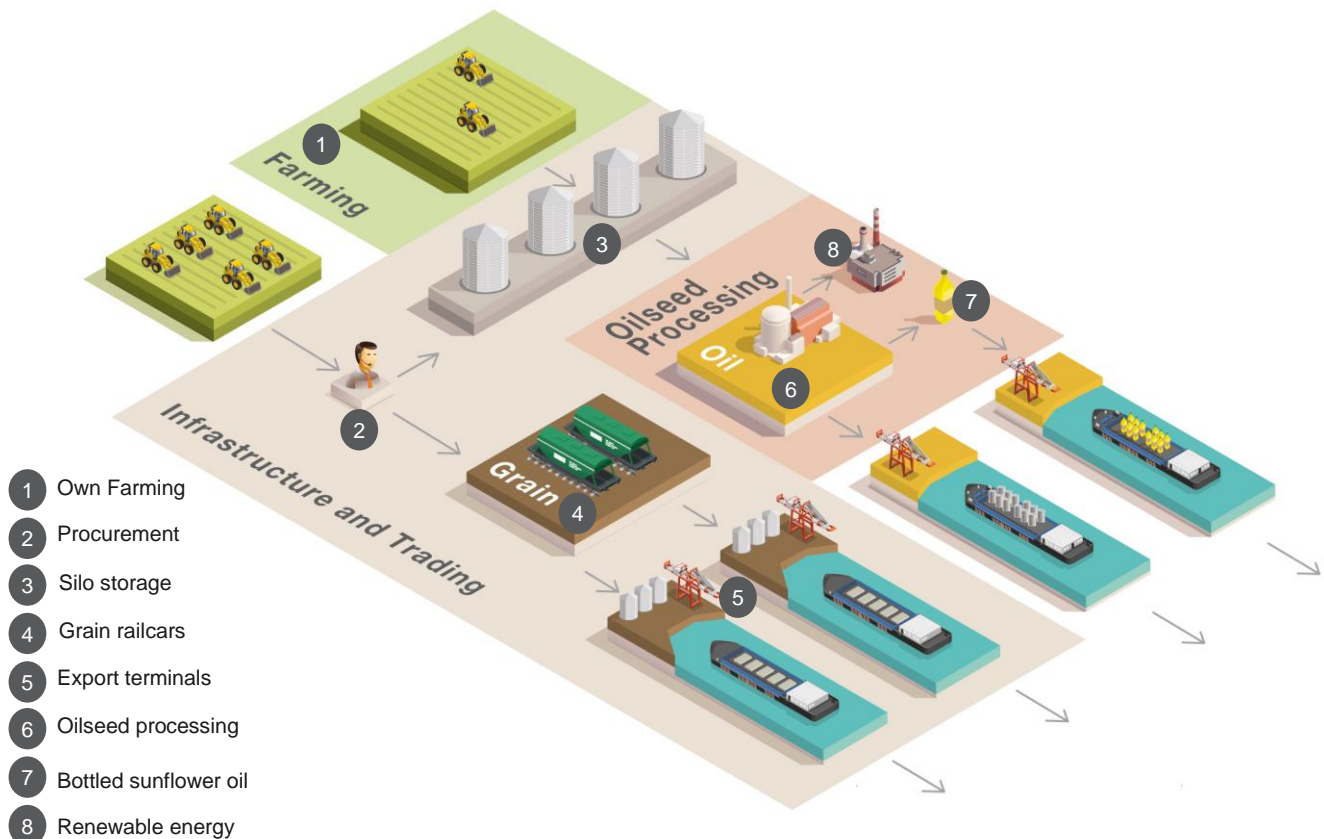
Based on the FY2021 results and considering residual capital expenditure commitments for completion of greenfield expansion along with the new capital allocation policy, the Board of Directors proposes shareholders to approve the dividend of US\$ 0.44 per share.

On behalf of the Board of Directors, I would like to thank Kernel shareholders and creditors for their continuous support, and to congratulate the entire Kernel team on delivering great results in FY2021.



Andrii Verevskyi
Chairman of the Board
of Directors,
Founder

Our Business Model



Topping industry league tables in all segments



Oilseed Processing segment

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



Infrastructure and Trading segment

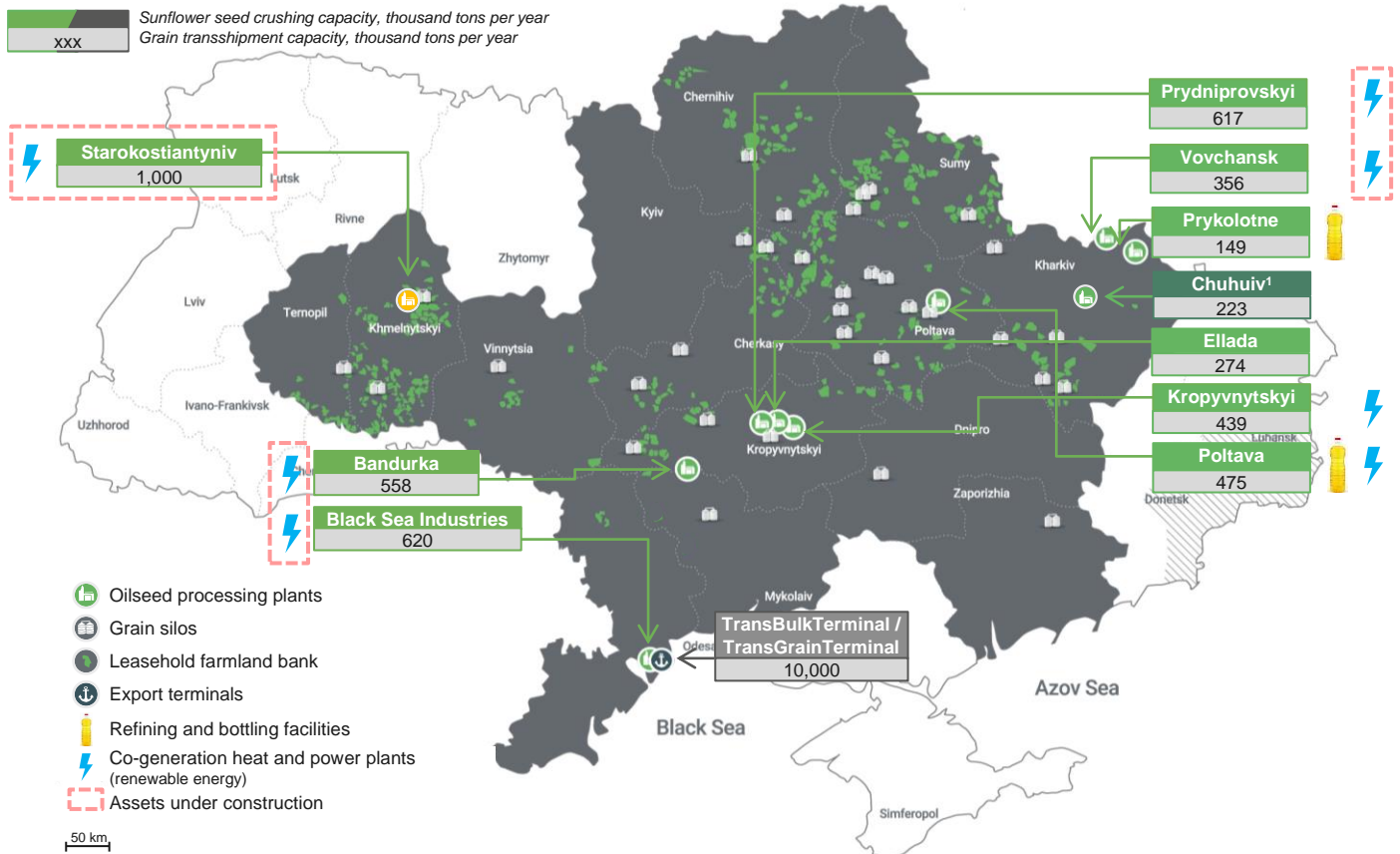
- #1 grain exporter from Ukraine with 18% share of country's total grain export
- #1 grain export terminal operator with total annual capacity to transship 10 million tons of soft commodities
- #1 private inland grain silo network in Ukraine with 2.3 million tons of one-time grain storage capacity
- #1 private grain railcar fleet in Ukraine (3.4 thousand railcars)
- Avere proprietary trading activities



Farming segment

- #1 crop producer in Ukraine controlling 506 thousand hectares of leasehold farmland
- Modern large-scale machinery, sustainable agronomic practices, cluster management system and export-oriented crop mix
- Nearly 100% of sales volumes flows through our Infrastructure and Trading and Oilseed Processing segments, earning incremental profits

Kernel at a Glance



Segment results summary

	Revenue, US\$ million			EBITDA, US\$ million			Volume, thousand tons ²			EBITDA margin, US\$/t ³		
	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y
Oilseed Processing	1,547	1,747	13%	152	56	(63%)	1,518	1,367	(10%)	100	41	(59%)
Infrastructure and Trading	3,426	4,909	43%	216	496	2.3x	7,902	8,013	1%	27	62	2.3x
Farming	604	657	9%	134	461	3.4x	3,271	2,859	(13%)	262	920	3.5x
Unallocated corporate expenses				(59)	(84)	43%						
Reconciliation	(1,471)	(1,666)	13%									
Total	4,107	5,647	38%	443	929	2.1x						

Note 2 Physical grain volumes exported from Ukraine (ex. Avere) for Infrastructure and Trading.

Note 3 US\$ per ton of oil sold for Oilseed Processing; US\$ per ton of grain exported (ex. Avere volumes) for Infrastructure and Trading; US\$ per hectare for Farming.

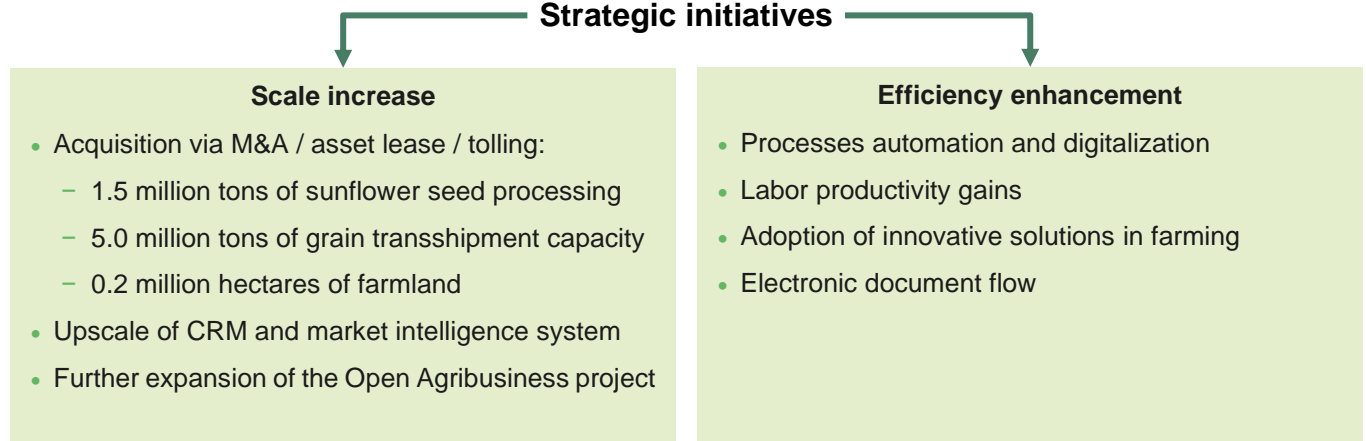
Our Strategy 2026

We aim to sustainably increase the scale and efficiency of our low-cost business system to export annually 20 million tons of soft commodities from Ukraine by strategic acquisitions, fostering loyal relations with local farmers, and constant development of our people.

Strategic targets

 Oilseed Processing <ul style="list-style-type: none"> 6 million tons of oilseed processing annually with 35% originated via captive supplies¹ 	 Infrastructure and Trading <ul style="list-style-type: none"> 15 million tons of grain export from Ukraine annually with 50% originated via captive supplies¹ 	 Farming <ul style="list-style-type: none"> 4 million tons of in-house production annually on 0.7 million hectares of farmland under own operations
--	--	--

Strategic initiatives



Sustainability approach

- Contributing to relevant **UN Sustainable Development Goals**
- Supporting the objectives of the European Green Deal through **rigorous climate action**
- Acting as a **sustainable farming ambassador** in Ukraine through dissemination of resource-efficient, environmentally and socially responsible production practices among our partners in supply chains
- Providing fair and safe working conditions, proper resources and environment for learning, and equal opportunities for self-realization to remain an **ethical employer of choice**
- Actively contributing to the **improvement of local communities' well-being**

¹ Captive supplies include feedstock originated via Kernel's own farming operations, Open Agribusiness, pre-crop financing and pre-season forward contract programs with third-party suppliers.

Financial Performance in FY2021



Outstanding results in low-supply environment

For the second year in a row Kernel generated the record-high EBITDA, this time reaching US\$ 929 million, a 2.1x growth y-o-y.



The key factor behind the stellar performance was Avere trading business, which contributed with US\$ 385 million EBITDA in FY2021, more than 10 times exceeding the previous year result. Avere's research and trading team relied on the insight obtained from their fundamental analysis of global soft commodity markets to properly capture the moves in global prices and generate the trading profit. While we are pleased with such earnings, we do not consider it as a sustainable in the long run, expecting normalization going forward.

Factoring out Avere, operations in Ukraine secured strong US\$ 544 million EBITDA, up 35% y-o-y. The primary earning power was Farming segment, fueled by skyrocketing prices for grain and oilseeds. This business generated US\$ 461 million EBITDA in FY2021, up 3.4x y-o-y, including also US\$ 133 million non-cash gain on revaluation of biological assets.

Two other of our businesses in Ukraine, namely oilseed processing and grain export value chain, delivered modest results in FY2021, negatively impacted by low margins due to weak harvest, one-offs related to farmers' defaults on forward contracts to sell crop to Kernel at pre-determined fixed price and preferring to sell at much higher prevailing market price, and one-off trade position losses.

Unallocated overheads increased by 43% y-o-y to US\$ 84 million, stemming from higher performance bonuses arising from astounding financial results.

With no other major themes impacting our financials, Kernel generated US\$ 513 million net profit attributable to shareholders in FY2021, up 4.4x y-o-y. Book value of the equity approached US\$ 2.1 billion, capturing a tremendous upside as

Revenue

US\$ 5,647 million
+38% y-o-y

EBITDA

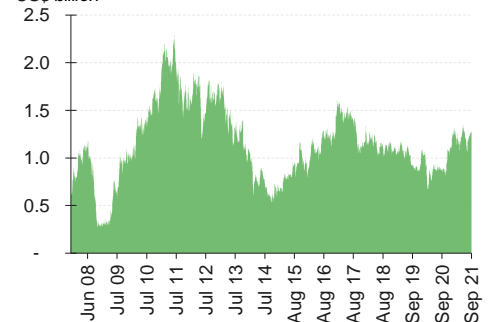
US\$ 929 million
+2.1x y-o-y

compared to the US\$ 1.2 billion market capitalization as of the reporting date.

The Board of Directors of Kernel Holding recommends the General Meeting of Shareholders distributing to shareholders US\$ 35.6 million as a dividend, unchanged as compared to the previous year and resulting in a 7% dividend payout ratio. When making the recommendation, the Board considered the Group's capital expenditures plan for the next year, the intentions to repay the principal amount of 2022 notes outstanding, and potential additional share buybacks in FY2022.

Kernel Holding S.A. market capitalization

US\$ billion



Source: Bloomberg

Financial Performance in FY2021 continued

Income statement highlights

The Group generated US\$ 5,647 million revenue in FY2021, up 38% y-o-y driven by high grain and sunflower oil prices (albeit lower physical export volumes from Ukraine) and active physical sales of soft commodities originated from third-parties by our Avere subsidiary.

We recognized a US\$ 133 million gain from **net change in fair value of biological assets and agricultural produce** in FY2021, compared to a US\$ 21 million loss a year ago. This component included a gain from revaluing crops in fields to fair value less costs to sell as of 30 June 2021 and expensing the respective gain booked a year earlier, as well as a loss from change in the fair value of livestock. The recognized gain results from higher grain and oilseeds prices expected for FY2022 produce than those expected for FY2021 harvest.

Costs of sales in FY2021 increased by 34% y-o-y, to US\$ 4,877 million, driven by the growing cost of goods for resale and raw materials used. We also managed to reduce payroll costs and other operating costs. Additionally, rental payments are disappearing from our income statement following the introduction of IFRS 16 standard¹.

Consequently, **gross profit** for the period doubled y-o-y, totaling at US\$ 903 million.

Other operating income settled at US\$ 95 million, comprising primarily gains on contracts wash-out and stock-take, related mostly to Avere trading operations.

General and administrative expenses in

Income statement highlights

US\$ million

	FY2020	FY2021	y-o-y
Revenue	4,107	5,647	38%
Net IAS 41 (loss) / gain	(21)	133	n/a
Cost of sales	(3,629)	(4,877)	34%
Gross profit	457	903	98%
Other operating income	7	95	13.6x
General and administrative expenses	(127)	(186)	47%
Operating profit	337	812	2.4x
Finance costs, net	(147)	(142)	(4%)
Foreign exchange gain(loss), net	(1)	(6)	6.2x
Other (expenses) / income, net	(51)	11	n/a
Share of profit/(losses) of joint venture	6	-	n/a
Profit / (loss) before income tax	145	675	4.7x
Income tax (benefit)/expenses	(22)	(32)	46%
Profit for the period	123	643	5.2x
Attributable to equity holders of Kernel Holding S.A.	118	513	4.3x
Non-controlling interest	5	130	26.6x
EBITDA	443	929	2.1x

FY2021 added 47% y-o-y, to US\$ 186 million, solely driven by payroll and payroll related costs increase, with higher annual performance bonus accrual for employees and management being the major growth factor.

Consequently, **operating profit** increased 2.4x y-o-y, to US\$ 812 million.

Finance costs in FY2021 reduced 4% y-o-y, to US\$ 142 million, including US\$ 95 million interest expenses on bonds issued and bank loans, US\$ 45 million interest on rent arising as a result of IFRS 16 introduction, and US\$ 2 million other finance costs, net.

Group also recognized a US\$ 6 million **foreign exchange loss**. This item is mostly a non-cash gain recognized after the revaluation of our intra-group balances denominated in Ukrainian hryvnia following its depreciation against US\$ over the reporting period.

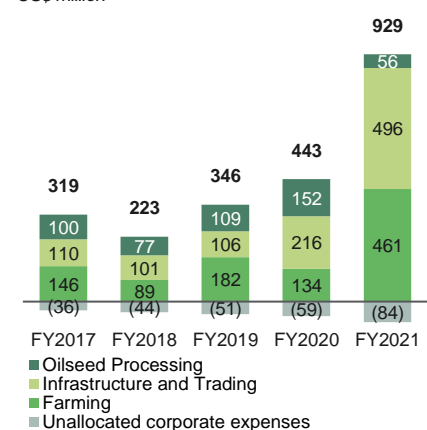
Other income, net, amounted to US\$ 11 million, mostly driven by US\$ 16 million gain on derivatives sales related to capturing arbitrage opportunities on FX market as a part of our liquidity management exercises.

Corporate income tax expenses in FY2021 added 46% y-o-y, to US\$ 32 million, reflecting higher taxable profits achieved during the season.

As a result, **net profit** for 12 months ended 30 June 2021 totaled at US\$ 643 million, a 5.2x bigger than in the previous year and being more than Group generated in total over 4 previous years FY2017-FY2020. **Net profit attributable to shareholders of Kernel**

Kernel's EBITDA split

US\$ million



Holding S.A. ended up at US\$ 513 million.

Distributing FY2020 profits, the Company paid a US\$ 35 million dividend in January 2021, increasing it by 70% from the level paid over six previous years. Based on the FY2021 results and considering also the final portion of our greenfield CapEx, the bond principal repayment, and potential additional share buybacks in FY2022, the Board of Directors recommends the general meeting of shareholders to approve the **dividend of US\$ 0.44 per share**, implying US\$ 35.6 million in total.

Cash flow highlights

In FY2021, Kernel generated **operating profit before working capital changes** of US\$ 786 million, up 86% y-o-y, reflecting the growth in the Group's EBITDA.

Working capital changes resulted in US\$ 181 million cash outflow in FY2021 stemming primarily from the growth in soft commodity prices.

Kernel paid US\$ 133 million interest in FY2021 (down 4% y-o-y) and received US\$ 6 million interest (up 20% y-o-y). Accounting also for US\$ 18 million income tax paid, the Group generated US\$ 460 million of **cash provided by operating activities**, a 71% increase y-o-y.

Net cash used in investing activities totaled at US\$ 205 million in FY2021. We invested US\$ 178 million in purchase of PP&E, comprising mostly greenfield investments under our Strategy 2021 CapEx program. Additionally, as a part of the post-completion **settlement for our Prydniprovskyi** crushing plant acquired in 2016, we made a deferred payment of US\$ 47 million assumed by the deal.

¹ See more on page 12.

Financial Performance in FY2021 continued

Within the **financing activities**, the Company paid US\$ 35 million dividends in FY2021, distributing 29% of profit attributable to shareholders of Kernel Holding S.A. for FY2020 and repurchased phantom share options granted to management for US\$ 11.5 million. A liability management transaction described below resulted in US\$ 6 million cash outflow in FY2021. Total cash used in financing activities totaled to US\$ 48 million. Consequently, Group's **cash position increased by US\$ 207 million** over the reporting period.

Debt overview

Group's **debt liabilities** increased by 4% over FY2021, to US\$ 1,410 million as of 30 June 2021. The growth was primarily driven by higher utilization of long-term facility provided by EIB to finance our CapEx program. Together with 56% y-o-y cash balance increase impacted by strong operating performance, **net debt** of the Group reduced 15% y-o-y, to US\$ 836 million at the end of FY2021.

Readily marketable inventories¹ ("RMI") balance as of 30 June 2021 totaled to US\$ 285 million, covering 34% of net debt outstanding. RMI value increase represents significantly higher y-o-y prices of key goods, but incorporates also a way lower carry-over stock of grain and sunflower seeds as a result of poor harvest in Ukraine. RMI are either pre-sold or could easily be converted into cash being a commodity by nature. RMI accounted for 86% of all inventories as of 30 June 2021.

Net debt adjusted for RMI settled at US\$ 551 million as of FY2021 end, declining by US\$ 178 million over the reporting period. The amount also includes US\$ 324 million of lease

liabilities recognized as a result of IFRS 16 introduction in FY2021.

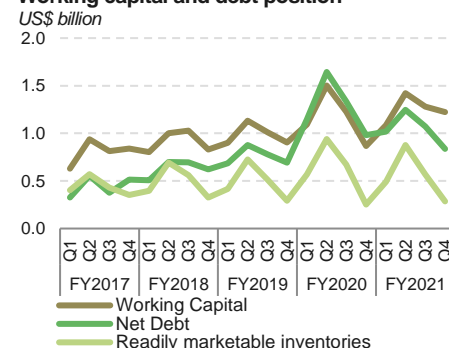
Key leverage metrics as of 30 June 2021 ended up at 0.9x Net debt / EBITDA, 0.6x Adjusted net debt / EBITDA, and 6.6x EBITDA / interest coverage.

In October-November 2020, **Kernel successfully completed liability management exercise**, improving its debt maturity profile. In the purely refinancing transaction, the 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, the first for us with such maturity. With the new issue, Kernel achieved the highest ever discount (ca. 115pbs) to the sovereign curve in the CEEMEA region² and a second-lowest yield ever for a non-sovereign borrower from Ukraine for a 7-year or longer new issue³.

In October 2020, **S&P upgraded Kernel to "B+"**, one notch above the Ukrainian sovereign. Having also "BB-" assigned by Fitch, Kernel enjoys the **highest credit rating among corporates in Ukraine**. Our credit rating is one and two notches above the Ukrainian sovereign for S&P and Fitch, respectively, and our further corporate rating upgrade to certain extent depends on the sovereign rating improvement. In September 2021, Fitch revised Kernel outlook to "Positive" from "Stable".

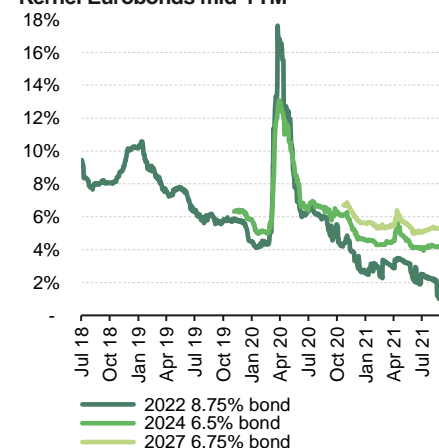
Undrawn facilities as of 30 June 2021 amounted to US\$ 855 million, of which 94% are short term financing (mostly our grain and sunflower oil pre-export facilities), and 6% stands for long-term EIB facility.

Working capital and debt position



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

Kernel Eurobonds mid-YTM



Source: Bloomberg

Liquidity positions and credit metrics

US\$ million, except ratios

	30 June 2020	30 June 2021	y-o-y
Short-term interest-bearing debt	73	51	(31%)
Long-term interest-bearing debt	172	228	32%
Lease liabilities	310	324	5%
Eurobonds	794	806	2%
Debt liabilities	1,350	1,410	4%
Cash and cash equivalents	369	574	56%
Net debt	980	836	(15%)
Readily marketable inventories	252	285	13%
of which sunflower oil and meal	96	205	2.1x
Sunflower seeds	121	43	(65%)
Grains and other RMIs	34	38	11%
Adjusted net debt	729	551	(24%)
Shareholders' equity	1,493	1,946	30%
Net debt / EBITDA	2.2x	0.9x	(1.3x)
Adjusted net debt / EBITDA	1.6x	0.6x	(1.1x)
EBITDA / Interest	3.0x	6.6x	3.5x

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

² Source: J.P. Morgan, as of 20 October 2020

³ Source: Bondradar database, as of 20 October 2020

Financial Performance in FY2021 continued

IFRS 16 impact

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

As a result of IFRS 16 implementation

- The Company recognized US\$ 365 million right-of-use assets (of which US\$ 352 million rights to lease land) and US\$ 324 million corresponding lease liabilities as of 30 June 2021.
- Rental payments disappeared and were replaced by amortization of right-of-use assets and finance expenses attached to lease liabilities.

Effect of IFRS 16 introduction on Group's FY2020 and FY2021 financial statements

Effect on Statement of Profit or Loss

in US\$ million

	FY2020			FY2021		
	prior to IFRS 16	effect	with IFRS 16	prior to IFRS 16	effect	with IFRS 16
Revenues	4,107	-	4,107	5,647	-	5,647
Revaluation of biological assets	(45)	24	(21)	134	(2)	133
Cost of sales	(3,638)	10	(3,629)	(4,913)	36	(4,877)
of which depreciation & amortization	(83)	(17)	(101)	(85)	(26)	(111)
Rental payments	(53)	-	(53)	(73)	63	(11)
Gross profit	423	34	457	868	35	903
Other operating income	7	-	7	95	-	95
General and administrative expenses	(126)	(1)	(127)	(187)	1	(186)
Operating profit	304	33	337	776	36	812
Finance costs	(93)	(54)	(147)	(97)	(45)	(142)
Other non-operating items	(45)	(1)	(45)	5	(0)	4
Profit before income tax	166	(22)	145	683	(9)	675
Income tax	(22)	-	(22)	(32)	-	(32)
Net profit	144	(22)	123	651	(9)	643
Net profit attributable to shareholders	139	(22)	118	521	(9)	513
	-	-	-	-	-	-
Depreciation and amortization	(88)	(18)	(106)	(89)	(27)	(116)
EBITDA	392	51	443	865	63	929

Effect on Statement of Financial Position

in US\$ million

	30 June 2020			30 June 2021		
	prior to IFRS 16	effect	with IFRS 16	prior to IFRS 16	effect	with IFRS 16
<i>In US\$ million</i>						
Current assets	1,533	(2)	1,531	2,304	(21)	2,284
Non-current assets	1,331	303	1,634	1,392	321	1,713
of which right-of-use assets	-	347	347	-	365	365
other non-current assets	1,331	(44)	1,286	1,392	(44)	1,348
Total assets	2,864	301	3,165	3,696	300	3,997
Current liabilities	392	21	413	794	(11)	783
of which current portion of lease liabilities	-	45	45	(12)	49	37
other current liabilities	392	(24)	368	805	(60)	746
Non-current liabilities	998	260	1,258	860	271	1,131
of which lease liabilities	-	265	265	12	276	287
other non-current liabilities	998	(5)	993	849	(5)	844
Equity	1,474	20	1,494	2,042	41	2,083
Total liabilities and equity	2,864	301	3,165	3,696	300	3,997

Oilseed Processing



The leading global producer and exporter of sunflower oil



3.2 million tons of
oilseeds processed in
FY2021

Kernel is a **global market leader in sunflower seed processing**, with 3.7 million tons of annual sunflower seed processing capacity operated in FY2021 and 1.4 million tons of sunflower oil sales over the same period. This business generated US\$ 56 million EBITDA in FY2021, down 63% as compared to the previous year.

Market fundamentals were unfavorable in FY2021. **Low harvest of sunflower seeds** (13.6 million tons, down 17% y-o-y) intensified the competition for the feedstock and suppressed the crushing margin. The **market remained unbalanced**, with crushing capacities in Ukraine exceeding the harvest of sunflower seeds by 42% in FY2021, keeping many market players underutilized. Moreover, **soaring global sunflower oil prices** made farmers in Ukraine reluctant to sell sunflower seeds, which further escalated the impact on margin.

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

In FY2021, we increased our capacities by 0.2 million tons, operating via an exclusive tolling agreement to process oilseeds on the Chuhuiv oil-extraction plant, with the similar arrangement extended also for FY2022. In FY2022, we will add additional 1 million tons after the launch of our greenfield Starokostiantyniv crushing facility. Finally, our new Strategy 2026 assumes further capacity increase to

Revenue

US\$ 1,747 million
+13% y-o-y

EBITDA

(before unallocated head office expenses)

US\$ 56 million
-63% y-o-y

6 million tons of sunflower seeds processed annually, via acquisitions, tolling, or asset lease, adhering to our target to **consolidate the oilseed processing industry in Ukraine**. Having then 11-14% of global production of sunflower oil and 20-24% of global export, such a platform will allow us to effectively leverage our scale for the benefit of our shareholders.

To diversify from pure crushing business exposure, we entered a **new synergetic business: renewable energy generation** using biomass leftover from the crushing process. We are the first big oilseed processor in Ukraine to invest in such projects, and once completed, Kernel will evolve as the largest producer of renewable energy from the biomass in Ukraine.

With the new crushing plant and renewable energy projects in the pipeline, Oilseed Processing segment is expected be an **important driver** of the Group's EBITDA **in the next few years**.

Oilseed Processing continued

Market overview

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

Supply-demand balance was the most important factor for segment results in FY2021, resulting in the significant margin squeeze.

Supply-demand balance on Ukrainian sunflower seed processing market

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

In FY2021, sunflower seed processing capacities in Ukraine increased by 1% y-o-y to 19.3 million tons. At the same time, sunflower seeds harvest in the season declined by 17% y-o-y, to 13.6 million tons, driven by dry summer weather. As a result, the gap between crushing capacities and supply of seeds widened, severely squeezing the crushing margin over the season.

Sunflower remains the most profitable among major crops in Ukraine, according to nationwide statistic data and evidenced also by Kernel own records.

Global sunflower oil prices

Sunflower oil is the **fourth largest vegetable oil in terms of global consumption** with 9.2% market share in the 2020/21 season. At the same time, it is the **fastest growing vegetable oil**: over the last five years, global consumption of sunflower oil increased with 4.7% CAGR. The main demand on the global market comes from India and China (driven by income and population growth and rapidly expanding food processing industries) and EU, together taking 57% in global imports, while the **largest global exporter is Ukraine** with 49% share in total exports and 5.4 million tons of sunflower oil exported in 2019/20 season¹.

As major vegetable oils (palm, soybean, rapeseed/canola, and sunflower) are highly

substitutable goods with price-elastic demand, sunflower oil prices are largely determined by vegetable oils' supply & demand situation on the global marketplace.

Sunflower oil price showed tremendous growth in FY2021 fueled by:

- Lower size of the global sunflower seeds harvest, driven by unfavorable weather in Ukraine and Russia. Deteriorating crop prospects triggered a sunflower oil price surge in August-September 2020. Meanwhile, export demand remained strong as major importing countries were looking to cover growing domestic needs.
- In October 2020, prices plunged briefly driven by harvest pressure and fears of a new wave of lockdowns, but then virtually doubled to a highest level since the 2008 commodity boom, driven by:
 - world's economy rapid recovery induced by successful Covid vaccine rollouts and easing restrictions;
 - global excess liquidity, which increased speculative flows to soft commodity markets and also provoked a consumer price inflation;
 - shifts in biofuel policies in key countries;
 - oilseeds crop concerns in South America and palm oil production shortfalls mainly due to movement restrictions in Malaysia;
- In April-May of 2021, the veg oil prices settled and stayed at very high levels enjoying strong demand, and then tumbled in June as central banks decided to taper money supply and liquidity dried up across the markets. On top of that, USA announced they are considering extended reliefs from the biofuel mandate for US oil refiners, implying lower soybean oil demand from the biodiesel industry.

Outlook for FY2022

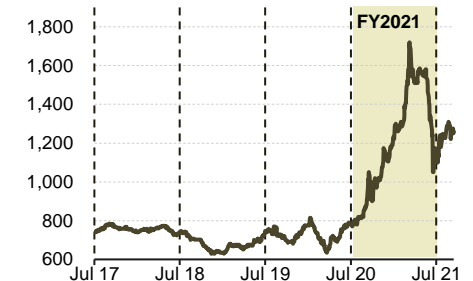
Market fundamentals for the next season look promising.

We expect **sunflower seed harvest to increase** to 16.8 million tons in FY2021, driven by both acreage growth and crop yield recovery. Although the demand for seeds will also increase following the commissioning of our new 1-million-tons crushing plant in spring 2022, we expect supply/demand balance to be favorable for crush margin recovery.

Global sunflower oil prices are likely to remain volatile in FY2022, but supported long-term by population and per capita income growth, as well as carbon focus and biofuel policies impacting the whole global vegetable oil complex.

Sunflower oil export price, FOB-Chornomorsk

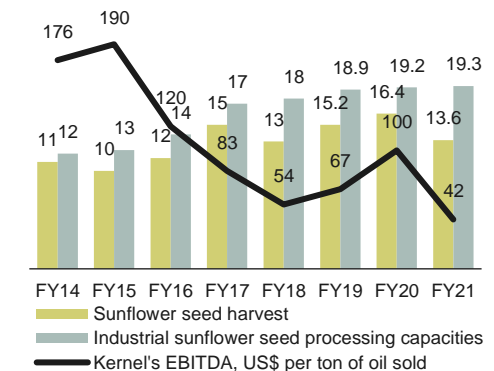
US\$ per ton of unrefined oil sold in bulk



Source: Bloomberg

Supply and demand for sunflower seeds in Ukraine

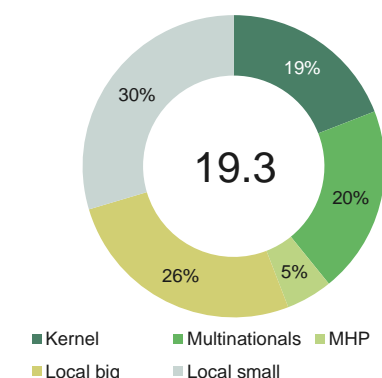
million tons



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

Processing capacities as at FY2021

million tons



Source: Kernel's estimates

¹ Source: USDA, September 2021

Oilseed Processing continued

Our business model

Market leader in oilseed processing

Kernel is the leading global sunflower oil producer and exporter, with annual capacity to process 3.7 million tons of sunflower seeds. In FY2021, we kept more than 7% of global sunflower oil production and ~12% of global export¹.

Asset base

We own eight oilseed processing plants in Ukraine with a total annual capacity to process 3.5 million tons of sunflower seeds. Operating via tolling agreement also on the Chuhuiv crushing plant for the second year in a row, it adds another 0.2 million tons. The combined capacity of 3.7 million tons corresponds to 19% of the country's total industrial crushing capacity and make us 2.4 times bigger than the second-largest crusher in Ukraine. In FY2021, we produced 24% of total sunflower oil in Ukraine.

Most of our crushing plants are multi-seed and able to switch to soybean or rapeseed processing if needed. Our assets are able to operate year-round, with only a month of maintenance required in summer.

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

In FY2022, we will commission the largest oilseed processing plant in Ukraine with 1 million tons of annual sunflower seeds crushing capacity. Plant silo already started to accumulate sunflower seeds for the launch of the processing operations.

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

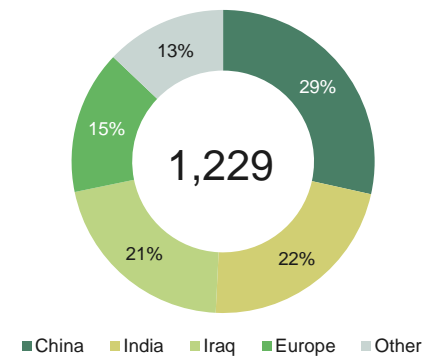
Since February 2019, we also own 5.85% stake in ViOil – one of the largest independent sunflower oil producers in Ukraine. A customary shareholder agreement in relation to ViOil grants us certain rights gaining a favorable position to further increase our stake.

Origination and production

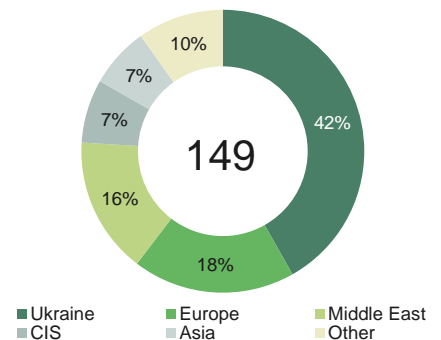
The vast majority of processed sunflower seeds is originated from third-party farmers, with only 14% produced by our own farming business.

Sunflower seed processing yields two major products: sunflower oil and meal, which we export globally mostly through third-party terminals, with only a minor portion transhipped through our own TransBulkTerminal. Sunflower seed husk, a biomass, is either burnt in-house to generate steam for production purposes, or pelletized and sold to third parties. We are currently approaching the commissioning of the co-generation heat and

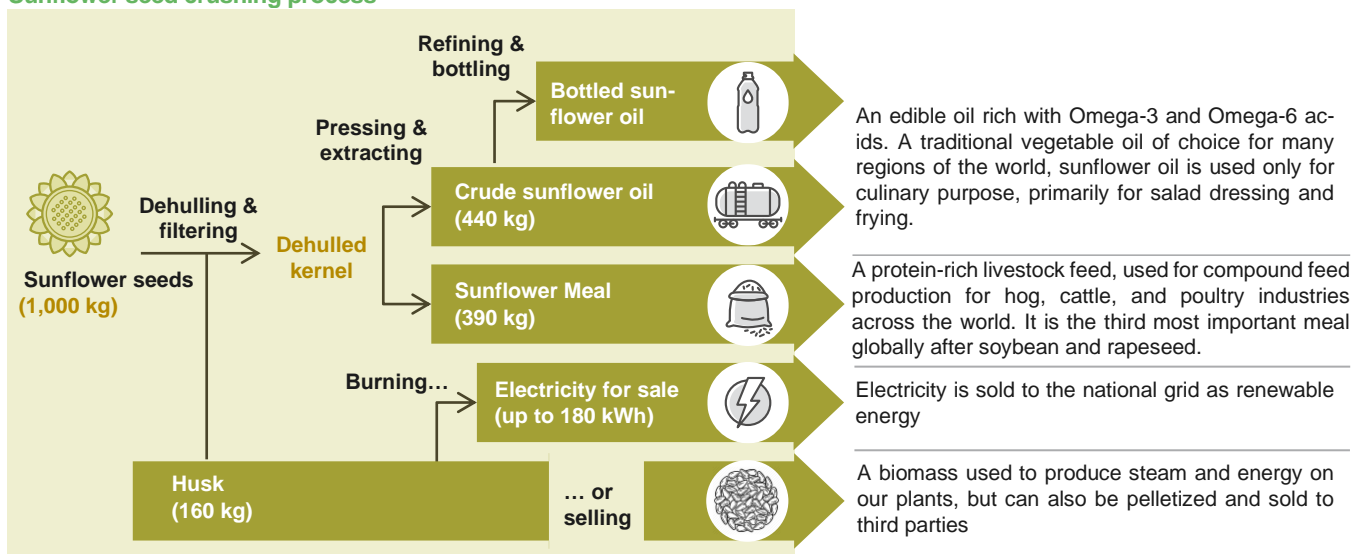
Sunflower oil sold in bulk destinations FY2021
thousand tons



Bottled sunflower oil destinations FY2021
million liters



Sunflower seed crushing process



¹ USDA, Kernel analysis.

Oilseed Processing continued

power units adjacent to five of our crushing plants to burn all the husk produced and generate electricity. Two of our plants already have such facilities with a 16.6 MW installed turbine capacity, supplying the electricity generated to the national grid. A state-owned enterprise "Guaranteed Buyer" is obliged to buy all such renewable energy produced at feed-in tariff fixed in EUR by 2030.

Up to 10% of produced crude sunflower oil is further refined and bottled on our Poltava and Prykolotne plants, granting incremental margin for such higher added value product.

Approximately 6% of oilseeds processed corresponds to high-oleic sunflower seeds, which used to provide higher margin than ordinary seeds. But in FY2021 high-oleic premium was marginal and went to negative in January

2021 onwards, mostly due to COVID-19 restrictions impact.

Sales

Most sunflower oil produced by our plants (76% in FY2021) is sold on the FOB basis to our Avere subsidiary, applying the arm's length principle. Avere then sells it on the CIF-basis in export countries earning extra margin, which is accounted in our Infrastructure and Trading segment.

In addition to marketing sunflower oil produced by our plants, Avere also buys sunflower oil from other producers in Ukraine, consolidating exports from Ukraine under its umbrella and building up the scale in global sunflower oil trading.

Sunflower oil is mostly sold through forward

contracts. As of 30 June 2021, we had contractual commitments to sell 198 thousand tons of sunflower oil for US\$ 221 million.

Markets and customers

Oilseed processing is an export-oriented business. Over 90% of produced sunflower oil is exported in bulk, with China, India, Iraq and Europe being our key markets. Our customers mainly include processors of soft commodities who refine and bottle sunflower oil, and big international traders. The largest customer in FY2021 was the Etihad Food Industries refinery in Iraq with a 22% share in our total bulk oil sales. Other big customers include Sinosource Singapore, Cofco, and ADM, taking 7%, 6% and 5% of our bulk oil sales volumes, respectively.

Up to 10% of crude sunflower oil produced on our plants is further refined and bottled. In FY2021, 58% of produced bottled oil was exported, mostly to Europe, Middle East, former CIS, and Asia, both under our own brands and private labels. We have 39% share in total refined bottled sunflower oil export from Ukraine, supplying products to such international retail chains as METRO, Auchan, Walmart, Maxima and others.

42% of produced bottled oil in FY2021 was sold in Ukraine to 22 nationwide retailers and 26 regional distributors, comprising 88% and 12% of domestic sales, respectively, under well-recognized brands "Schedryi Dar", "Stozhar" (both in TOP-100 brands in Ukraine), "Chumak", and others.

Key developments

In FY2021, our oilseed processing volumes reduced by 7% y-o-y, to 3.2 million tons, due to the low harvest of sunflower seeds in Ukraine. Average capacity utilization ended up at 86%, down from 99% in FY2020, but well above the average for Ukraine. Our **market share in Ukraine increased** from 21% of all processed sunflower seeds in FY2020 to estimated 23-24% in FY2021.

FY2021 was the first year of operations under the exclusive **tolling agreement to process sunflower seeds on Chuhuiv oil-extraction plant** (Kharkiv region, Ukraine). Constructed in 2015, this plant has the capacity to process 0.2 million tons of sunflower seeds per year, but historically was heavily underutilized due to the working capital deficit. We extended the similar tolling agreement also for FY2022.

Over the course of FY2021, we approached the final stage of the **construction of our**



¹ Source: MPP Consulting, nv.ua

Oilseed Processing continued

new oilseed processing plant in Starokostiantyniv, Western Ukraine. The final commissioning is scheduled for spring 2022, and we already started oilseed procurements for this facility. The plant will be the largest in Ukraine, with the annual processing capacity of one million tons of sunflower seeds, also accommodating soybeans and rapeseed crushing. The plant will be equipped with an integrated 22.5 MW combined heat and power generation unit ("CHP unit") selling electricity to the national grid. Western Ukraine has the promising fundamentals for sunflower seed processing business, so we expect EBITDA margin on this facility to be above the company average. In summer 2021, the CapEx expectation for the plant increased from initial US\$ 180 million to US\$ 279 million. Incremental expenditure is a result of on-going changes made to the initial plant design expanding sunflower seeds in-take and storage capacity, improving capabilities of on-site truck and railway logistics along with elevated costs of construction materials reflecting global pricing trends, and labor inflation.

A newly adopted Group's **Strategy 2026 assumes further growth** of our operations. While the Starokostiantyniv plant will increase our owned annual crushing capacity to 4.5 million tons of sunflower seeds, we aim to control another 1.5 million tons via M&A / asset lease / tolling by FY2026.

Within our **renewable energy investments** pipeline, our two co-generation heat and power units (16.6 MW total capacity) are already operating, and five more (77.3 MW in total) are to be commissioned in FY2022.

In FY2021, we reached **historic high sales of bottled sunflower oil** of 138 thousand tons, increasing domestic sales in Ukraine and export to Uzbekistan and Bangladesh as compared to the previous year.

In Q3 FY2021, we **completed a settlement for our Prydniprovskiy** crushing plant, which we acquired in 2016. The deal assumed a 5-year deferred payment of US\$ 47 million, which was made over the reporting period.

While we continued the labor productivity improvement efforts in FY2021, the headcount in the Oilseed Processing segment actually increased 2% y-o-y, reflecting the staff hiring for our new crushing plant and integrating employees from acquired in FY2020 Ellada plant in Kropyvnytskyi.

Performance overview

We sold 1.4 million tons of sunflower oil in FY2021, in line with production volumes. Of

that, bottled sunflower oil sales amounted to 138 thousand tons, up 3% y-o-y to an all-time high, driven by growth in domestic sales.

EBITDA generated per ton of oil sold in FY2021 touched the historic low of US\$ 41. Starting from the US\$ 104 EBITDA per ton of oil generated in the first quarter of the reporting period, the margin was constantly reducing, turning into negative in Q4 FY2021. Key downside drivers included:

- the **low harvest of sunflower seeds in Ukraine** this season (13.6 million tons, down 17% y-o-y);
- soaring global sunflower oil prices making **farmers in Ukraine reluctant to sell sunflower seeds**;
- **trading loss on position** recognized in the last quarter of the reporting year; and
- **a one-off loss**, as some of our suppliers defaulted under forward agreements to supply sunflower seed to Kernel at pre-determined price and preferring to sell to other counterparties at much higher market price.

With both sales volume and margin declines, segment EBITDA in FY2021 plummeted by 63% y-o-y, to US\$ 56 million.

FY2022 outlook

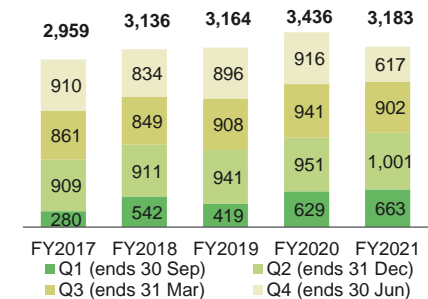
We set an ambitious **target to process 3.7 million tons of sunflower seeds** in FY2022, accounting for 1) seeds to be crushed on the Chuhuiv oil-extraction plant under the tolling agreement; and 2) envisaged processing volumes of our new facility in Starokostiantyniv. The harvest of sunflower seeds in Ukraine is expected to reach a record 16.8 million tons, supporting the achievement of such goal.

While two of our plants switched to new harvest rapeseed processing in summer 2021, the **Q1 FY2022 performance will be suppressed** due to the low sunflower seed leftover volume from the previous year harvest.

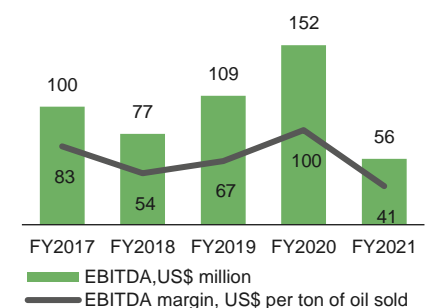
The crushing margin in FY2022 is likely to recover, assuming the sufficient supply of seeds after the record harvest. Segment earnings shall also be supported by increased contribution from the renewable energy business unit.

Oilseed processing volumes

thousand tons



Oilseed Processing segment EBITDA



Kernel bottled oil selected customers



Kernel bottled oil core brands



Oilseed Processing segment performance

		FY2020	FY2021	y-o-y
Oilseeds processed	thousand tons	3,436	3,183	(7%)
Sunflower oil sales	thousand tons	1,518	1,367	(10%)
Revenue	US\$ million	1,547	1,747	13%
EBITDA	US\$ million	152	56	(63%)
EBITDA per ton of oil sold	US\$ / ton	100	41	(59%)
EBITDA margin	% of revenue	9.8%	3.2%	(6.6pp)

Oilseed Processing continued

Non-financial performance

Occupational health and safety

We had one recordable work-related injury (not classified as high consequence) in Oilseed Processing segment in FY2021.

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

For more details on our health and safety performance, please refer to page 72 of this report.

Employee training and development

We dedicate a lot of effort to the training and professional growth of our people. During FY2021, 2,311 employees in our Oilseed Processing division invested a total of 52 thousand hours in the development of their hard and soft skills.

Energy consumption and emissions intensity

Oilseed Processing is our most environmentally friendly segment, with renewable fuel (sunflower seed husk) accounting for 78 percent of energy consumed in FY2021.

In FY2021, energy consumption remained unchanged y-o-y, but the amount of oilseed processing volumes decreased. Thus, the energy intensity deteriorated to 1,421 MJ per ton of sunflower seed crushed from 1,285 MJ a year ago. The main reasons behind that are the additional use of sunflower husk for post-commissioning works at our CHPs, as well as the breakdown of the husk boiler at one of our plants leading to an increase in natural gas consumption, which has lower heat capacity than the husk.

Greenhouse gas emissions of the segment amounted to 440 thousand tons of CO₂ equivalent in FY2021, almost unchanged y-o-y. GHG emissions intensity deteriorated due to increased consumption of husk for post-commissioning works at our CHPs.

Product quality and safety

As the world's leading producer of sunflower oil, we seek to set industry benchmarks for product quality, ensuring the highest standards of goods we offer to our clients.

All of our crushing facilities are ISO 22000, ISO 9001, and GMP+B1 certified. Our bottling plants are FSSC 22000 certified. Aside from

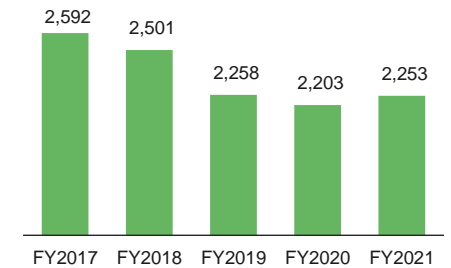
that, our crushing facilities have many other quality certificates that are necessary to sell products all over the world (see "Customer health and safety (GRI 416)" on page 79).

We offer bottled sunflower oil to reputable worldwide retail chains (Auchan, Metro, Walmart, Maxima, and others), demonstrating the high quality of our produce.

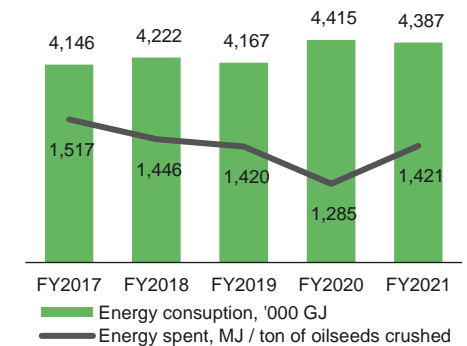
Our food safety and quality system is subjected to independent third-party audits on a regular basis and is continually monitored by our internal food safety staff. The audits cover the manufacturing, storage, distribution, and supply processes. We passed 102 independent audits during the course of 138 days in FY2021.

Number of segment employees (FTE)

As of 30 June of the respective year

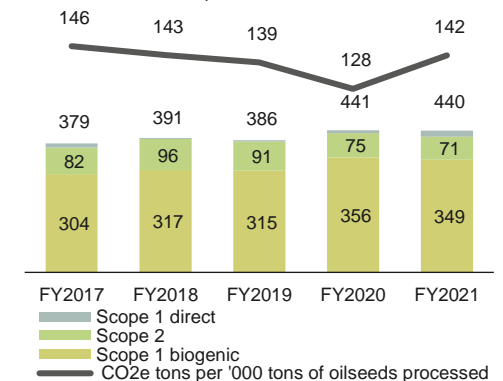


Energy consumption and intensity ratio



GHG emissions and intensity ratio

thousand tons of CO₂ equivalent



Infrastructure and Trading



Connecting Ukrainian farmers with global markets



Exported 8.0 million
tons of grains and
oilseeds from Ukraine
in FY2021

Strategic overview

We **successfully completed** a chapter in Kernel history called **Strategy 2021**. Before adopting that gameplan, we had been struggling to exceed 4 million tons grain export from Ukraine over FY2015-FY2018, but we set a target to double that. And now we are there – **the largest grain exporter from Ukraine** with 18% market share and twice as big as the closest competitor, and since FY2021 – also **the largest grain exporter from the Black Sea region**.

In just over four years we emerged into a **dominant grain export powerhouse** in Ukraine, outperforming numerous multinational and local peers. We built the most efficient grain export value chain in Ukraine: fast-speed, low-cost, flexible and resilient to market disturbances. While having the supply shock in Ukraine in FY2021, we managed to keep volumes flat and significantly increased our market positions. The business generated US\$ 111 million EBITDA in FY2021.

But the bonanza this season came from the other side. **The strategic vision behind** establishing the **Avere** trading platform appeared to be a prophetic one and rewarded us handsomely this year. Capturing market moves with perfect precision, Avere recognized an impressive US\$ 385 million EBITDA, well above our expectations and bringing the total segment EBITDA to half a billion US\$.

Now we are opening door to a new era for Kernel, with **ambitions to export 15 million tons of grain by FY2026**, as anchored in our **new Strategy 2026**. We aim to fully utilize the capacity of our base hub in Chornomorsk, but also look to root in other

Revenue

US\$ 4,909 million
+43% y-o-y

EBITDA

(before unallocated head office expenses)

US\$ 496 million
2.3x growth y-o-y

port in Ukraine to redistribute a portion of originated volume for better inland logistics cost efficiency.

Agenda for FY2022

As a first step, we are targeting to reach 11 million tons grain export in FY2022 (maintaining 18% market share), and transship 10 million tons through our terminals, to a full capacity utilization.

The new season is likely to be fundamentally strong, fueled by the expected record grain harvest. We estimate local growers to produce 79 million tons of corn, wheat, and barley, of which 60 million to be available for export, **driving up both our volumes and margins**. But the weather still has the final say: risks attached to delayed planting and uneven weather patterns across the regions during key periods including harvesting increases uncertainty.

On the other hand, we expect **milder earnings of Avere**, normalizing after outstanding swing in FY2021.

Infrastructure and Trading continued

Market overview

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

Grain harvest in Ukraine

After two consecutive years of record grain harvest, 2020 season **crop size** in Ukraine (sold over Company's FY2021) **reduced** to a relatively low 63 million tons¹, down 14% y-o-y, or over 10 million tons decline. While the **acreage** under grain remained **relatively unchanged**, **weather-hit yields dropped** for all key grains, but corn was impacted most severely due to dry summer weather.

With stagnating domestic grain consumption in Ukraine, grain export volumes dropped in line with the harvest size reduction, to 44 million tons. Ukraine ended up as the fourth largest exporter globally in 2020/21 season after USA, Argentina, and Russia, keeping 10.8% market share in global grain trade².

In FY2022, grain crop size is expected to rebound, reaching a new high of 79 million tons for three key grains. We estimate the record harvested area of 15 million hectares under corn, wheat, and barley. Additionally, supporting weather conditions allows us to assume the crop yields recovery, including the highest ever yields to be achieved for wheat and barley. While wheat and barley harvest is already completed, corn harvest size brings the highest uncertainty, as unfavorable weather conditions hit some of key producing regions in Ukraine.

Competition among grain traders

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

Grain infrastructure trends

Grain export terminals

We estimate the current transshipment capacity of Ukraine at 95 million tons annually, including 46 million tons of specialized deep-water and 32 million tons of specialized shallow-water facilities. The remaining are small

and unspecialized players, which are not efficient, often lacking the depth at berth and therefore being heavily underutilized.

With 61 million tons of grain, 5 million tons of oilseeds, and 5 million tons of sunflower meal expected to be exported in FY2022, port transshipment capacities will still be materially underutilized, keeping the **transshipment business margin under pressure**.

Grain railcars business

After several years of intensive private investments into grain railcars fleet, the historical **deficit of railcars in Ukraine was eliminated**. Overheated historical railcar lease costs already normalized in FY2021, and we do not expect any material changes in the profitability of this business.

The next important step in the railway logistics will be an introduction of **private traction** to eliminate the deficit of locomotives on the market. While the pilot projects have been launched, the market in general is not structured well to facilitate private investments and unlock transportation bottlenecks. Grain transportation during peak months of FY2022 may suffer from railway logistics constraints.

Silo business

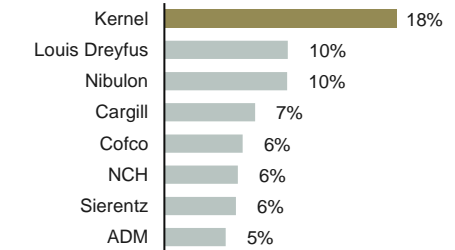
The most important trend in the silo business also involves railway logistics. Aiming to improve the turnover of rolling stock, Ukrainian Railways used to preferentially treat high-productive grain storages. Silos with capacity to load a full shuttle train (54 grain railcars) per day were primarily allocated with railway wagons during the high season. Therefore, numerous unproductive and inefficient grain storages faced difficulties with getting access to railcars, and market players started investing in construction of new silos and debottlenecking of existing ones. But such an approach changed recently with the launch of tenders for grain railcars owned by state monopoly, and the above described advantages of modern high-loading-speed silos disappeared.

Global picture

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

Top grain exporters from Ukraine in FY2021

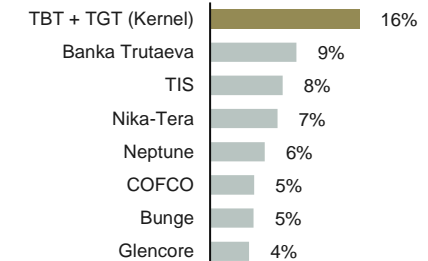
% of total grain export



Source: STARK, Kernel

Top export terminals in Ukraine in FY2021

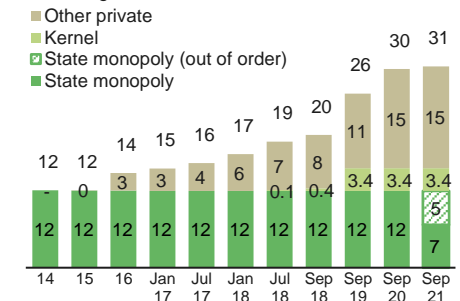
% of grain oilseeds and meals export loading



Source: STARK, Kernel

Grain railcars fleet

number of grain railcars, thousand



Source: Ukrainian Railways, Kernel

network serving most of the grain elevators in the country. A recently opened farmland market serves as an important step in facilitating further productivity improvements for local farmers.

¹ Three key grains: corn, wheat, and barley. Source: Company estimates as of September 2021.

² Three key grains: corn, wheat, and barley. Source: USDA.

Infrastructure and Trading continued

Our business model

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

Grain export business

Kernel is the largest grain exporter from the Black Sea region and by far the largest from Ukraine. We are involved in buying grain from local grower partners (including own farming

segment) and exporting it from Ukraine. In FY2021, we exported 8.0 million tons of grain from Ukraine, or 18% of the country's total grain export. We successfully navigate in this low-margin high-volume business by effectively combining the following components:

- **Experienced procurement team** with country-wide presence and deep understanding of local trends and regional peculiarities;
- First-hand access to our **own infrastructure** unique in Ukraine – the largest private silo network, the largest private fleet of grain railcars and the largest deep-water

grain transshipment capacity in ports;

- **Prudent risk management:** locking up the margins by selling grain through forward contracts in a similar time frame as when we purchase it from farmers on the spot market;
- **Client-friendly approach** allowing us to positively differentiate. Relationships with farmers are managed through centralized **CRM system IBuyMore** and are supported with numerous value-added initiatives. In Ukraine, we are one of the largest **providers of pre-crop financing** to farmers, investing over US\$ 120 million in farmer

Open Agribusiness – boosting productivity of other farmers in Ukraine

Kernel farming business achieves 25-50% higher key crop (corn, sunflower, and wheat) yields than country averages, and since 2018 we widely **share our knowledge** in crop production **with other farmers in Ukraine** through the special program **Open Agribusiness**, designed to help farmers to sustainably increase their yields and reduce costs. Specifically, we:

- **share our knowledge and practices** in precision farming, differentiated fertilizing and planting, satellite and GPS monitoring, results achieved on Kernel test polygons, insights from our agrochemical inspections, solutions achieved with Kernel's #DigitalAgriBusiness platform. We organize big conferences, field workshops and site visits to Kernel assets, group presentations, round tables and bilateral meetings with farmers to promote best farming approaches and facilitate productivity increase for our partners. In FY2021, farmers operating in total 1.7 million hectares landbank attended events organized by Kernel;
- provide **deep agronomic consulting** to participants of the program. Our agronomists thoroughly review farming approaches of clients and deliver specific advice targeted for productivity improvement. We offer only solutions approbated on our own fields and proven to be successful. Results achieved at Kernel research polygons serves as a quality mark for tested crop inputs and production technology;
- allow participants to **join the Kernel crop inputs procurement program to reduce costs**, in addition to sharing the knowledge on the most efficient application of seeds, fertilizers, and crop protection agents. Timeliness of supplies sometimes is even more important than costs;
- provide **funding**, including working capital pre-crop financing, CapEx financing to construct farmers' silos and irrigation projects, financing of farmland bank expansion;
- provide free **access to our real-time kinematic ("RTK") base stations** which are important for applying precision farming techniques;
- provide **farmland bank management services**: legal audit of lease agreements, digital mapping of fields (necessary for precision farming), solutions for automated landbank management;
- provide **agri-chemical laboratory services** (soil, fertilizers, seeds, and plants analysis) at our own world-class lab facility;
- provide a **tool for benchmarking** of crop yields and best agronomic practices, which is used by 171 third-party farmers operating at 507 thousand hectares in Ukraine. Together with 70 thousand hectares of Kernel land in the system, it creates a huge data array for monitoring and comparison.

With all these initiatives, we cover numerous needs of small farmers to streamline their operations, which allow them to focus on improving productivity. Our partners in Open Agribusiness program pay us a fee of US\$ 15-25 per hectare for participation in this initiative or pay a dividend in case Kernel becomes a minority shareholder. The program now covers 90 thousand hectares, and our target under Strategy 2026 is to increase the coverage to 0.5 million hectares by FY2026.



Infrastructure and Trading continued

loans for the harvest 2021 both for grain and sunflower seeds. With our Open Agri-business initiative, we **share our know-how** and provide various services to third-party farmers. Finally, we provide **advanced IT solutions** to our suppliers, including **electronic document flow system** (simplifies paperwork for farmers and accelerates deals execution; 3.6 million tons of grain and oilseeds purchased in FY2021) and **Transithub** virtual truck navigation solution for providers of grain and oilseeds logistics services.

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

More than half of the grain exported from Ukraine in FY2021 we sold on the FOB-basis in the ports of Black Sea to big international traders like OLAM, COFCO, Glencore and others. CFR/CIF sales achieved 45% of our grain export volumes in FY2021 – in that case we also transported goods by sea to a required port.

Exported grain is loaded to vessels either via our own two terminals in the port of Chornomorsk, or through the third-party-owned deep water facility in the Pivdennyi port, where we acquired a transshipment quota.

Silo services

We operate the largest private inland silo network in Ukraine of 30 silos with combined grain storage capacity of 2.3 million tons. Our assets include very productive storages able to load shuttle trains (54 railcars) in one day,

but also smaller and less efficient floor-type silos of which we systematically divest.

Silos located across the key grain producing regions in Ukraine provide grain in-take, drying, cleaning, storage, and off-loading services to our farming segment and to third-party farmers countrywide. Our silos start grain intake with wheat in July and end with corn in December, thus being able to do more than 1.0x storage capacity turnover over the season.

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

Export terminals

Kernel owns the **largest grain transshipment port infrastructure in Ukraine**. Our two grain export terminals (TransBulkTerminal and TransGrainTerminal) allow us to handle 10 million tons of grain per annum. Both facilities are in the deep-water Chornomorsk port, Odesa region, and are capable of servicing over-Panamax-sized vessels with deadweight of up to 100,000 tons and maximum loading at berth of up to 80,000 tons, possible after dredging works completed in FY2021.

Our terminals transship mainly grain (93% of total throughput in FY2021), but also sunflower meal, sunflower oil, and sunflower husk.

Grain railcars

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

Full control over the whole value chain allows us making an **advanced long-term planning of logistics**, which significantly simplifies the cooperation with state railway monopoly.

Avere operations

Avere is a 60%-owned subsidiary of Kernel, with another 40% owned by Avere managing partners. It is a research and knowledge platform founded in FY2018 and headquartered in Switzerland, with representative offices in USA, Singapore, and China. Avere employs a highly qualified research, trading, and execution team of 28 professionals. Avere sells sunflower oil produced by Kernel plants (76% of total Kernel sunflower oil sales in FY2021), purchasing sunflower oil from Kernel at market prices (FOB Black Sea) and paying Kernel a fee for that. Additionally, Avere helps to hedge Kernel's growing grain export volumes and farming produce. Finally, leveraging its expertise, Avere is involved in the

Kernel Lazirky silo, Poltava region

121 thousand tons storage capacity



Infrastructure and Trading continued

merchandising and proprietary trading of grains, oilseeds, and related products in the key world markets.

Avere financial results are quite volatile because of its trading nature. Market risk taken by Avere is managed by various tools, including monitoring and restricting such metrics as:

- Drawdown (difference in value from the most recent peak to the most recent trough in the market); and
- Value-at-Risk (a maximum potential loss over one day with 95% confidence). Avere had US\$ 5.5 million VaR as of 30 June 2021, as compared to US\$ 6.3 million VaR as of 30 June 2020.

For more details, see [Commodity price risk](#) section.

As of 30 June 2021, we forward-sold 3.3 million tons of grain for US\$ 784 million, including Avere physical trade volumes.

Key developments

While grain handling operations at our new TransGrainTerminal started back in FY2020, FY2021 was the **first year** when the new terminal **operated whole season full-speed** for grain transloading. During the reported period, **Kernel transshipped 8.2 million tons of goods** (grain, sunflower meal, oil, and husk) through its port facilities, up 22% y-o-y, strengthening its position as the No 1 grain export terminal operator in Ukraine. While grain handling volume reduced y-o-y, we substantially increased sunflower meal transshipment volume, re-routing flows of Kernel meal from third-party terminals to our facility in Chornomorsk.

With a visible volume growth already achieved, we still have some **upsides for turnover increase**. In FY2021, we continued investments in port logistics nearby the terminal. Our port infrastructure in Chornomorsk now includes two grain terminals, our own railway junction, a separate truck intake facility with grain storage and cleaning, and a remote truck yard allowing for sorting more than 500 vehicles with grain simultaneously into a queue for faster offloading at the terminal. Such investments allowed us to **increase the combined annual transshipment capacity** of our terminals to 10 million tons.

The capacity increase and our constant investments in the de-bottlenecking provide a visible return. In November 2020, we achieved the **highest ever monthly transshipment volume** of 883 thousand tons, but in August 2021 we break this record by transshipping 950 thousand tons of goods.

In the reporting period, we **exported 8.0 million tons of grain from Ukraine**, below the initial target of 9.5 million tons due to more severe than expected crop size decline in the season. Corn comprised 69% of exported volumes, wheat – 23%, and the remaining standing for barley and other crops. Our Farming segment produced 29% of grain Kernel exported in FY2021. While full-year grain export volume virtually unchanged y-o-y, Kernel's **market share in grain export materially increased**, reaching 18.0% for FY2021, as compared to 14.3% in the previous season. Kernel remains the undisputed **No 1 grain exporter from Ukraine**, outperforming numerous local peers and international players. By grain export volume, we exceed the closest competitor by nearly two times¹. In FY2021, we kept 24% of all corn exported from Ukraine, 11% of wheat, and 17% of barley¹. For the reporting period, we also emerged as the **largest grain exporter from the Black Sea region**.

In FY2021, Kernel **exported 1.2 million tons of ISCC-compliant corn**, up 35% y-o-y. Such corn is used for bioethanol production and grants a price premium over conventional corn, as ISCC certification confirms that corn was produced in environmentally and socially sustainable way.

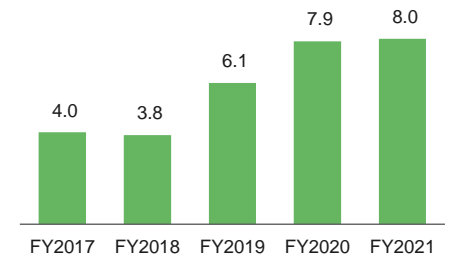
A newly adopted Group's **Strategy 2026 assumes further growth** of our operations. By FY2026, we plan to export 15 million tons of grain from Ukraine annually. Our port transshipment facilities now allow us to handle 10 million tons of grain per year, and an additional 5 million tons are to be transshipped either on acquired or leased capacities.

During the reported period, we substantially **increased the scope of our Open Agribusiness project**, which now includes partners with 90 thousand hectares of land, up from 32 thousand hectares a year ago. Our strategic target is to reach 0.5 million hectares of land in the project by FY2026.

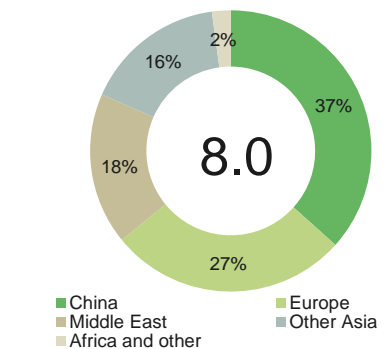
Over the reporting period we further **progressed on selling more grain with delivery to the destination country**. In FY2021, 45% of total volumes exported from Ukraine were sold on a CFR/CIF basis, as compared to 20% in FY2020 and 10% two years ago.

In FY2021, we continued the **optimization of our asset base**, completing the disposal of four small floor-type grain silos not fitting our business model as being inefficient with high costs and low capacity turnover, for cash consideration of US\$ 3 million, of which US\$ 2.5

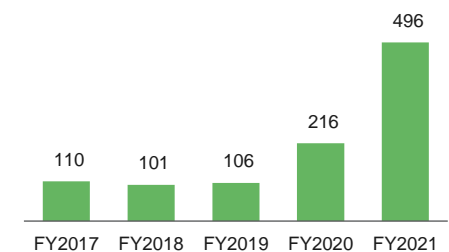
Kernel grain export from Ukraine
million tons



Kernel grain export from Ukraine destinations
million tons



Infrastructure and Trading segment EBITDA
US\$ million



million was received during the reporting period, recognizing US\$ 1.9 million gain on the disposal.

As a result, our one-time grain silo storage capacity reduced to 2.3 million tons as of 30 June 2021. Since the launch of the optimization program, we sold 19 silos with 590 thousand tons storage capacity and intend to sell 7 more silos having a combined storage capacity of 332 thousand tons.

Driven by the portfolio optimization and labor productivity improvements, the **headcount of the segment reduced 5% y-o-y**, to 2,592 employees as of 30 June 2021, albeit we hired 51 new employees for our newly constructed export terminal in Chornomorsk.

¹ Source: Stark Research

Infrastructure and Trading continued

Performance overview

The segment delivered astounding financial results of US\$ 496 million EBITDA, a 2.3x increase y-o-y, with multidirectional contributions from various business units:

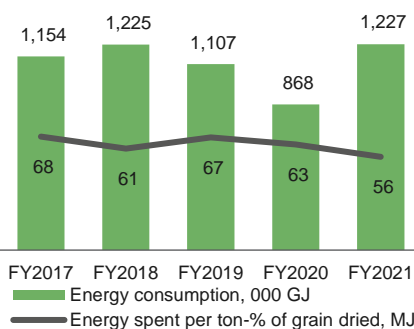
- **Avere trading operations** resulted in US\$ 385 million EBITDA in FY2021, capitalizing on high volatility of global soft commodity prices and advanced abilities of fundamental S&D analysis of key agricultural markets.
- **Grain export value chain in Ukraine** contributed with US\$ 111 million EBITDA, down 38% y-o-y. While **volume-wise** we managed to keep figures **flattish** (except for the grain silo in-take volume), **margins** across the whole value chain (origination, railcars, port operations) **suffered** due to the low grain harvest in Ukraine in FY2021 season and intensified competition for the limited exportable grain surplus. Additionally, in FY2021 we recognized a one-off loss, as some of our suppliers defaulted under forward agreements to supply grain to Kernel at fixed price.

FY2022 outlook

The new season is expected to be **fundamentally strong** for our grain export business in Ukraine. The country is on its way to deliver a **record harvest of grain**, which we envisage to reach 79 million tons (corn, wheat, and barley), up 26% y-o-y, or 17 million tons incrementally. With limited domestic consumption, the whole upside will be exported, improving margins and capacity utilization along the value chain. Consequently, we aim to export 11 million tons of grain from Ukraine in FY2022 and handle 10 million tons of goods through our export terminals.

Margins on our business in Ukraine has a potential to improve, but we keep in mind such **possible downside factors** as skyrocketing energy costs (crucial for grain drying and transportation) and potential issues related to inability of state railway monopoly to handle the bumper crop.

Energy consumption and intensity ratio



Infrastructure and Trading segment performance

		FY2020	FY2021	y-o-y
Grain export volumes	thousand tons	7,902	8,013	1%
Export terminal's throughput (Ukraine)	thousand tons	6,666	8,159	22%
Grain and oilseeds received in inland silos	thousand tons	4,158	3,801	(9%)
Revenue	US\$ million	3,426	4,909	43%
EBITDA	US\$ million	216	496	2.3x
EBITDA margin per ton of grain exported	US\$	27	62	2.3x

For the Avere performance, we expect the **normalization of the results** after spectacular FY2021 performance, although swings in global soft commodity prices may play out in both directions.

Non-financial performance

Occupational health and safety

Our **transformational approach** in occupational health and safety **yielded dividends** in FY2021: the number of work-related injuries reduced from eight in FY2020 to one in the reporting period. We had no fatalities or high-consequence work-related injuries during FY2021.

We remain committed to fully eliminate OHS accidents in the future, organizing health and safety trainings, workshops, and regularly inspecting our assets for compliance with health and safety requirements. During 12 months ended 30 June 2021, we certified our terminal in Chornomorsk and 15 silos (out of 30) under ISO 45001 (occupational health & safety) management system. By FY2023, we aim to have all our assets certified. The ultimate goal is to have no work-related injuries among our employees.

Employee training and development

We remain committed to the professional development of our employees. 2.1 thousand participants from Infrastructure and Trading segment were involved in our training and development activities in FY2021, investing nearly 19 thousand hours in total for training

and professional development. The activities were focused on the development of hard and soft skills, various competencies, and managerial abilities.

Energy consumption and emissions intensity

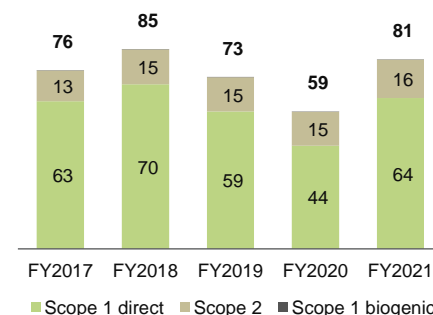
Our energy consumption within the infrastructure and trading division increased by 41% y-o-y to 1,227 thousand gigajoules in FY2021, mainly due to higher natural gas consumption to dry grain and oilseeds in our silo business considering the rainy harvesting campaign. High moisture content in grain stimulated the improvement in the energy intensity of grain drying operations, which reduced 12% y-o-y, to 56 megajoules per ton-%.

The factors driving the energy consumption increase also impacted emissions of the division, which increased to 81 thousand tons of CO₂ equivalent in FY2021.

For the full group disclosure of energy consumption, emissions, and intensity ratios, see page 41 of this report.

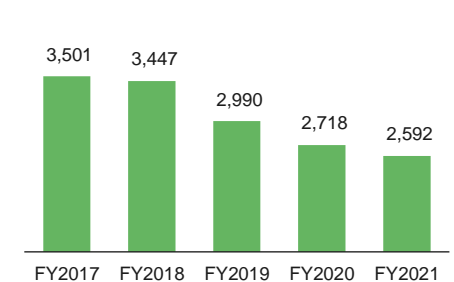
Infrastructure and Trading GHG emissions

thousand tons of CO₂ equivalent



Number of segment employees (FTE)

as of 30 June of the respective year



Farming



Produced 2.9 million
tons of key crops in
FY2021

#DigitalAgriBusiness
Kernel creates future

Catching up the window of opportunities

After several years of relatively calm volatility, global grain and oilseed prices soared in FY2021, reaching multi-year highs. Our Farming segment is perfectly positioned to capture such gains. We are naturally long for three million tons of crops we produce annually, and any price increases for grains and oilseeds improves our profitability. We are the **largest crop producer in Ukraine**, with 506 thousand hectares of prime farmland under operations. We grew our landbank under operations six times in the previous ten years and boosted harvest size 14 times. Such scale exposed us to the highest ever US\$ 461 million EBITDA reported by our segment in FY2021, and allows to expect price-driven tailwinds for our earnings also in FY2022.

At the same time, we need to admit that we are **price takers** in the Farming business, having virtually no possibility to impact commoditized markets. Therefore, our approach here is to **focus on** what we can influence: **costs and productivity**.

Our constant efforts bring the clear results. Since FY2015, labor productivity in our Farming segment increased twofold: the number of employees per thousand hectares reduced from 22.6 as of 30 June 2015 to 11.3 as of 30 June 2021. We fully altered our crop production technology, increased productivity to set industry benchmarks and became **one of the most technologically sophisticated farmers in Ukraine**. In FY2021, we opened brand-new microbiological laboratory, and set up a Data Science department to extract more value from terabytes of data collected by our #DigitalAgriBusiness farm management system, which is our own in-house-developed solution. Our specialized R&D centers and experiment polygons regularly test new machinery, crop inputs, and agronomic approaches to drive our productivity.

Advanced farming approach allows us to mitigate to some extent weather-related risks, but also creates value when converting underperforming farms

Revenue

US\$ 657 million

+9% y-o-y

EBITDA

(before unallocated head office expenses)

US\$ 461 million

+3.4x y-o-y

to productive land, like we did with newly acquired land in 2017-2019. Being able to easily reproduce our crop production approach on new assets at a minimal cost of integration, gives us an **appetite to further increase the landbank under control** by 200 thousand hectares by FY2026, as underlined by our new Strategy 2026.

Farming continued

Market overview

Global grain prices

Global grain prices saw a tremendous price rally during FY2021 driven by both supply and demand factors.

Strong demand

The grain price increase so far has been mainly demand-driven, with China in the driver's seat. China's enthusiastic grain purchases stem from recovery in the country's pig herd and reported stocking up of inventories.

As the world grappled with the COVID-19 pandemic, it gave rise to **food security concerns** about long-established trade policies, globalization, and stability of trade flows. The fear that tomorrow's supplies may shrink, or prices may go up even further, led to stockholding beyond needs.

Global excess liquidity increased speculative flows to soft commodity markets and also provoked a consumer price inflation.

Finally, it is worth mentioning the impact of **long-term themes** including growing population globally, growing wealth, and people consuming more food of a better quality.

Concerns on the supply side

On the exporter side, **state interventions** were restricting exports to reduce domestic food inflation. **Weather worries**, as always, remained a hot topic, especially for such regions as Brazil, Black Sea, Argentina, Canada. Extreme weather continues slamming crops across the world at a time when food prices are already near the highest in a decade. As a result, global inventories of key grains remained tight, with stock-to-use ratios

for key grains at low levels.

Agricultural land market reform

Reform design

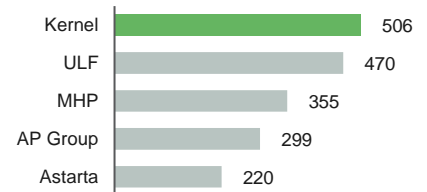
After decades of a farmland sale moratorium, Ukrainian agricultural land market opened on 1 July 2021. The citizens of Ukraine became allowed to acquire agricultural land, but not more than 100 hectares per one individual. During first three months of the reform 24 thousand hectares of previously moratorium land were traded.

Starting from 1 January 2024, legal entities incorporated in Ukraine are allowed to buy agricultural land, and the concentration limit increases from 100 hectares to 10,000 hectares both for private individuals and legal entities. Foreign individuals and corporations, and legal entities set up under the Law of Ukraine, but with foreigners among the shareholders, are prohibited from buying the land unless the nation-wide referendum decides otherwise.

Implications for Kernel

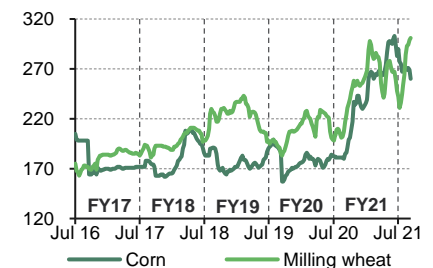
Although we recognize the quite limited format of the reform adopted, we welcome the changes, highlighting all the long-term advantages for the Ukrainian agricultural sector. With the current reform design, we do not expect any investments into land purchase for Kernel by 2024. After 2024, opportunities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

The largest farmland operators in Ukraine thousand hectares



Source: Companies data, Kernel estimation

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



Source: Bloomberg



Farming continued

Our business model

Large-scale farming

Kernel is the largest crop producer in Ukraine. In FY2021, the total farming area of leasehold farmlands under Kernel's operations amounted to 506 thousand hectares, including 499 thousand hectares under 2021 crop. In FY2021 we harvested 2.9 million tons of key crops. We operate in the western, central and northern regions of Ukraine with highly fertile chernozem black soils and enjoying sufficient precipitation. The land bank is organized into six production clusters, with operational decision-making sufficiently decentralized to allow production teams to react quickly to any form of externalities. Central office is responsible for the overall business strategy, key input procurement, and operations oversight. Healthy competition among clusters encourages continuous efficiency improvements.

Kernel cultivates non-GMO crops, which is the only legally allowed option in Ukraine.

We adhere to a simple crop mix, with corn accounting for 51% of acreage, sunflower for 31%, wheat for 13%, and the remaining spread across other minor crops (for 2021 harvest, which will be sold during the course of FY2022).

Farming business is characterized by a **long working capital cycle** (~18 months), as seen in the "FY2021 crop production cycle" graph below.

Leasehold land operations

The state, municipalities, and state-owned

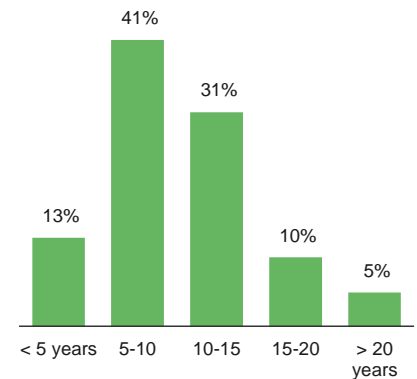
companies hold about a quarter of Ukraine's agricultural land. Another 75% are tiny land parcels (4-10 ha depending on the region) held by private individuals, who gained the ownership rights during the land distribution process in 1990s when the Soviet Union collapsed.

For the last two decades, all farmland in Ukraine has been under moratorium and prohibited from being sold. It was first enacted in 2011 and extended by the parliament numerous times, stifling the development of farming business in Ukraine. As a consequence, agricultural producers lease lands from current owners, and since 2015, the minimum land lease term for new agreements is seven years, ensuring farmers' business operations. Farmland market opened on 1 July 2021, although in quite limited design (see above).

Kernel leases all the land under operation, with lease contracts having average maturity of 12.6 years. All lease contracts include a right of first refusal to prolong leases or to buy the land in case of being allowed to do so. For 19 thousand hectares of land we operate, we signed long-term (>70 years) land lease ('emphyteusis') agreements, whereby we paid all rent payments to the lessor in one installment at the signing of the agreement. It allows us to secure our operations for a much longer period compared to typical farmland lease contracts.

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

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



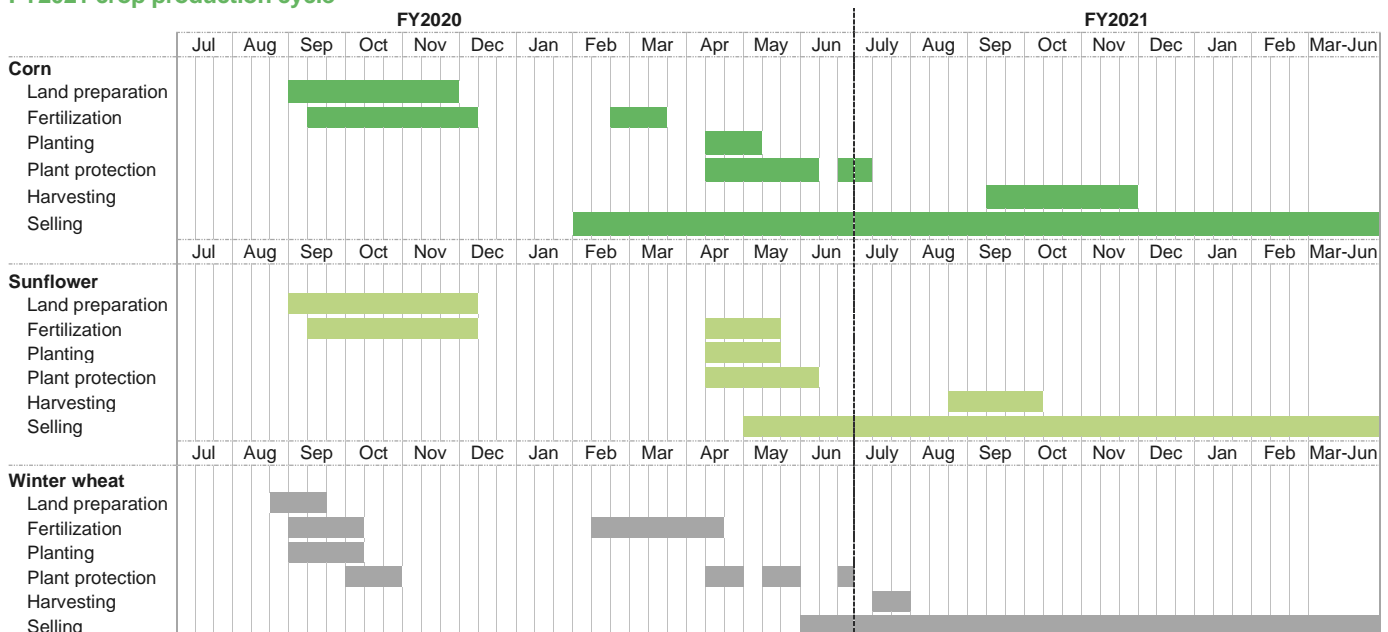
Efficient and sustainable production technology

We take great care to ensure our operations maintain long-term productivity of soil by applying sustainable agronomy practices.

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

Except for 2,400 hectares of irrigated land used for in-house seed production, all our farmland is rain-fed, with all the associated weather risks.

FY2021 crop production cycle



Farming continued

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

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

We use only crop protection agents produced by established international companies and registered by the Ministry of Ecology and Natural Resources of Ukraine. Before wide application, we observe the pesticides in action on our test fields for at least three years. We widely use drones for crop monitoring to improve the quality of decisions about fertilizing and crop protection.

Crop production on 486 thousand hectares of land in FY2021 was ISCC-certified, proving that crops were produced in an environmentally and socially sustainable way and in compliance with laws and good management practices.

Innovation-driven approach

We are approaching a new age in the agricultural industry, one in which digital technology and contemporary farming practices will play an important role in promoting operational excellence.

We have five specialized R&D centers, 1,500 test fields, and 60 employees, and we conduct over 2,000 tests every year. Furthermore, each of our clusters is allowed to use up to 10% of the land under operation for trials to explore various new crop production techniques aimed at increasing productivity.

Our crop yields are well above the country averages, and we share our knowledge with other farmers in Ukraine through the [OpenAg-ribusiness](#) initiative to help them increase productivity while reducing environmental impact.

High-speed seed drills allow to save fuel and increase productivity

In FY2021 we acquired 13 high-speed 24-rows seed drills which are up to 40% more productive than regular seed-drills, and even more efficient if comparing with widely used 16-rows drills. Such sowing machine allows to reduce fuel intensity and can cover at least 200 hectares per day without deterioration of operations' quality. In 10 years, we plan to replace all existing 119 drills with 74 high-speed ones. New machinery also allows to mitigate risks related with unfavorable weather conditions during spring sowing campaign by reducing the timing of operations.



Key developments

In FY2021 we were heavily focused on further **advancement of our crop production technology**.

We **established our own microbiological laboratory**, being the **first farmer in Ukraine with such facility**. The laboratory performs microbiological monitoring of soils and tests various microbiological agents available on the market to select only those which fit our agronomic needs.

Over the reporting period, we **upscaled our own production of urea ammonium nitrate (UAN)**, launching operations at several additional facilities. Mixing ammonium nitrate and urea allows us to produce a liquid UAN widely used as a fertilizer in our operations. Own production provides savings (as compared to market purchases) and also additional flexibility during the high-peak season.

In FY2021, we achieved **13 thousand hectares** of our sunflower being **covered by drone-sprayers**. It allowed us to reduce diesel consumption by 1.5-2.5 liters per hectare. We plan to increase the covered area and to add also other crops to drone-spraying operations. So far, we have used leased drones, but plan to create our own fleet in the future.

We also set up a **Kernel Data Science department**, which helps in solving sophisticated agronomics tasks. Neural network automatically counts grains in corn cob and seeds

in sunflower disc floret based on photos taken by the agronomist, which simplifies crop yield estimation for adjustment of agronomic approach. Moreover, an algorithm allows us to differentiate pollinated and unpollinated flowers. A second neural network analyzes pictures taken by drones to count the number of corn and sunflower plants on the field and calculates the integrated sowing quality indicator.

Although farming remains our most labor-intensive activity, we constantly making progress on **increasing labor productivity**. In FY2021, segment headcount declined by 10% y-o-y to 5,609 full-time employees, or 11.3 employees per thousand hectares.

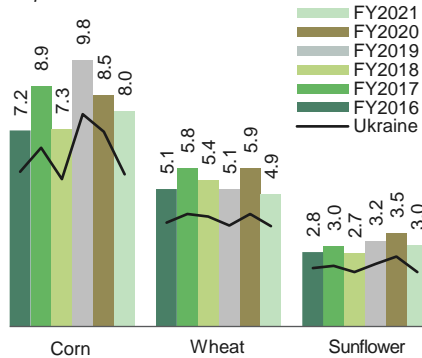
We have been actively resigning land lease agreements in FY2021, relying on the credibility we enjoy among our lessors. The **average duration of land lease agreements has reached 12.6 years** by 30 June 2021, as compared to 12.0 years twelve months ago.

Over the reporting period, we further **increased the acreage under sunflower** as the most profitable crop, which now keeps 154 thousand hectares, or 31% of total acreage in operations for FY2022 harvest. Corn keeps 51%, and wheat reduced to 13%. We consider such production technology as optimal for long-term sustainable farming.

The share of high-oleic sunflower as a more premium oilseed compared to conventional sunflower for next season harvest increased

Farming continued

Kernel's crop yields¹ tons per ha



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

to 62%, as compared to 53% a year ago.

Performance overview

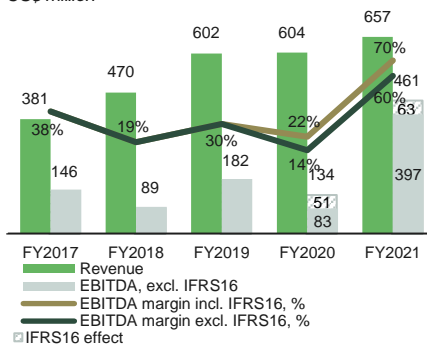
Farming segment reported US\$ 461 million EBITDA in FY2021, a 3.4x growth y-o-y, with the key performance factors described below.

Crop yields for 2020 harvest (sold over our FY2021) **declined for all three of our key crops**. Dry 2020 spring weather undermined crop yield potential for wheat, and lack of rains during summer negatively impacted corn and sunflower yields. As a result, we harvested 8.0 tons per hectare of corn (down 7% y-o-y), 3.0 tons per hectare of sunflower (down 13% y-o-y), and 4.9 tons per hectare of wheat (a 17% decline y-o-y).

Selling prices, on the contrary, **positively surprised**. The average selling price of our corn increased 26% y-o-y, wheat added 20% y-o-y, and sunflower seed price soared 56% y-o-y, which is concurrent with the rally seen in global grain and oilseed prices.

On the cost side, we benefitted from lower land lease expense (driven by the Ukrainian currency depreciation against the US\$ over

Profitability dynamics US\$ million



FY2021 harvest results

	Acreage thousand hectares			Net yield tons / ha ¹			Harvest size thousand tons ³		
	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y	FY2020	FY2021	y-o-y
Corn	231	255	10%	8.5	8.0 (7%)		1,975	2,031	3%
Sunflower	137	149	9%	3.5	3.0 (13%)		473	449	(5%)
Wheat	97	73 (25%)		5.9	4.9 (16%)		569	358 (37%)	
Other ²	48	24 (50%)							
Total	513	501 (2%)					3,017	2,838 (6%)	

Note 1: 1 ton per hectare equals 15.9 bushels per acre for corn and 14.9 bushels per acre for wheat and soybean

Note 2: Includes soybean, pea, rapeseed, barley, forage crops and other minor crops, as well as land left fallow for crop rotation purposes.

Note 3: For the three main crops

the reporting period) and lower energy costs, both contributing to a slight decline in total cost per hectare as compared to the previous season. We need to flag that since the adoption of IFRS 16 in FY2020, the farmland lease expense is not recognized any longer in the operating costs, but constitutes a finance cost and a repayment of lease liabilities. Additionally, higher depreciation expenses appeared in the income statement.

Finally, Group recognized US\$ 133 million **net gain from revaluation of biological assets**, reflecting a positive sentiment towards the earnings attributable to 2021 harvest (to be sold over Company's FY2022). The gain is primarily driven by higher grain and oilseeds prices expected for FY2022 produce than those expected for FY2021 harvest. The magnitude of this impact is extremely high this season, so we prepared a specific disclosure with explanation of factors behind this gain (see below).

The adoption of the **IFRS 16** accounting standard **increased** FY2021 **Farming EBITDA** by US\$ 63 million, as compared to US\$ 51 million impact in FY2020 (see details in section **IFRS 16 impact**).

The generated earnings implied US\$ 920 **EBITDA per hectare** in FY2021 (or US\$ 793 if excluding IFRS 16 impact) with 501

thousand hectares of farmland in operations in FY2021.

FY2022 outlook

Pricing environment in FY2022 is likely to remain supportive. We already sold a major portion of 2021 crops, locking the prices, but still keep a sizable long position in corn.

We already completed the wheat and rapeseed harvesting, and crop yields improved y-o-y. But for corn and sunflower the uncertainty still prevails.

For the cost side, we will benefit from cheap fertilizer costs contracted in the previous summer. On the other hand, price for grain drying services is likely to be quite high, given the prevailing level of natural gas prices. Finally, we expect an increase in land lease cost and cost for third-party services used during the harvesting. In total, FY2022 production costs in the farming business are expected to be higher y-o-y.

Explained net gain from change in fair value of biological assets and agricultural produce US\$ thousand

Factor	Value
Gain arising from changes in fair value of biological assets (sowing under harvest 2021) – note 12. It represents a discounted profit attributable to crops in the field as of 30 June 2021, which is calculated accounting for projected 1) crop yields; 2) selling prices; 3) production costs; 4) discount rate and discount period between the reporting date and expected harvesting date.	165,525
FX difference	576
Total gain	166,101
Write-off of the recognized gain which is attributable to the previous year harvest	(32,025)
Loss on changes in current and non-current cattle's fair value (note 12)	(1,445)
Net change in fair value of biological assets and agricultural produce	132,631

Farming continued

Non-financial performance

Occupational health and safety

We had eight non-fatal injuries in FY2021, compared to seven injuries year before. Because it is still above our zero-accident target, we are devoting special attention to reducing such occurrences in the future by educating our health and safety specialists, arranging labor safety trainings, and informing all employees about each accident as soon as it occurs.

Employee training and development

We devote special attention to professional development and training of our farming employees, as we see the greatest potential for labor efficiency improvement in farming as compared to other areas of our business. In FY2021, 2.7 thousand participants from our Farming division participated in our training and development programs, investing a total of 61 thousand hours in strengthening their professional and management abilities, as well as acquiring knowledge and competences.

Our farming staff is a big part of our vocational training program. We operate well equipped contemporary training facilities in several of our agricultural clusters, where we conduct module-based practical training programs for our agronomists, engineers, and other agribusiness professionals taught by local and visiting trainers.

We have arranged a corporate MBA program for our agri-managers and key experts since 2013, as well as various experience-exchange programs, crop tours, and site visits. Finally, we have frequent in-person meetings for representatives from our clusters, which are located throughout Ukraine, to exchange their experiences and best practices.

Energy consumption and emissions intensity

In the farming business, we practice sustainable intensification, which means producing more food with less inputs.

In FY2021 it took us 586 megajoules of energy to produce a ton of crop in the reporting period, a 12% increase y-o-y, mainly due to increase in gas consumption because of the colder and earlier period of cold weather compared to last year, as well as with the change in crop mix in the direction of crops that consume more energy

In FY2021, emissions intensity decreased by 13% year on year, to 317 kg of CO₂e per ton of grain produced.

To minimize emission volumes, we use differentiated mineral fertilization, which prevents excessive amounts of nitrogen from ending up in N₂O emissions, as well as improved field machinery routing to reduce field machinery mileage. Regular machinery fleet modernization decreases specific fuel usage. Other mitigation strategies include the use of nitrification inhibitors and cover cultivation of crops.

Giving back to local communities

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

During FY2021, our agribusiness social expenses totaled US\$ 2.2 million, consisting primarily of infrastructure investments (US\$ 759 thousand, excluding spending related to our business needs), schools and kindergartens, as well as charity donations and other social spending facilitating sport, art, and leisure activities. All of our community assistance is organized through the charity organization 'Together with Kernel,' which has its own [website](#) that promotes our social initiatives and serves

as a point of contact for local stakeholders.

Kernel local communities selected initiatives in FY2021



16,418

pupils who have the opportunity to study in improved conditions



1,690

kilometers of repaired roads



82

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



441

communities that received support



159

schools that received support

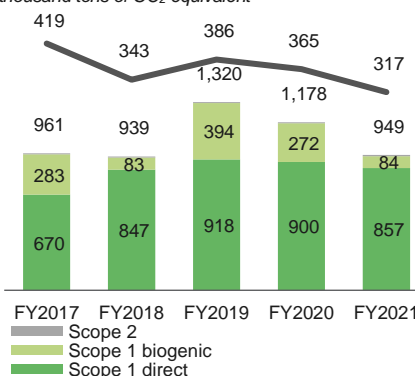


6,146

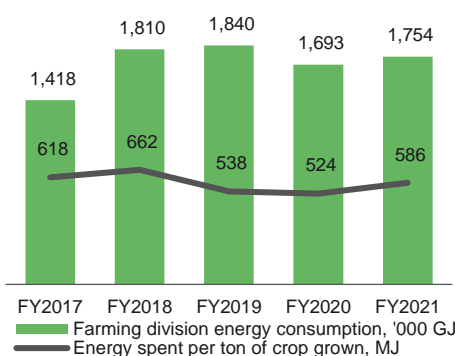
people who received targeted material support

Farming division GHG emissions

thousand tons of CO₂ equivalent

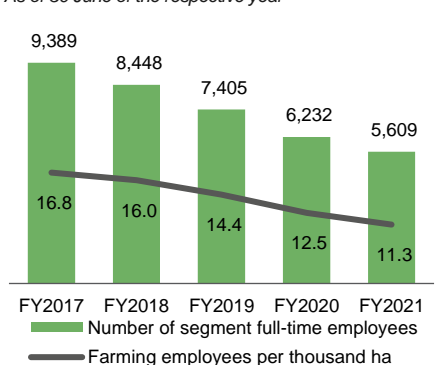


Farming division energy consumption



Number of segment full-time employees

As of 30 June of the respective year



Risk management

Risk management system

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

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

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

Key roles

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

Risk management cycle

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

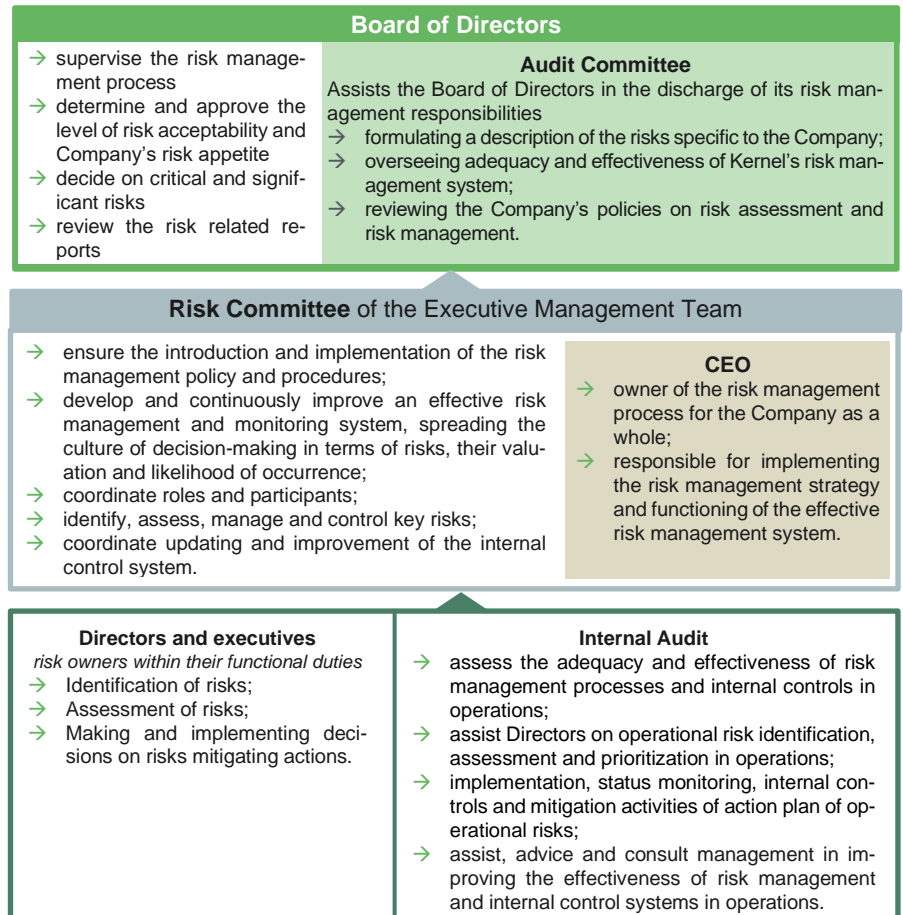
Risk categories

The management classifies all risks under five categories:

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

Top-10 risks identified for FY2022 includes risks from Strategic (Business) and Operational categories.

Key roles and duties in the risk management process



Kernel's risk identification and mitigation system



Risk management continued

Top-10 risks

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

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

Board approved Top-10 risks faced by the Group for FY2022 as depicted on chart below.

Key changes for FY2022 Top-10 risks against FY2021 Top-10 risks are:

- Lower estimated risk probability and risk impact for **low global soft commodity prices**, considering the prevailing high-price environment and hedging the significant portion of crop of own produce before the season;
- Lower impact and probability **COVID-19 related risks** affected by the vaccination progress and obtained experience to navigate in COVID-19-environment over FY2020-2021;
- Higher impact of **shortfall of proceeds from renewable energy sales**, as more renewable energy is to be generated and sold in FY2022 after commissioning of new CHP plants;
- Lower probability and higher impact for **trade position management risk** due to

1) lower expected price volatility in FY2022 as compared to FY2021, and 2) increased position limits driven by the expected growth in grain and sunflower oil export volumes;

- Lower probability of **fraudulent activities** risk as a result of improvement of security and compliance systems;
- Lower impact and probability of risks related to **investment projects issues**, as all greenfield projects are approaching its completion in FY2022 and less funds remains to be invested;
- Increased probability and impact for risk related to **failure to maintain the integrity of the leasehold farmland bank** given the opening of the farmland market in Ukraine and current level of profitability of farming operations;
- Slightly increased probability of **General IT and information security risks**.

As a result of the latest review cycle, the

Kernel FY2022 Top-10 risks

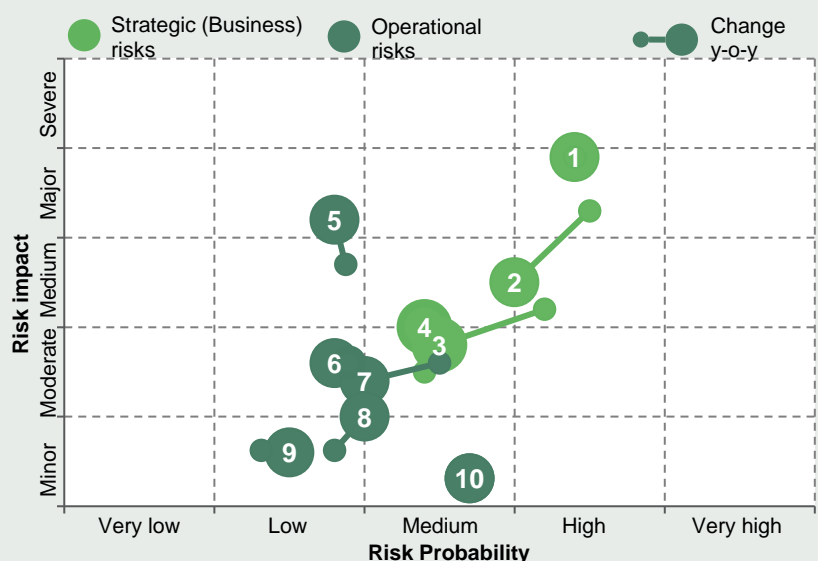
Strategic (Business) risks:

1. Weak harvest in Ukraine
2. Low global soft commodities prices
3. COVID-19 related risks
4. Shortfall of proceeds from renewable energy sale

Operational risks:

5. Trade position management issues
6. Fraudulent activities
7. Investment projects issues
8. Failure to maintain the integrity of the leasehold farmland bank
9. General IT and information security risks
10. Human capital risks

Top-10 risks matrix



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

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

Risk management continued

Kernel FY2022 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
1. Weak harvest in Ukraine: low crop yields for Kernel farming business	<ul style="list-style-type: none"> • Subdued Farming segment EBITDA as a result of reduced total harvest size due to unfavorable weather conditions while unchanged cost base. 	<ul style="list-style-type: none"> → Diversified land bank (in northern, central and western regions of Ukraine) reduces to some extent the overall Farming segment exposure to weather risks; → Insurance of winter crop related costs, and insurance against limited rainfalls and soil moisture content on some of our fields. Decision on the necessity of each type of insurance is taken separately for each year.
1. Weak harvest in Ukraine: sunflower seeds	<ul style="list-style-type: none"> • Low capacity utilization of Company's oilseed processing plants due to physical deficit of the oilseeds on the market; • Low crushing margins due to higher competition among crushers for the limited supply of oilseeds. 	<ul style="list-style-type: none"> → Diversified origination base: <ul style="list-style-type: none"> • Our oilseed processing plants are spread from the north-east to the south of Ukraine, with origination areas covering the whole sunflower seed growing belt in Ukraine, thus reducing our exposure to weather volatility in any particular region. We are also entering Western Ukraine by constructing greenfield oilseed processing plant there; • Our procurement network cover most of the regions of Ukraine; → Multi-seed processing: we launched rapeseed processing at some of our plants at the beginning of FY2022; → Comprehensive data-driven procurement strategy based on regional supply-demand balances composed from the official statistics, market consensus, inputs from our farming and procurement teams, examination of crop conditions by monitoring of the satellite images, analysis of competitors and logistics bottlenecks; → Pre-crop financing of third-party farmers conditional upon obligatory sale of future harvest (sunflower seeds and grain) to Kernel, thus covering part of our needs; → Volumes provided by our own farming production (14% of sunflower seeds we processed and 29% of grain we exported in FY2021); → "Open Agribusiness" platform serves to share our farming know-how with third-party farmers (thus increasing their productivity) and to provide various services to crop producers (improving in such a way their loyalty to Kernel as grain and oilseeds originator); → Improved control over logistics (own railcars) provides additional flexibility in accessing crop producers across the whole country; → Insurance against low crop yields in key our procurement regions. Decision on the necessity of insurance is taken separately for each year.
1. Weak harvest in Ukraine: grain	<ul style="list-style-type: none"> • Low profitability of grain export value chain (underutilized infrastructure capacities or depressed margins) given that major portion of our grain export volumes is originated from third-party farmers. 	
2. Low global soft commodities prices: grain and oilseeds	<ul style="list-style-type: none"> • Undermined profitability of our Farming segment (which is always in naturally long position as a typical upstream business) in case of low global grain prices and low sunflower seed prices in Ukraine. 	<ul style="list-style-type: none"> → Hedging grain prices: we use various hedging tools, including CME corn and soybean futures and options, forward contracts for Black Sea origin premium and direct forward contracts. Physical delivery forward contracts are typically used for shorter duration hedging, normally within six months. → Long period of crop sales: we start selling next year's crop as soon as we have the initial understanding of the next year's production costs, considering also the entire value chain margin. → Detailed analysis of global soft commodity fundamentals: our subsidiary Avere provides the insight on the global soft commodity market, assisting us with the selection of timing and pricing of our hedging operations.
2. Low global soft commodities prices: sunflower oil	<ul style="list-style-type: none"> • Compressed margins in Oilseed Processing segment: low prices for sunflower oil reduce combined earnings shared by farmers and crushers in Ukraine in the short-term, and discourage farmers from expansion of acreage under sunflower in the long-term. 	<ul style="list-style-type: none"> → More intense procurements at the beginning of the season, (when a huge supply of seeds post-harvest allows for negotiating more attractive sunflower seed prices) to partially mitigate long-term sunflower oil price weakness.

Risk management continued

Kernel FY2022 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
3. COVID-19 related risks	<ul style="list-style-type: none"> • Losses due to disruptions of logistics (in-land and oversea); Losses due to non-fulfillment of obligations under existing forward contracts; 	<ul style="list-style-type: none"> → Development of alternative logistics routes; → Rigorous and resilient logistics planning.
	<ul style="list-style-type: none"> • Losses due to strict quarantine measures imposed in Ukraine in areas of our operations, and for some of our assets; 	<ul style="list-style-type: none"> → Company's assets are in various regions of Ukraine, which minimizes the risks of simultaneous quarantine on several assets; → Prevention of the COVID-19 spread among employees: <ul style="list-style-type: none"> • Special management units in the Central Office and regions were created for constant control of the situation and coordination of efforts; • Employees are supplied with personal protective equipment and antiseptics; • Preventive controls at the entrances to the offices / production facilities: temperature screening, hand disinfection, mask mode; • Constant health monitoring of employees and non-admission to work of employees with signs of SARS; • Enhanced disinfection measures (UV lights, hand disinfection, disinfection of premises); • Special action plan developed in case of COVID-19 outbreak among employees; • Introduction of additional shifts of employees on all our production assets to ensure the continuity of production in case of the COVID-19 outbreak. → Remote work mode introduced for all administrative staff with full IT support and productivity trainings to ensure required efficiency.
4. Shortfall of proceeds from sales of renewable energy	<ul style="list-style-type: none"> • Longer-than-expected payback period of our renewable energy investments due to <ul style="list-style-type: none"> ○ the reduction in the feed-in tariff for energy produced from biomass; and/or ○ introduction of industry-specific taxation. 	<ul style="list-style-type: none"> → Maintaining direct sales to third parties as an alternative sunflower husk distribution channel; → Investigation of opportunities to insure against the change in the feed-in tariff.
	<ul style="list-style-type: none"> • Longer-than-expected payback period of our renewable energy investments due to delay in receivables collection from the Guaranteed Buyer regarding payments for the supplied renewable energy. 	<ul style="list-style-type: none"> → Investigation of opportunities on active claim work against the Guaranteed Buyer on fulfillment of its obligations.
	<ul style="list-style-type: none"> • Longer-than-expected payback period of our renewable energy investments due to obligation to sell to the grid only the difference between the produced energy and energy consumed by the whole oilseed-processing plant. 	<ul style="list-style-type: none"> → CHP plants assets spin-off into a separate legal entity not related with subsidiaries engaged in oilseed processing.
5. Trade position management issues	<ul style="list-style-type: none"> • Losses arising from our trade position mismanagement. For example, an open position in sunflower oil may have adverse effect on the Company's earnings in case of significant movements in sunflower oil price. 	<ul style="list-style-type: none"> → Trade position control system: <ul style="list-style-type: none"> ○ maximum limits on the position (long / short) with daily controlling. Separate limits for various goods (e.g. for sunflower oil produced from own seeds, sunflower oil produced from purchased seeds, and sunflower oil purchased from third parties). Special approvals are required to exceed the limits. ○ a part of positions is controlled by restricting Value at Risk and drawdown limits with daily monitoring.
	<ul style="list-style-type: none"> • Losses arising from Avere trading business 	<ul style="list-style-type: none"> → Centralized contract execution and scheduling of shipments; → Constant monitoring of the impact of change of market prices on existing trade position.
6. Fraudulent activities	<ul style="list-style-type: none"> • Losses from external frauds (e.g. theft of company's grain stored on third-party silos); 	<ul style="list-style-type: none"> → Diligent analysis of suppliers and counterparties; promotion and implementation of the Code of Interaction with Suppliers;
	<ul style="list-style-type: none"> • Losses from internal frauds (e.g. theft of company's inventories by employees, conflicts of interests etc.). 	<ul style="list-style-type: none"> → Misappropriation assets insurance; → Zero fraud tolerance approach is widely communicated to employees and counterparties, as an anti-corruption clause is a must in our

Risk management continued

Kernel FY2022 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
		<p>contracts with counterparties;</p> <p>→ Conflict of interest declaration: annually for all employees, new employees when onboarding.</p> <p>→ Continuous improvement of business processes:</p> <ul style="list-style-type: none"> • development of analytical procedures aimed to fraud risk identification; • automation of processes (including electronic documents flow); • improvement of sales internal controls (from accounting-based to process-based); <p>→ Improvement of access and authorization system in accounting;</p> <p>→ Update of the confidentiality agreement with all employees;</p> <p>→ Risk verification for new employees and for those to be appointed for managing positions;</p> <p>→ Counterparties risk verification and increasing awareness of counterparties about the refusal to cooperate with those violating the terms of Anti-Corruption Clause and Code of Interaction with Suppliers.</p> <p>→ Launch of the supply chain management program.</p>
7. Investment projects issues	<ul style="list-style-type: none"> • Extra spending beyond budgets. Our key investments include US\$ 279 million investments into construction of greenfield oilseed processing plant in Western Ukraine, US\$ 192 million renewable energy projects investments, and US\$ 142 million investments into new grain export terminal. • Lost profits due to execution delays. 	<p>→ Strong in-house expertise in greenfield projects execution (including Bandurka greenfield processing plant, Balyn, Vesnianka and Lazirky silos etc.) with dedicated team of experienced professionals to manage new projects;</p> <p>→ Rigorous project management. All projects are carefully analyzed and properly documented. Each project is organized by a charter of the investment project, which defines goals, budget, delivery milestones, schedules, deadlines, project team, definition/evaluation/response to the project risks, assessment of business case and feasibility study. In case of necessity, we organize quality control of project documentation for investment construction projects by an independent expert company. Technical specifications for new construction projects are evaluated, amended and approved by all related business segments;</p> <p>→ Proper oversight including internal cost benchmarking among various projects, budget control before signing contracts and making payments, deep involvement of the investment committee and supervision from the strategic committee;</p> <p>→ Conducting open and closed tenders to determine the best offers;</p> <p>→ Involvement of suppliers with high credibility rating;</p> <p>→ Proper GR management to interact with state regulatory / permitting authorities in the early project stages to minimize delays;</p> <p>→ Insurance of construction and assembly works.</p>
8. Failure to maintain the integrity of the leasehold farmland bank.	<ul style="list-style-type: none"> • Reduction of Farming segment EBITDA due to lower acreage under operations. The Company leases the land it farms from 144 thousand counterparties across Ukraine for an average term of 12.6 years, but it may fail to prolong certain land lease agreements due to growing competition for the land plots with other land operators, or due to willingness of landowners to cultivate the land themselves. 	<p>→ Paying market price for land lease;</p> <p>→ Maintaining the excellent reputation of the Company in the regions of operations. We try to positively differentiate ourselves from competitors through reliability, active support of the communities, and promoting the sustainability of our farming practices. We employ dedicated teams of relationship managers to the villages where we operate, who allow us to keep direct contact with our land lessors and respond to community needs;</p> <p>→ Emphyteusis agreements. For almost 19 thousand hectares of land we operate, we signed long-term land lease ('emphyteusis') agreements, whereby all rent payments are paid to the lessor in one installment at the signing of the agreement. It allows us to secure our operations for a much longer period compared to typical farmland lease contracts;</p> <p>→ Rights of first refusal to extend leasehold contract (or to buy the land once this option is available) embedded in all our land lease agreements.</p>

Risk management continued

Kernel FY2022 Top-10 risks and mitigating factors		
Risk	Possible impact	Mitigating factors
9. General IT and information security risks	<ul style="list-style-type: none"> • The loss or disclosure of key information may threaten business operations and development of business; • Interruption of business processes and decisions which are dependent on the continuity of IT applications and infrastructure. 	<ul style="list-style-type: none"> → Implemented IT business continuity and data recovery policy; → Multifactor authentication is being implemented to reduce the risk of documents, correspondence, and other confidential data leakage; → Password policy, access control for external users to company IT systems; Privileged access management solutions. → Regular testing of IT recovery plan; regular vulnerability testing from inside and outside; → Backup data center, constant modernization of data backup system; → Patch management policy – regular installations of critical and security patches on servers and workstations; → Special solution to combat the APT and 0-day virus attacks; → Implementation of incident and change management processes in the IT infrastructure; → Improving the maturity of the access management process by automating the process of reviewing access rights. → Regular training and testing of employees for knowledge and compliance with information security rules.
10. Human capital risk	<ul style="list-style-type: none"> • Interruptions in business and support processes due to general staff shortage and inability to replace key employees given low qualification of new candidates. 	<ul style="list-style-type: none"> → Competitive compensation: the level we pay matches or exceeds the benchmark in our industries. We aim to increase further compensation levels to successfully compete with neighboring countries along the way. Compensation system is regularly reviewed to match the Company strategy and HR strategy. We regularly measure employee satisfaction level and react on the results; → Extensive social package: <ul style="list-style-type: none"> ○ Housing repayable loans to young employees in the regions; ○ Voluntary medical insurance (full cost coverage for employees and 50% cost coverage for employee's children); ○ Social monetary support in case of employee's personal life difficulties; ○ Organizational support and coverage of all costs related to COVID-19 prevention, diagnostics, and treatment. → Talent management, professional development and education of our employees. We have numerous education programs with extensive coverage (page 74) and system of individual development and career planning (page 70), as well as mental health education (page 75); → Safe and convenient working conditions. Constant improvement of working conditions and infrastructure for staff. Remote work and flexible working hours. Support of employee affinity and networking groups; → Effective recruitment: we use various tools and channels to recruit the best people on the market. We actively work with universities and the business community and have a separate Kernel Chance program to develop and solicit new associates; → Employee involvement through effective KPI system, responsibility delegation, rewards for operation efficiency improvement, and team-building events; → Comprehensive new employees' adaptation programs; → Labor productivity improvement through processes automation and optimization, job versatility and employees fungibility increase; → HR brand development, creating a sustainable employer reputation. Corporate social responsibility strategy.

Alternative Performance Measures

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

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

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

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

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

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

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

EBITDA and EBITDA margin

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

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

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

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

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

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

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

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

<i>in thousand US\$ except the margin</i>	FY2020	FY2021
Profit from operating activities	337,276	812,181
<i>add back:</i>		
Amortization and depreciation	105,742	116,486
EBITDA	443,018	928,667
Revenue	4,106,780	5,647,154
EBITDA margin	10.8%	16.4%

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

Alternative Performance Measures continued

Segment EBITDA and Segment EBITDA margin

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

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

Calculation of Segment EBITDA and Segment EBITDA margin:

<i>in thousand US\$</i>	FY2020	FY2021
Oilseed Processing		
Profit from operating activities	134,102	32,320
plus Amortization and depreciation	17,662	23,424
Segment EBITDA	151,764	55,744
Segment revenue	1,547,007	1,746,938
Segment EBITDA margin	10%	3%
Trading and Infrastructure		
Profit from operating activities	193,014	470,215
plus Amortization and depreciation	22,787	25,961
Segment EBITDA	215,801	496,176
Segment revenue	3,426,289	4,909,471
Segment EBITDA margin	6%	10%
Farming		
Profit from operating activities	71,168	395,686
plus Amortization and depreciation	63,079	65,039
Segment EBITDA	134,247	460,725
Segment revenue	604,029	657,132
Segment EBITDA margin	22%	70%
Other		
Loss from operating activities	(61,008)	(86,040)
plus Amortization and depreciation	2,214	2,062
Segment EBITDA	(58,794)	(83,978)

Investing Cash Flows net of Fixed Assets Investments

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

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

Net Fixed Assets Investments

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

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

<i>in thousand US\$</i>	FY2020	FY2021
Net cash used in investing activities	(202,691)	(205,143)
Adding back:		
Purchase of property, plant and equipment	(215,651)	(178,296)
Proceeds from disposal of property, plant and equipment	5,533	5,855
Investing Cash Flows net of Fixed Assets Investments	7,427	(32,702)

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

<i>in thousand US\$</i>	FY2020	FY2021
Purchase of property, plant and equipment	(215,651)	(178,296)
Proceeds from disposal of property, plant and equipment	5,533	5,855
Net Fixed Assets Investments	(210,118)	(172,441)

Operating Cash Flows before Working Capital Changes

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

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

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

<i>in thousand US\$</i>	FY2020	FY2021
Net cash generated by operating activities	269,356	459,842
Less:		
Changes in working capital, including:		
Change in trade receivables and other financial assets	(10,098)	(180,834)
Change in prepayments and other current assets	(36,988)	(241,282)
Change in restricted cash balance	(32,219)	(13,538)
Change in taxes recoverable and prepaid	(1,771)	1,819
Change in biological assets	(19,130)	(52,961)
Change in inventories	113,403	71,909
Change in trade accounts payable	(15,070)	(93,218)
Change in advances from customers and other current liabilities	(51,120)	64,468
	32,797	81,969
Operating Cash Flows before Working Capital Changes	279,454	640,676

Alternative Performance Measures continued

Free Cash Flows to the Firm

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

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;
- current bond issued
- interest on bonds issued;
- long-term borrowings;
- current portion of long-term borrowings;
- short-term borrowings;
- lease liabilities and
- current portion of lease liabilities.

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

Adjusted Working Capital

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

Calculation of Free Cash Flows to the Firm:

<i>in thousand US\$</i>	FY2020	FY2021
Net cash generated by operating activities	269,356	459,842
Net cash used in investing activities	(202,691)	(205,143)
Free Cash Flows to the Firm	66,665	254,699

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

<i>in thousand US\$</i>	As of 30 June 2020	As of 30 June 2021
Sunflower oil & meal	96,464	204,623
Sunflower seed	121,402	42,513
Grains	33,840	37,294
Other	51,696	47,597
Total	303,402	332,027
<i>of which: Readily Marketable Inventories</i>	251,929	284,850

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

<i>in thousand US\$</i>	As of 30 June 2020	As of 30 June 2021
Bonds issued	793,777	593,942
Current bonds issued	-	212,495
Interest on bonds issued	21,945	15,353
Long-term borrowings	172,403	227,740
Current portion of long-term borrowings	6,871	21,715
Short-term borrowings	44,581	13,888
Lease liabilities	265,128	287,154
Current portion of lease liability	44,872	37,338
Debt Liabilities	1,349,577	1,409,625
less: cash and cash equivalents	369,117	574,040
Net Debt	980,460	835,585
less: readily marketable inventories	251,929	284,850
Adjusted Net Debt	728,531	550,735

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

<i>in thousand US\$</i>	As of 30 June 2020	As of 30 June 2021
Total current assets	1,531,017	2,283,724
less:		
Cash and cash equivalents	369,117	574,040
Assets classified as held for sale	432	-
Total current liabilities	412,593	783,013
add back:		
Short-term borrowings	44,581	13,888
Current portion of long-term borrowings	6,871	21,715
Current portion of lease liabilities	44,872	37,338
Current bonds issued	-	212,495
Interest on bonds issued	21,945	15,353
Adjusted Working Capital	867,144	1,227,460

Alternative Performance Measures *continued*

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

APM	Calculation	Why APM is the most important for management
EBITDA	Profit from operating activities adding back amortization and depreciation.	EBITDA is the main metric used by management of the Group to measure operating performance. It is also widely used by investors when evaluating businesses, and by rating agencies and creditors to evaluate the leverage.
EBITDA margin	EBITDA divided by revenue during the reporting period.	EBITDA margin is a metric widely used to measure profitability of Group's operations.
Segment EBITDA	Segment profit from operating activities adding back amortization and depreciation.	EBITDA is the main metric used by management of the Group to measure segment operating performance.
Segment EBITDA margin	Segment EBITDA divided by segment revenue during the reporting period.	Segment EBITDA margin is a metric widely used to measure profitability of Group's segment operations.
Investing Cash Flows net of Fixed Assets Investments	Net cash used in investing activities adding back purchase of property, plant and equipment, and proceeds from disposal of property, plant and equipment.	As the Group grew and developed through acquisitions, this APM helps to monitor the M&A and other investing activities of the Group.
Net Fixed Assets Investments	Net cash used in investing activities less Investing Cash Flows net of Fixed Assets Investments .	The Group is executing a solid investment program as a part of Strategy 2021, and fixed assets investment is an important measure to monitor capital expenditure as a part of the execution of investment program.
Operating Cash Flows before Working Capital Changes	Net cash generated by operating activities less changes in working capital activities, including: <ul style="list-style-type: none"> • change in trade receivables and other financial assets; • 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, current bonds issued, interest on bonds issued, long-term borrowings, current portion of long-term borrowings, short-term borrowings; lease liabilities and current portion of lease liabilities.	The Group uses this APM, as it is a useful measure of the leverage of the Group, which is widely used by credit investors and rating agencies.
Net Debt	Debt Liabilities less cash and cash equivalents.	The Group uses this APM, as it is a useful measure of the leverage of the Group, which is widely used by credit and equity investors and rating agencies.
Adjusted Net Debt	Net Debt less readily marketable inventories.	The Group uses this APM as a supplemental measure of the Group's liquidity, which shows the amount of Debt Liabilities not covered by cash and readily marketable inventories (highly liquid inventories).
Adjusted Working Capital	Current assets (excluding cash and cash equivalents, and assets classified as held for sale) less current liabilities (excluding short-term borrowings, current portion of long-term borrowings, current portion of lease liabilities, current bonds issued and interest on bonds issued).	The indicator of working capital is important for the Group, as the Group is involved in trading and processing activities and hold large volumes of inventories on the balance. The Group also invests in business expansion, which needs working capital investments to increase efficiency. It is useful for users and investors because measure of both a company's efficiency and its short-term financial health. It also helps management to keep a business operating smoothly and meet all its financial obligation within the coming year.

Sustainability



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

Our approach

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

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

FY2021 performance

The year ended 30 June 2021 was a year of great initiatives launched. We started a project with EBRD, EY, and Syngenta to define a **low-carbon pathway** for Kernel, we initiated a **Scope 3 GHG reporting** for grain and oilseeds procured from third-parties, we made first steps to structure our efforts in **environmental and social assessment of our supply chain**, conducting first ESG screenings and site visits for audit purposes. To **strengthen our ESG governance**, a new independent director with a sustainability background was appointed to the Board of Directors, and a dedicated sustainability professional headed the execution of the sustainability function. As a responsible employer, we launched a **voluntary medical insurance** program for all our permanent employees and their children.

Social spending in FY2021

US\$ 3.9 million

-49% y-o-y

Energy consumption in FY2021

7,391 terajoules

+6% y-o-y

We progressed under certification of our assets under ISO 14001 (environmental) and ISO 45001 (occupational health & safety) management system, which now covers all but one of our oilseed processing plants, grain export terminal in Chornomorsk, two farming clusters with total farmland bank exceeding 250,000 hectares (out of 506 thousand hectares), 15 silos (out of 30) and key trading company Kernel-Trade.

In FY2021, [Forbes Ukraine](#) ranked Kernel as #4 among top-50 best employers in Ukraine and #1 employer in agriculture. Our sustainability approach was awarded by the local Ukrainian “EcoTransformation” project.

Agenda for FY2022

For the next year, we plan to focus our efforts on sustainability-related strategic initiatives, as follows:

- promotion of our environmental and social sustainability approach through our supply chains;
- commissioning of five biomass CHPs with total installed electric capacity of 78 MW;
- formulation of the corporate climate strategy and low-carbon pathway; and
- further strengthening and certification of our environmental, health and safety management system.

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

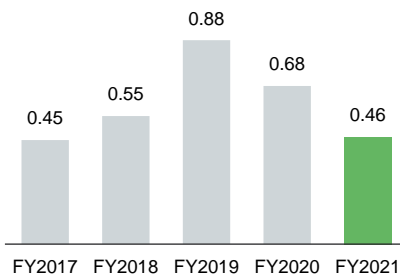
Sustainability highlights

Key non-financial KPIs

	FY2017	FY2018	FY2019	FY2020	FY2021
Total number of full-time employees	16,103	15,116	13,397	11,928	11,256
Oilseed processing	16%	17%	17%	18%	20%
Grain and infrastructure	22%	23%	22%	23%	23%
Farming	58%	56%	55%	52%	50%
Headoffice and other	4%	5%	6%	6%	7%
Total injury accidents	14	16	25	17	10
incl. fatalities	-	4	1	1	-
Lost time injury frequency rate	<i>accidents / million worked hours</i> 0.45	0.55	0.88	0.68	0.46
Total training expenditures	<i>thousand US\$</i> 445	474	456	637	589
Total charity spending	<i>thousand US\$</i> 2,616	2,440	2,303	7,714	3,923
Total GHG emissions	<i>thousand tons of CO₂ equivalent</i> 1,418	1,417	1,781	1,679	1,462
Direct (Scope 1) GHG emissions	<i>thousand tons of CO₂ equivalent</i> 748	922	981	955	942
Gross indirect (Scope 2) GHG emissions	<i>thousand tons of CO₂ equivalent</i> 83	94	90	96	87
Total energy consumption	<i>thousand gigajoules</i> 6,741	7,282	7,139	6,998	7,391
incl. renewable	<i>thousand gigajoules</i> 3,096	3,230	3,215	3,628	3,558
Energy spent per ton of sunflower seeds processed	<i>megajoules</i> 1,412	1,327	1,312	1,285	1,421
Energy spent per ton-% of grain dried	<i>megajoules</i> 68	61	67	63	56
Energy spent per ton of grain grown	<i>megajoules</i> 618	662	538	524	586

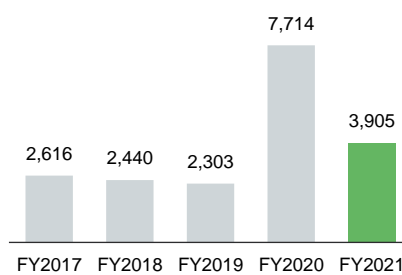
Rate of recordable work-related injuries

accidents / million worked hours



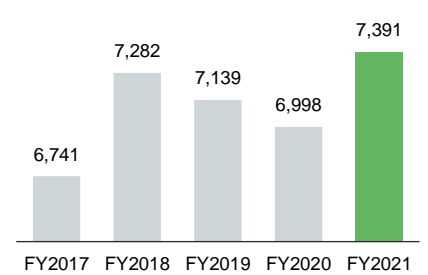
Total charity spending

US\$ thousand



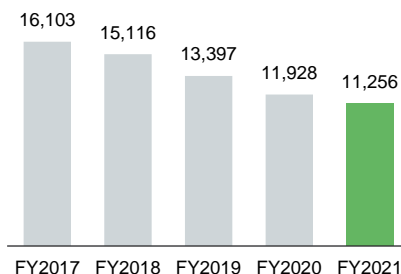
Total energy consumption

thousand gigajoules



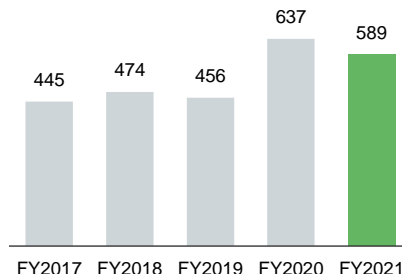
Total number of employees

Full-time equivalent, as of 30 June



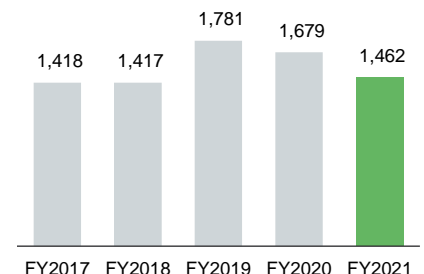
Total training expenditures

US\$ thousand



Total GHG emission

thousand tons of CO₂ equivalent



Sustainability continued

Our approach to materiality and report content

Stakeholder inclusiveness

The company has identified 12 stakeholder groups (please see figure “Key stakeholder groups and engagement channels”) building on the established management vision, screening of media materials, as well as constant interactions with stakeholders. The management regularly reviews the list of stakeholder groups.

We engage with all groups of stakeholders on a regular basis directly interacting with them at meetings and events, as well as by effectively reaching out through media and other communication tools (i.e. corporate website, social networks, messenger applications and press) and reflect their recommendations and requests in our annual reports accordingly. Indeed, the company's Facebook page and the public group “We are Kernel” allows us to communicate results of our activities to over 13,000 people, whereas the corporate Telegram channel covers over 1,300 subscribers.

Apart from the listed communication channels, the Group exploits a Hotline intended for collection of any type of input from any stakeholder. This instrument works also as a grievance mechanism. The Group informs both internal and external stakeholders on the availability of the Hotline and encourages everyone to use it, as appropriate. Corporate Compliance Manager is responsible for the Hotline functioning. Almost 1,400 inputs have been collected through the Hotline in FY2021.

The Company engages with all the identified stakeholder groups, but for the purposes of this report, management considers capital providers (shareholders and debt providers), regulatory authorities, employees and NGOs

COMMUNICATION ON PROGRESS



This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

active in environmental and social issues identified as key target audiences, while engagement with other stakeholder groups is primarily done through other communication channels.

Report content

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

As a result of the stakeholder engagement process, we identified interests and expectations of all key stakeholder groups. These interests and expectations along with a managerial assessment of the aspects' importance for the sustainable development of the company were the basis for defining the report content. This report focuses on material issues, which were determined based on the feedback obtained from capital providers (including rating agencies) and employees and a managerial assessment of the aspects' importance for the sustainable development of the company.

Regulatory requirements

When defining the report content, we considered **regulatory obligations**, applicable to

our operations, including the Luxembourg Law of 23 July 2016 on disclosure of non-financial and diversity information (the “Law of 23 July 2016”), implementing the European Directive 2014/95/EU. We also incorporated to the extent possible the “**ESG reporting Guidelines**” and “**Best corporate governance practice 2021**” adopted by the Warsaw Stock Exchange. We aim to fully align our disclosure with such recommendations in our next reports.

We also have chosen to start disclosing our approach to managing climate-related risks and opportunities under **TCFD Recommendations**.

Starting from FY2022, Kernel will be obligated to report under the **EU Taxonomy**. According to the Taxonomy Regulation we are expected to report the proportion of turnover, derived from products associated with *environmentally sustainable economic activities* and the proportion of CapEx and OpEx associated with such activities. An activity qualifies as environmentally sustainable where it inter alia contributes to environmental objectives (that includes climate change mitigation and adaptation) and complies with the technical screening criteria. Although, the *EU Taxonomy Climate Delegated Act* released in April 2021

Key stakeholder groups and engagement channels

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

Sustainability continued

excludes criteria for agriculture activities, we expect these criteria becoming applicable to our activities at a later stage.

UN Global Compact Communication on Progress

FY2021 is the first year when we publish the Communication on Progress on our UN Global Compact commitment. In this sustainability report, we integrated all our deliverables to implement the Global Compact principles in each of the four issue areas:

- **Human rights and Labor** (see sections [Human rights](#), [Diversity and equal opportunity](#), [Employment](#), [Occupational health and safety](#), [Training and education](#));
- **Environment** (see section [Environmental impacts](#));
- **Anti-corruption** (see section [Anti-corruption](#)).

This report is aligned with the spirit and principles of the Sustainable Development Goals.

Capital providers

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

Topic boundaries

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

sustainability.

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

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

[GRI content index](#) (see on page 81) summarizes disclosure of the listed topics in this report.

Although disclosure of soil properties is outside the scope of available topic-specific Standards, we chose to include them in this report due to their crucial role for crop production and susception to the Group's farming operations. For the purpose of disclosure, GRI 304: Biodiversity was applied, as this topic is related to the *provision services* of ecosystems.

In addition to this report, Kernel also responds annually to the CDP initiative, including Climate Change, Forests, Water Security (see [CDP website](#)).

Independent auditor's limited assurance report

To the Management of Kernel Holding S.A.

We have performed an independent limited assurance engagement on the sustainability information based on the Global Reporting Initiative (GRI) Standards and indicated in the "[GRI Content Index](#)" section of the Annual Report of Kernel Holding S.A. (hereinafter also the "Company") for the year ended 30 June 2021.

Limitations of the engagement

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

- All information contained in other sections of the Annual Report for the year ended 30 June 2021.
- The financial information in scope of the statutory audit of the financial statements has not been additionally reviewed to obtain limited assurance. Our engagement was limited to the presentation of the information in line with the GRI Standards requirements.
- Forward-looking statements.

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

Sustainability continued

Management Responsibility

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

Audit Firm's Independence and Quality Control

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

In accordance with International Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed within a limited assurance engagement on the abovementioned information. Our assurance report has been prepared in accordance with the terms of engagement.

We performed limited assurance engagement in accordance with International Standards on Assurance Engagements, hereinafter referred to as "ISAE", that apply to assurance engagements, in particular, the ISAE 3000 "Assurance engagements other than audits or reviews of historical financial information". This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that above mentioned sustainability information in the Annual Report for the year ended 30 June 2021, has not been prepared, in all material respects, under the aforementioned Standards of the Global Reporting Initiative.

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

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

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

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the sustainability information indicated in the "GRI Content Index" section of the Annual Report of Kernel Holding S.A. for the year ended 30 June 2021 has not been prepared, in all material respects, in accordance with the Standards of the Global Reporting Initiative.

Limited Liability

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

Partner
Gagik Nersesian
"BAKER TILLY UKRAINE" LLP
03 October 2021
Kyiv, Ukraine

Sustainability continued

Key developments

In FY2021 Kernel in partnership with EBRD and Clean Technology Fund launched a **Climate Corporate Governance and Low-Carbon Pathway** project (see details below) to enhance the Company's climate governance approach, to assess climate-related risks and opportunities, to set ambitious and realistic goals, and to formulate an overarching climate strategy.

We progressed on **strengthening the sustainability governance** within the company. A recently appointed independent member of the Board of Directors brings aboard a considerable sustainability experience to oversee the Company's progress in the area. Additionally, a dedicated sustainability professional joined our team to strengthen our sustainability governance approach and coordinate numerous projects in this area within the company.

In FY2021, we achieved record low number of work-related injuries.

To disseminate our expertise to outside, in FY2021 Kernel joined [Committee on Industrial Ecology and Sustainable Development](#) of European Business Association in Ukraine, and a [Professional Association of Ecologists of Ukraine](#).

Sustainability governance

Sustainable development of Kernel is **overseen and regularly reviewed by the Board of Directors since FY2020**. Currently, there is no separate committee at the Board of Directors, responsible for overseeing the sustainability function at Kernel, but we have the

intention to create such body in FY2022. ESG-linked KPIs are not integrated into the top-management incentives schemes.

At the management level, each specific sustainability function is executed by the respective managers. The overall sustainability agenda is coordinated and overseen by a **dedicated experienced sustainability manager**, with such position being established in September 2021 to facilitate the Group's progress in the sustainability area. A sustainability-related opportunities are also discussed by the various committees at the level of the Executive Management Team, namely:

- **Investment committee** reviews, among others, our US\$ 248 million renewable energy investment program and smaller-scale sustainability-related projects;
- **Trading committee** regularly discusses opportunities arising from developments on the energy and biofuels markets which have a direct impact on soft commodities.

Sustainability risks

Risks related to the sustainability are assessed and reviewed by the Risk Committee within the Executive Management Team as a part of Kernel usual risk management process. Sustainability risks are also reviewed by the Audit Committee of the Board of Directors and Board of Directors itself on an annual basis when identifying and approving key risks for the Group.

Five risks out of the top 10 Group's risks for FY2022 are related to sustainability issues (see [Risk management](#) for more details and for the description of our mitigation efforts), namely:

- **Weak harvest in Ukraine**

- **Shortfall of proceeds from renewable energy sale;**
- **Fraudulent activities** which may arise due to our insufficient anti-corruption efforts;
- **Failure to maintain the integrity of the leasehold farmland bank** (social capital risk including level of trust the company enjoys amongst landowners who lease the farmland to Kernel);
- **Human capital** risks, which is mitigated by our "S" activities in ESG.

Besides, this year we specified **sustainability-related risks among other key risks** for the Group, including:

- non-compliance with environmental standards;
- undermined profitability due to more severe environmental requirements applicable to farming and oilseed processing related to the implementation of the European Green Deal;
- low sustainability rating of Kernel may increase cost of capital.

Climate-related risks are disclosed in more details in the section ["Financial implications and other risks and opportunities due to climate change \(GRI 201-2\)"](#).

The list of sustainability risks might be expanded after our joint project with EBRD on the climate corporate governance and low-carbon pathway.

Our commitments

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

- **Social:** development of people's potential,

Climate Corporate Governance and Low-Carbon Pathway

Following substantial progress in carbon accounting achieved FY2020, this year we've joined forces with our major financial partner, EBRD, to launch a study aimed at enhancing Kernel's corporate governance for effective climate action and building a low-carbon pathway. The scope of the study covers:

- Assessment of climate related **risks and opportunities**. Climate scenario analysis will be used to understand the exposure of Kernel and its value chain to physical and transition climate related risks and enable the formulation of adequate and timely response measures.
- Assessment of climate **governance, management** processes, **reporting** and capacity. The focus here will be on aligning our governance and reporting practices with the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD).
- **Setting Targets**. We are going to select both ambitious and realistic climate change mitigation targets for 2030 and 2050 in line with the Science Based Targets Initiative's criteria.
- Assessment of climate change **mitigation and adaptation measures**. Based on rigorous assessment of all feasible options we plan to select measures for implementation that secure reaching our climate targets in the most efficient way.
- Defining **Corporate Climate Strategy** that will build on outcomes of above tasks.

Special attention will be paid to identification of applicable climate smart, regenerative, precision agriculture practices, and soil carbon sequestration techniques, as the outcomes will be available for implementation both in Kernels own farming operations and in its grain and oilseeds supply chains.

Co-financing provided by the Clean Technology Fund allowed for involvement of best-in-class consulting services. The consortium of EY and Syngenta was selected through the flawless tendering process arranged by EBRD.

We are looking forward to presenting the deliverables in Kernel's FY2022 Annual Report.

Sustainability continued

giving back to local communities, and ethical and responsible labor practices;

- **Environmental:** keeping the integrity of the ecosystems the Company operates in, and minimization of the environmental footprint;
- **Economic:** reaching maximum profitability with the optimal usage of natural resources.

Measures taken to achieve these goals shall be disclosed each year in the annual report, including the Sustainability section.

Since June 2020, Kernel is a **signatory to the UN Global Compact** – the world's largest corporate sustainability initiative uniting almost 14,000 companies from 162 countries. We declared the company's commitment to implement 10 universal principles on human rights, labor, environment, and anti-corruption by taking practical actions, the outcomes of which would be measured to support UN Sustainable Development Goals (SDGs).

We endorse all 17 SDGs, and actively contribute to achieving selected priority SDG targets. To define such, we have conducted the prioritization of the SDG targets in line with the *Practical Guide on Integrating the SDGs Into Corporate reporting*. Throughout the process we considered the following:

- **risks to people and the environment (entry point A).** Out of all environmental and social risks that can be associated with our operations and value chain we have selected risk with the highest potential severity and likelihood and linked them to corresponding SDG targets.
- **beneficial SDG-related products, services and investments (entry point B).** We have screened our products, services and investments for their potential contribution to SDGs. Products, services and investments associated with the most significant benefits to society and to Kernel have been prioritized and linked to corresponding SDG targets.

The prioritization exercise was augmented with inputs collected from our stakeholders during materiality assessment conducted to define the content of this report.

The list of priority SDG targets is presented in the table below. For every priority SDG target we provide a link to a respective section of this report describing how we contribute to the achievement of the targets.

Our investments in efficient production, processing and transportation of crops reduce the total cost of food, thus making it more affordable and contributing to the achievement of #2 UN Sustainable Development goal: Zero Hunger.

Priority UN Sustainable Development Goals for Kernel's activities

Top priority SDGs

2 ZERO HUNGER



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



Second priority SDGs

3 GOOD HEALTH AND WELL-BEING



4 QUALITY EDUCATION



5 GENDER EQUALITY



13 CLIMATE ACTION



15 LIFE ON LAND



17 PARTNERSHIPS FOR THE GOALS



6 CLEAN WATER AND SANITATION



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



Priority SDG targets for Kernel's operations:

- **2.3** By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment. (see [Significant indirect economic impacts](#) for Kernel contributions)
- **2.4** By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality. (see [Climate Corporate Governance and Low-Carbon Pathway](#) for Kernel contributions)
- **7.2** By 2030, increase substantially the share of renewable energy in the global energy mix. (see [Energy](#) for Kernel contributions)
- **8.4** Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead. (see [Energy](#), [Water and Effluents](#), [Waste](#) for Kernel contributions)
- **8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value. (see [Employment](#) for Kernel contributions)
- **13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries. (see [Financial implications and other risks and opportunities due to climate change](#) for Kernel contributions)
- **15.3** By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world. (see [Biodiversity](#) for Kernel contributions)
- **15.5** Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species. (see [Biodiversity](#) for Kernel contributions)
- **17.3** Mobilize additional financial resources for developing countries from multiple sources. (see [Significant indirect economic impacts](#) for Kernel contributions)

Meeting expectations of our capital providers

Under the financing agreements with international financial institutions (the European Bank for Reconstruction and Development, the European Investment Bank, the Black Sea Trade and Development Bank), we are committed to comply with numerous provisions related to environmental and social aspects of projects financed by lenders, as well as to the overall sustainable development of the Group.

The latter can be illustrated with the Environmental and Social Roadmap that has been developed under our contractual obligations to enhance environmental & labor safety governance at a corporate level. The Roadmap defines measures aimed at unifying EMS approaches on a group-wide level through centralization of the EHS reporting lines and ISO 14001+45001 certification of Kernel's subsidiaries. We provide lenders with regular updates on our progress on implementation of these provisions.

Sustainability continued

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

Practices of WSE Listed Companies 2021".

In response to the growing stakeholders' interest regarding Kernel's preparedness to managing risks and grasping opportunities related to climate change, we have started aligning our disclosures with TCFD recommendations. In our opinion this framework is helpful both for boosting our transparency and for enhancing our climate governance processes. Therefore, we support TCFD and commit to

implementing its recommendations. Our primary steps towards alignment with TCFD are presented in the section [Financial implications and other risks and opportunities due to climate change](#) of this report. The remaining key component is the scenario analysis, which is included in the scope of [Climate Corporate Governance and Low-Carbon Pathway Project](#) scheduled for FY2022.

Compliance with International Sustainability and Carbon Certification (ISCC)

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

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

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

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

In FY2021, the total area of verified fields amounted to 486,000 ha (98% of Kernel's acreage harvested). Crops from these fields are eligible for entering certified supply chains.

Certified crops proceed to Kernel's storage facilities and/or processing plants subject to subsequent ISCC certification process. In FY2021, five oil crushing plants earmarked for production of biofuel have been certified. In this way Kernel ensures its products are in line with ISCC principles all along their supply chains.

Export volumes of ISCC certified products amounted to 1.2 million tons of corn in FY2021.

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

Sustainability continued

Economic impacts (GRI 200)

Economic performance (GRI 201)

Kernel approached the completion of CapEx-heavy cycle called Strategy 2021, which is expected to substantially improve the Company's economic performance. Group's new Strategy 2026 assumes a sustainable increase of soft commodities export from Ukraine to 20 million tons annually by FY2026 from current 10.6 million tons.

Economic performance is the most important KPI for the management performance-based part of compensation.

Direct economic value generated and distributed (GRI 201-1)

Total economic value retained in FY2021 amounted to US\$ 607 million, calculated as direct economic value generated (US\$ 5,875 million) less total economic value distributed (US\$ 5,268 million). This resulted in a 6.0x increase compared to the total economic value retained in FY2020.

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

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

Financial implications and other risks and opportunities due to climate change (GRI 201-2)

To structure our disclosure, we have chosen to adhere to the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

Governance

Until recently, Kernel's climate risks were not articulated as a standalone category and were considered as part of other risks. Consequently, the processes of identifying, assessing, and managing climate-related risks are integrated into the Company's overall risk management.

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

US\$ million	FY2017	FY2018	FY2019	FY2020	FY2021
Direct economic value generated	2,207	2,481	4,011	4,093	5,875
Revenue	2,169	2,403	3,960	4,107	5,647
Net IAS 41 effect	(3)	19	9	(21)	133
Other operating income	41	59	42	7	95
Economic value distributed					
Operating costs	(1,942)	(2,341)	(3,742)	(3,756)	(5,063)
of which employee wages and benefits	67	103	126	164	214
Finance costs	(62)	(65)	(82)	(147)	(142)
Community investments	3	2	2	(8)	(4)
Other costs	(8)	(27)	1	(38)	8
Total charges	(2,009)	(2,431)	(3,821)	(3,948)	(5,200)
Income tax	(19)	6	(12)	(22)	(32)
Dividends paid	(20)	(20)	(20)	(21)	(35)
Total economic value distributed	(2,048)	(2,445)	(3,853)	(3,991)	(5,268)
Economic value retained	158	35	158	102	607

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

Kernel exercises a mature risk management system with clearly defined lines of responsibility of the Board of Directors and Executive Management Team, as described in the [Risk Management](#) section of this report.

The board's involvement in the management of climate-related opportunities translates into the consideration and approval of strategic climate related initiatives such as our US\$ 248 million biomass renewable energy project or the Climate Corporate Governance and Low-Carbon Pathway Project (see [Climate Corporate Governance Case Study](#)). The Company is working on preparing the environmental adverse impact mitigation strategy.

Risks

Aligning with TCFD recommendations, we recognize two types of climate risks for Kernel's business: **transition risks** (arising from the transition to a low-carbon and climate-resilient economy) and **physical risks** (direct impact of climate change on Kernel operations).

Indeed, *low harvest in Ukraine* due to weather-related downward pressure on crop yields and quality, increased spread of crop diseases and pests (**physical risk**) consistently tops our risk rankings both in terms of probability and magnitude of impacts. Such impacts stem from changes in surface temperatures, the timing of seasons, and the frequency and magnitude of severe weather events, such as droughts, floods, storms, and heatwaves, and potential climate-related changes in soil productivity. Therefore, in Farming we may suffer reduced revenue from

decreased crop production volumes. In Oilseed Processing and Infrastructure and Trading we may face poor capacity utilization and depressed margins that will be driven by higher competition for Ukrainian grain and oilseeds among crushers and exporters caused by physical deficit on the market.

Although not currently recognized as critical, other physical and transition risks are being considered as well. The most relevant of them are as follows:

- **Acute physical risks** may impact Kernel's operations through hindered road transportation (asphalt roads closed due to high temperatures) and maritime navigation (increased storms frequency and intensity), and increased risk of fires;
- **Policy and Legal Risks** may result in higher environmental taxes (periodically such initiatives appear in Ukraine) and/or restriction to export to some countries¹. We are closely monitoring relevant policy and legal developments.
- **Technology Risk**. Rapid development of the plant protein production technologies may reduce the demand for animal feed made of grain and meal supplied by Kernel. However, this risk may be partially neutralized by the growth in demand for the plant feedstock.
- **Market Risk**. Any changes in the global meat consumption may impact the demand for feed, i.e. grain and sunflower meal we supply. Still, in the mid-term prospective meat consumption is expected to increase².

Transition to electric transports in the long-term may cut the demand for motor fuels (including bioethanol, biodiesel, renewable

¹ For example, exports to EU may be impacted by Carbon Border Adjustment Mechanism (CBAM) through application of the carbon levy aimed to equalize the price of carbon between EU products and imports. Although food and agricultural sectors are not covered in the first phase of CBAM, this may happen in future.

² World meat projections (OECD/FAO 2021).

Sustainability continued

diesel), which may in turn reduce demand for grains and oilseeds used. Though, in the short- to medium-term demand is likely to stay high, as requirements to the content of renewables in the fuel are increasing globally.

Transition risks also include potential compulsory investments or extra costs associated with more severe sustainability-driven requirements to the quality of company products.

- **Reputation Risk** may stem from increased stakeholder concern about Kernel's carbon footprint associated both with our own operations and value chains. Low Kernel ESG-ratings may result in higher cost of capital for the Company.

Risk Management

Managing physical risk associated with unfavorable weather conditions leading to weak harvests begins by collecting initial data. We operate a network of 49 real-time stationary weather stations located throughout our land bank, which record air temperature, humidity, precipitation, and soil temperature. Collected data serve as an input for both short-term (7-days ahead) forecast that informs tactical measures, and for a long-term climate zoning of the landbank. Zoning helps to identify areas with similar climate conditions that pre-define selection of hybrids and cultivation techniques.

This selection is powered and fine-tuned by artificial intelligence solutions, machine learning and advanced analytics provided by **#DigitalAgriBusiness** tools. Embracing field records for the past six years, climate and soil conditions, market and agronomic inputs, biochemistry and biophysics rules, it converts data into a single system, assisting us in making smarter decisions. This unique planning tool enables us to model profitability scenarios in a more precise manner, as well as optimize resources and predict expenses, addressing, particularly, weather-related risks.

Kernel operates 5 crop farming R&D units that assess new agricultural techniques including those needed to adapt our business to climate change impacts. An area of 800 ha is allocated for testing minimal tillage – one of the most promising climate-smart techniques.

In addition to optimized technical solutions, we have established **geographical priorities for expansion of our land bank** and operations. These include northern, central, and western regions of Ukraine that are less exposed to climate change risks.

Residual physical risks that are beyond our

control may be transferred through insurance against winter crop related costs, limited rain-falls and soil moisture content on some of our fields;

For market risks associated with weak harvest, we apply diversified origination base, multi-seed processing at our crushing plants, improved control over logistics. For further details on listed risk management techniques please refer to the [Risk Management](#) section.

Besides that, we develop partnerships with our grain suppliers through [Open Agribusiness](#) program. Our unique expertise, services and funding provided to farmers enable them to produce more crops for the market.

Opportunities

The megatrend of transition to low carbon economy presents multiple **opportunities of entering the ever-growing market of renewable energy**. Kernel grasps this opening through US\$ 248 million investment program to develop 7 biomass-fired cogeneration heat and power ("CHP") facilities, which consume sunflower seed husk (subproduct in the sunflower seed crushing) as a fuel. While the produced thermal energy will be utilized for vegetable oil production, almost 650 GWh of renewable electricity will be sold to the national grid annually.

Another opportunity arises from **growing demand for biofuels**, which is reflected in:

- **growing demand for vegetable oils** used for biodiesel and renewable diesel (HVO – hydrotreated vegetable oil). That, in turn, supports the demand for the whole global vegetable oil complex, including sunflower oil;
- **production and exports of corn that is used for bioethanol production**. To strengthen our position on this market we certify our farming produce (99% of total crops harvested in FY2021) under ISCC – the world's leading certification system contributing to sustainable production and use of biomass in global supply chains. Certification, inter alia, assures that crops' carbon footprint is accounted and meets the threshold established for biofuels in EU (RED). In FY2021, Kernel exported 1.2 million tons of ISCC-certified corn (all of which produced by Group's own farming business). Along with opening new markets, certification brings a price-premia, which may increase considering the growing demand for biofuels.

Metrics and Targets

In FY2020 we have set a pilot target to reduce emissions intensity per ton of processed oilseeds by 5% till FY2025. On top of that, we initiated a [Climate Corporate Governance and Low-Carbon Pathway](#) project which shall help

us in setting additional targets in line with the *Science Based Targets Initiative's* criteria.

Our current Scope 1, Scope 2, biogenic GHG emissions, and Scope 3 emissions related to our procurements of grain and oilseeds are presented in the Section [Emissions](#) of this report.

Financial assistance received from government (GRI 201-4)

Direct financial assistance received from government by Group entities in FY2021 amounted to US\$ 2 million, mainly attributable to the assistance associated with the construction of grain silos and purchase of locally produced equipment for grain storages and machinery for the farming operations.

Indirect governmental support consists of:

- tax savings arising from **unified agricultural tax** applicable to the farming business in Ukraine (instead of common corporate income tax rate and several other taxes); and
- **feed-in tariff** in the renewable energy business, which is higher than the average market price of electricity. That impact is feasible in the Oilseed Processing segment.

Sustainability continued

Indirect economic impact (GRI 203)

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

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

Significant indirect economic impacts (GRI 203-2)

Our most significant indirect economic impact happens in **boosting productivity of other farmers in Ukraine**. Kernel farming business achieves 25-50%¹ higher key crop (corn, sunflower and wheat) yields than country averages, and since 2018 we widely share our knowledge in crop production with other farmers in Ukraine through the special program **Open Agribusiness**, designed to help farmers to sustainably increase their yields and reduce costs.

Secondly, we **make life easier for providers of logistics services**. Our Transithub logistics solution significantly simplifies the process of grain and oilseeds transportation to our facilities and reduces associated costs (see case study below).

Thirdly, we contribute to the **development of rural areas in Ukraine**, revitalizing regions which suffer from high poverty rates, by

- investing in infrastructure (roads, schools, hospitals, kindergartens),
- creating new jobs with our greenfield investments in the regions;
- simplifying access to medical services. For instance, when launching the voluntary medical insurance program for our employees in summer 2021, we faced the lack of healthcare providers in regions of our operations who cooperate with insurers. We started to facilitate such cooperation acting as an intermediary, thus promoting the **development of healthcare market in rural regions of Ukraine**;
- providing social support to local communities; and
- contributing to local budgets as a responsible taxpayer (see "[Local communities](#)" for details).

Fourthly, Kernel serves as a **channel of foreign direct investments** to Ukraine. During last 5 years, we invested almost US\$ 1 billion in greenfield and M&A projects in Ukraine by attracting financing in foreign markets (Eurobonds and bank loans) and reinvesting profits generated in Ukraine.

Finally, an important indirect economic impact happens when we **provide access to our IT solutions for our counterparties**. An outstanding example is our proprietary electronic document flow ("EDF") system, which saves time and costs of signing contracts with Kernel. In FY2021, **we purchased 45% of grains and sunflower seeds** (almost 3.6 million tons) using EDF.

While contributing with all these initiatives to the prosperity of our counterparties, we also achieve a significant competitive advantage for Kernel itself.

Transithub – a virtual navigation of trucks

Transithub is a unique in Ukraine online platform developed by Kernel to streamline the grain/oilseeds truck logistics flows, previously chaotic.

The in-house development of the project started three years ago, with a full-scale launch initiated early FY2021. Transithub digital system allows any carriers and drivers who work with Kernel to register on a [special portal](#) and get the opportunity to plan, design and track their routes in real time, as well as review the routes history. Benefits for drivers and carriers include:

- **A simplified in-take process.** Drivers can remotely in 2-3 minutes register via smartphone for offloading at plant's checkpoint, sharing also their location geotag. Then driver can wait his turn in more comfort place than at plant's gate. System then notifies the driver when he needs to move out, accounting for the distance to facility and traffic jams. Transparent and straightforward process eliminates any extra movements of big truck vehicles, thus reducing the fuel consumption and respective CO₂ emissions.
- **A live digital queue.** Carrier's dispatcher can see the truck movements in the live mode and receives the predicted time for unloading which can be used for planning of next routes. It allows carriers to better control the fleet and increase its turnover.

Benefits for Kernel:

- **More efficient planning of own supplies.** Queue monitoring allows us to better plan goods flows delivered by our own trucks to eliminate traffic jams near plants and grain terminals. Seeing an extremely large queue, we may redirect driver to other plant. If queue becomes small, we see it in real time, not next day, and react quickly by adding freight.
- **Increased loyalty of suppliers,** as Transithub solution positively differentiates Kernel among competitors.
- **Less stuff workload** for managing the intake logistics. No paperwork, no phone calls, human factor is minimized.

Being one year in use, the system covers now all sunflower seed supplies to our plants and all grain delivery to our port terminal in Chornomorsk, made by trucks. Over 500 carriers and 7,000 drivers use Transithub. In the near future, we plan to extend the system to cover also silos logistics and to allow drivers to digitally sign consignment notes.



¹ Based on 2020 harvest data.

Sustainability continued

Anti-corruption (GRI 205)

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

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

Our anti-corruption efforts are led by a **Compliance officer** who reports directly to the CEO and to the Audit Committee of the Board of Directors, with close coordination between legal and economic security teams and engagement of managers of various business lines. Since FY2021, the compliance function is also strengthened by **compliance coordinators** in the regions of our operations: 10 Kernel employees (mostly quality system managers) were trained in anti-corruption and compliance standards (including completion test) and now enhance and promote the ethical behavior directly at Group's crushing plants, silos and terminals. We prepared a special manual for compliance coordinators. In difficult cases they consult with compliance officer. We plan to extend a similar practice also to Group's farming clusters and grain & oilseed procurement in FY2022.

What is even more important, we refuse cooperation in our Open Agribusiness project or procurement program those small farmers, who do not have their land lease, crop sales or other business processes legally formalized, who are involved in “shadow” operations, or avoid paying taxes.

Operations assessed for risks related to corruption (GRI 205-1)

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

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

or entrepreneurial activities.

In FY2021, we initiated a compliance assessment of operations of our suppliers and business partners, including on-site audits. During the reporting period, 54 our suppliers completed self-assessment questionnaires. Additionally, our team visited 12 suppliers with on-site audits, providing comments to the discovered gaps in the compliance system and anti-corruption risks management. We need to flag that Kernel is pioneering such supply chain management in Ukraine, promoting the best practices in the upstream part of its value chain.

In FY2021, we initiated a **compliance check of Group's charity expenses**. Compliance officer reviews all large donations and charity support (95 such transactions over the reporting period).

Communication and training about anti-corruption policies and procedures (GRI 205-2)

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

- all Kernel governance body members (Board of Directors and Executive Management Team – 24 people in total);
- all employees (11,256 FTE as of 30 June 2021);
- all business partners (more than 4 thousand). We have a mandatory [anti-corruption clause](#) in all agreements with business partners, and all counterparties are required to comply with our [Code of interaction with suppliers](#).

Employees engaged in the 19 business processes with the highest compliance risk regularly receive trainings on anti-corruption. Consequently, 930 employees in Ukraine (8% of total Kernel number of employees) received physical and e-learning trainings on anti-corruption in FY2021, including all 15 members of the Executive Management Team. Included among those are 80 managers (9% of total), 441 specialists (13% of total) and 409 workers (6% of total).

In FY2021, we launched a new dedicated gamified e-learning course “Trick or Treat” to strengthen employees' understanding of compliance standards and requirements.

Confirmed incidents of corruption and actions taken (GRI 205-3)

Groupwise, there were 44 confirmed incidents of corruption (with 49 Kernel employees involved) and 73 confirmed cases of theft (with 86 Kernel employees involved). As an ultimate punishment measure for fraudulent and corrupt activities, we dismissed 114 employees and disciplined remaining employees

over the same period, disclosing such cases to other employees as a preventive measure. Equal treatment here is applied to all employees: top-managers, white and blue collars.

Over the reporting period, we had 39 confirmed incidents when contracts with business partners were terminated or not renewed due to violations related to corruption.

As of 30 June 2021, there was one public case regarding corruption brought against Kernel employee. Such employee was found not guilty by both first-instance and appeal courts, and hearings were at the cassation stage as of the reporting date. Over the course of FY2021, there was also one public legal case regarding corruption brought against a Kernel employee, when company accused such employee in theft of diesel and immediately dismissed. The court found the ex-employee guilty and awarded the compensation of damages.

Collective action to combat corruption

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

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

Being a member of UN Global Company initiative since FY2020, we are publicly committed to working against corruption in all its forms, including extortion and bribery

In FY2021, Kernel signed a [UN Anti-corruption Collective Action Memorandum](#), being the first agricultural company in Ukraine to join such initiative. Together with other responsible businesses, we took a commitment to promote transparency and anti-corruption in our business and take collective actions to combat corruption. Such actions include, for example, a special video course for the business community in Ukraine on how to combat corruption. Kernel specifically contributes with how to establish a corporate compliance system from scratch.

Sustainability continued

Kernel compliance officer was invited as a speaker to the anticorruption week organized by UN Global Compact, where we shared our best practices with the Ukrainian business community. On top of that, our HR director delivered a speech on the role of HR in setting up a proper compliance culture at the event organized by UNIC.

Mechanisms for advice and concerns about ethics

Compliance officer and compliance coordinators are assigned the overall responsibility for the mechanisms to seek advice about and report on behavior. The means to report concerns about ethics or misconduct include escalating issues through line management, whistleblowing and hotline mechanisms. None of such mechanisms is independent of the company. Kernel employees, business partners, and other stakeholders are informed of the mechanisms by means of [Anti-](#)

[corruption clause](#) and [Code of Interaction with Suppliers](#) in contracts with external counterparties, information posters and compliance promo materials, learning courses for employees, and special e-mail distributions. Requests for advice are treated confidentially, and all mechanisms could be used anonymously. Kernel compliance team received 99 requests for advice from Group employees in FY2021, with all such requests being resolved.

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

What we adhere to

- **Zero tolerance** to any fraudulent/corrupt activities within the Company and its subsidiaries. Immediate dismissal of employees and immediate ban on cooperation with partners suspected in prohibited practices;
- Proper **framework in place**:
 - [Code of Conduct](#) (since 2015);
 - [Corporate Governance Charter](#) (since 2018) also covering compliance issues;
 - [Anti-corruption policy](#), fundamental document for our compliance system developed in accordance with the requirements of the anti-corruption legislation of Ukraine, the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (the 'OECD Convention'), as well as the anti-corruption legislation of the countries in which Kernel operates. It extends also to suppliers and business partners;
- **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). In rare cases when counterparty does not agree or wishes to modify such clause, compliance officer is engaged for additional validation of contracts (124 cases in FY2021)
- [Code of Interaction with Suppliers](#) (since 2019). We require our counterparties to respect human rights, ensure occupational safety, comply with environmental regulations, and maintain sustainable business practices. When signing agreements with Kernel, counterparties consent to comply with provisions of the code; We widely share to market our practice of ceasing the cooperation with those counterparties who breach the terms of the [Anti-corruption clause](#) and [Code of Interaction with Suppliers](#);
- In-depth documented **due diligence during KYC** procedure, conducted by a security department. In specific cases with medium/high risks of conflict of interest, corruption, or international sanctions, compliance officer conducts an additional special verification (191 counterparties verified in FY2021);
- Annual **conflict of interest** declaration procedure completed by 2,875 managers and specialists with high potential risks in FY2021. Workers do not complete declarations, but rather are informed about potential conflict of interest situations;
- **Business gifts and hospitality rules** (since 2018) prohibiting presents and attendance of events that may influence business decision-making; e-register of business gifts and hospitality implemented;
- **Channels for informing** on misconduct (available also to suppliers and third parties):
 - 24 / 7 / 365 toll-free hotline (0-800-501-483) allowing anonymous calls;
 - Form on company's [website](#) (since June 2019)
 - Special e-mails: hotline@kernel.lu and compliance@kernel.lu;
 - Telegram-chatbot KernelHotline as a more convenient hotline alternative (since June 2020)

We received 88 calls reporting possible misconduct in FY2021, down 19% y-o-y. All calls were addressed (resolved or found to be unsubstantiated). Channels allows the reporting of violations anonymously and without fear of retaliation. We have a **whistleblower protection** mechanism in place, managed by our compliance officer.
- Diligent additional **screening** during the **employee selection process** (including Compliance officer involvement if needed), with specific attention paid to the employment of former government officials;
- **Regular assessment of risks** covering conflicts of interest, bribes, charitable contributions and sponsorships, gifts, hospitality.
- Increasing compliance-culture awareness among employees:
 - **Trainings and e-courses** (930 employees attended off-line and online trainings in FY2021; 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 FY2021, 99% of Kernel employees are informed about rules and principles of Code of Conduct and Anti-corruption Policy, and 96% consider measures taken by the management to prevent and detect fraud and corruption as sufficient;
 - **Compliance promo-activities** in external and internal media, conferences, and social networks.
- Compliance officer and coordinators are always available for providing assistance in case of disputable situations.

Sustainability continued

Environmental impacts (GRI 300)

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

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

Our climate related risks and opportunities are disclosed in section ["Financial implications and other risks and opportunities due to climate change"](#).

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

- building, operating and continuously improving Environmental Management Systems at our entities. All but one our oilseed processing plants, grain export terminal in Chornomorsk, two farming clusters with total farmland bank exceeding 250,000 hectares, 15 silos (out of 30) and key trading company Kernel-Trade successfully completed certification under ISO 14001 (Environmental management systems) conducted by Bureau Veritas. By FY2023, we plan to complete similar certifications for the remaining our assets in Ukraine.
- functioning and professional development of the Group's **team of Environmental Specialists** (11 full-time employees).
- **Environmental impacts assessments** (EIA). The Law of Ukraine regulating EIA is harmonized with EU legislation and

requires an EIA for planned activities capable of making a substantial impact to the environment. In FY2021, Kernel undertook 6 fully transparent EIA procedures for (re)construction of fuel filling station and storages, fertilizer warehouse, drilling water wells, and for rehabilitation of an irrigation system. All pertaining materials are available at the official [EIA Register](#).

An inclusive dialogue with all interested parties is a cornerstone of Kernel's planning and development process. Due to anti-COVID restrictions in FY2021, statutory public consultations were held in remote format. Nevertheless, stakeholders' questions and suggestions on planned developments were collected and addressed appropriately. Furthermore, despite having all necessary approvals Kernel agreed to change the location of the planned seed plant due to ambiguous attitude of the local community.

In line with the Law of Ukraine on Strategic Environmental Assessment Kernel has also conducted three SEAs for spatial planning documents required for development of water wells, pesticide and fertilizer storages.

- **Permitting.** National legislation requires permits for emissions to the atmosphere, withdrawal of freshwater and discharge of wastewater to water bodies. Permit applications, containing calculations that quantify and justify planned impacts, are being prepared both by in-house environmental specialists and external contractors. In FY2021, 23 emission permits and 16 water permits were obtained by Kernel subsidiaries.
- **Onsite (pre-)treatment.** To secure permitted level of impact, emissions and effluents often require onsite treatment prior to discharge. Where appropriate, Kernel sites operate filters (mainly cyclones and electrostatic precipitators) and wastewater treatment systems (physical, chemical, and biological).
- **Monitoring of environmental quality.** To control sufficiency of treatment and compliance with permit conditions, monitoring programs are being developed and executed where appropriate. The scope includes sampling and analysis of air, soil and water quality. The summary of our monitoring activities in FY2021 is presented in the table below.

Besides Kernel's internal controls, environmental compliance is regularly inspected by competent authorities. In FY2021, we had 17 such inspections, including 8 unscheduled. We have to admit gaps in our management approach that resulted in identified non-compliance cases. The most notable of them

Kernel environmental quality monitoring in FY2021

Monitoring scope	# of sites monitored	# of samples taken
Air quality		
Permit conditions	45	797
EIA conditions	10	175
At the SPZ border	76	231
Water quality		
Ground water	44	52
Surface water	3	46
Ground contamination		
At waste storage	37	46
At the SPZ border	7	13
Noise	33	171
Vibrations	13	26

included a violation of the air emissions permit conditions by a crushing plant, a violation of the water permit conditions and a case of land cultivation in a pond's buffer zone by a farming entity. We have paid UAH 47 thousand to compensate the damage to the environment caused by these cases. In total UAH 13 thousand have been paid as fines for other minor violations. All violations have been resolved, with corrective and preventive actions being taken. No non-monetary sanctions were applied.

One case was brought through the dispute resolution mechanism (litigation). A lawsuit has been filed by an individual questioning the legitimacy of the EIA conclusion issued by the competent authority that approved Kernel's development plans. As a third party in this litigation, Kernel has initiated a forensic process that is being conducted at the date of this report.

Our environmental responsibility is not limited to our own operations. We actively work on managing risks and grasping opportunities throughout our value chain. Upstream, we are focused on securing appropriate environmental and social standards in supply chains (see [Supplier environmental assessment](#)). For farmers supplying grain and oilseeds we are running an Open Agribusiness program, that grants access to our expertise, resources and services, for enhancing efficiency and environmental sustainability of their operations. Downstream, our products contribute to carbon neutrality.

Our environmental impact extends downstream through our value chain. In FY2021, we produced 2.8 million tons of ISCC-certified crops, of which 1.2 million tons was exported to be used for bioethanol production. On top of that, used sunflower oil (if collected) could serve as a feedstock for biodiesel or renewable diesel (hydrotreated vegetable oil) production.

Sustainability continued

Our practical approach to solve environmental problems, use innovative technologies, minimize environmental footprint and creation of sustainable development culture was awarded by the local Ukrainian “EcoTransformation” project.

In FY2021, Kernel joined the [Committee on Industrial Ecology and Sustainable](#)

[Development](#) of European Business Association in Ukraine. Together with members of this committee, we exchange experience, share environmental practices, and contribute to the development of regulatory initiatives in the reduction of industrial wastes, GHG emissions, and introduction of Green Deal in Ukraine.

In the same year, Kernel also joined a

[Professional Association of Ecologists of Ukraine](#) to seek and implement new solutions together with other business and government representatives to minimize environmental impact and share our experiences.

Energy (GRI 302)

The vital importance of energy for all Kernel's businesses, along with the nexus between energy environment and economy, bringing the sustainability context, make the topic material, and thus eligible for disclosure.

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

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

Kernel **net energy consumption** increased 6% y-o-y, to 7,415 terajoules, mostly impacted by higher natural gas consumption with two drivers behind that:

- rainy weather during 2020 harvesting campaign which resulted in higher natural gas consumption for drying corn and sunflower seeds.
- biomass boiler breakdown at our Prydniprovskiy crushing plant and the temporary switch to gas-powered boiler.

To some extent, the growth was mitigated by higher amounts of renewable energy produced and sold by our biomass-powered CHP plants.

Oilseed Processing

Vegetable oil extraction is our **most energy-consuming process** (59% of total consumption in FY2021), **but also the “greenest” one**. Renewable heat energy produced from

biomass fuel (sunflower seed husk) secured 78% of total segment energy consumption in FY2021.

Oilseed Processing is also associated with our most sizable **climate opportunity**. In 2018, we initiated ‘green CapEx’ investment project **to make us the largest producer of renewable energy from biomass in Ukraine**. Upon the completion of the project, Kernel will run seven CHP facilities with total installed electric capacity of 94 MW, which are expected to sell to the national grid ~650 GWh of biomass-based electric energy annually. That will be over 2.5x higher than the Group's total electricity consumption and over 30% of

Renewable energy constituted 47% of total consumed energy by Kernel in FY2021.

Energy consumption within the organization (GRI 302-1)

terajoules	FY2017	FY2018	FY2019	FY2020	FY2021
Non-renewable fuel consumed	2,600	2,879	2,798	2,531	3,096
Natural gas	1,108	1,044	899	805	1,315
Diesel, gasoline	1,492	1,835	1,899	1,726	1,781
Other non-renewable	0.0	0.1	0.0	0.0	0.0
Renewable fuel consumed (biomass)	3,096	3,231	3,215	3,628	3,558
Electricity consumed	798	853	844	903	894
Heat consumed¹	292	354	319	3	3
(less) Renewable energy produced and sold	42	34	37	65	160
Electricity	41	34	37	65	160
Heating	1	-	-	-	-
Total energy consumption (net)	6,743	7,282	7,139	6,998	7,391

by division

Oilseed Processing	4,146	4,223	4,167	4,415	4,387
Infrastructure and Trading	1,154	1,225	1,107	868	1,227
Farming	1,418	1,810	1,840	1,693	1,754
Other	26	25	25	23	23

Energy intensity (GRI 302-3)

megajoules	FY2017	FY2018	FY2019	FY2020	FY2021
Energy spent per ton of sunflower seed crushed	1,517	1,446	1,420	1,285	1,421
Energy spent per ton-% of grain dried	68	61	67	63	56
Energy spent per ton of grain grown	618	662	538	524	586

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

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

Note 1 Only heat purchased from external suppliers is included in energy consumption.

Sustainability continued

the Group's total energy consumption in FY2021. Our two facilities with 17 MW combined capacity are already up and running, and the remaining CHPs are expected to be commissioned over the course of FY2022. Total investments are expected at US\$ 248 million, including US\$ 192 million construction of CHPs at Kernel existing plants and US\$ 56 million investments allocated to CHP at our new crushing plant in western Ukraine. The project is in line with the Law of Ukraine on Alternative Energy Sources that prioritize renewable energy over other sources and defines incentives for its production (feed-in tariff). By producing renewable energy and substituting fossil-fuel based electricity in the grid, we contribute to achieving Ukraine's goal for carbon neutrality by 2060.

In FY2021, Kernel has utilized a newly opened opportunity for **purchasing electricity from low-carbon sources** via bilateral agreements, securing over 22 GWh of "green" electricity. We plan to upscale this practice in FY2022 by signing direct contracts with low carbon energy producers.

Energy intensity in the segment deteriorated by 7% y-o-y to 1,378 MJ of energy spent per ton of sunflower seed crushed. Two key reasons were 1) the growing consumption of natural gas, as a biomass-powered boiler in Prydniprovskiy plant broke and facility switched to gas-powered boiler; and 2) relatively low crush capacity utilization due to weak sunflower seed harvest in Ukraine. Our target is to reach 1,220 MJ of energy spent per ton of sunflower seed crushed by FY2025.

To improve the segment's energy efficiency, specifications for all new electrical equipment include a requirement for compliance with IE3 energy efficiency class that corresponds to Premium efficiency level.

Farming

Our crop production business consumed 24% of the Group's total energy use (net) in FY2021. This consumption was mainly attributed to diesel and gasoline that fueled machinery for field works. **Total consumed energy** in FY2021 added 5% y-o-y, as we increased acreage under more energy intensive crops (corn and sunflower) at the account of winter crops. **Energy intensity** deteriorated by 13% y-o-y to 586 megajoules of energy spent to produce a ton of crop in FY2021, as crop yields in the season were below averages.

Our efforts in the reduction of energy consumption include a **continuous upgrade of our machinery fleet** every 5-6 years with more powerful and larger size vehicles from

recognized global suppliers, providing higher productivity at lower fuel consumption. Besides, we test modernization of existing vehicles. One such example is fuel catalysts equipment that, through a catalytic process, allows fuel to burn in a fuller volume. Our initial tests showed that fuel efficiency increases by 8.8% if installing such equipment to tractors we operate. We plan to run several additional tests and consider to upscale the use of such technology to a wider fleet.

Along with hardware improvement, we constantly **raise the efficiency of our operations**. Precision farming approaches, GPS trackers installed in all our fuel-intensive fleet, and fuel consumption remote monitoring system allow us to optimize fuel consumption and execute the same production technology at lower fuel intensity. For example, the operation of deep loosening with mineral fertilizers application executed by a machine using RTK-guided autopilot system saves 4.2% of fuel and fertilizer. The savings result from avoided application overlaps (c.30 cm) that otherwise would be done even by a skillful operator.

Another example is **a use of drone-sprayers** in cultivation technology, which allows us to reduce diesel consumption by 1.5-2.5 liters per hectare. This innovative technology was used on our fields for the second year, covering 13 thousand hectares of sunflower. We plan to increase the covered area and to add also other crops to drone-spraying operations. So far, we use leased drones, but plan to create our own fleet in the future.

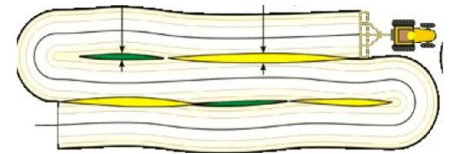
In Farming business, we also install **photo-voltaic power units** to secure autonomous power supply for machinery and tractors depot. The first such facility with 28.7 kW power generation capacity was installed in summer 2021.

Infrastructure and Trading

This segment consumed 17% of total energy in FY2021, using natural gas for grain drying services and electricity for machinery and equipment powering. Energy consumption increased 41% y-o-y, to 1,227 thousand gigajoules, reflecting higher natural gas consumption to dry grain and oilseeds in our silo business considering the rainy harvesting campaign. High moisture content in grain stimulated the improvement in the energy intensity of grain drying operations, which reduced 12% y-o-y, to 56 megajoules per ton-%.



Drone sprayers allow to reduce diesel consumption by 1.5-2.5 liters per hectare



RTK-guided autopilot system saves 4.2% of fuel and fertilizer avoiding application overlaps

Sustainability continued

Water and Effluents (GRI 303)

Three-quarters of water use within Kernel's operations are associated with **Farming** activities, consuming 5.3 million m³ of water in FY2021. Of that, 4.4 million m³ was consumed by 2,374 hectares of land under irrigation, which constitutes only 0.5% of our farmland bank. **Oilseed Processing** is responsible for 25% of Group's water withdrawal in the reporting period, or 1.8 million m³. **Infrastructure and Trading** business withdrew relatively negligible 21,500 m³ of water, although a significant water-related impact is associated with crops produced by third-party farmers and exported through this segment.

We work towards an overall goal of rational use of natural resources, including water, and keep in line with applicable legislation and permit conditions.

Oilseed Processing

Water withdrawal and effluent discharges in this segment are concentrated at eight oilseed processing plants. A typical water use pattern along with the segment's aggregated figures on annual withdrawal and discharge for oilseed processing are presented on the figure below.

Water withdrawal

In FY2021, the segment withdrew 1.8 million m³ of water (down 9% y-o-y), with 50% originated from underground aquifers, 46% purchased from municipal water supply companies, and 4% accumulated using surface

water. All withdrawn water belongs to the freshwater category.

Three of our crushing plants withdrawing in total 34% of water in this segment in FY2021 operate in areas with high water stress¹, three plants (41% of total segment water withdrawal) are located in medium, and two plants in low water stress areas.

Two of our plants located in high water stress areas provide local communities with access to water supply and wastewater treatment, supplying in total 18,201 m³ of water to 481 people in FY2021. Wastewater from all households returns to the plants for treatment.

Water use

At a crushing plant, water is mainly used for technological needs (such as production of steam), and housekeeping. An emergency volume is reserved for firefighting. Part of the consumed volume evaporates, while the remaining water after use proceeds to treatment. In case of available connection to municipal wastewater treatment plant (WWTP), a crushing plant may just pre-treat its wastewater, to meet the WWTP requirements, while the final treatment is provided externally. Alternatively, a full onsite treatment that includes biological method is provided by crushing plants that have direct discharges to water bodies. Three crushing plants operate full cycle treatment systems.

Precipitations falling within the sites' territory

Water withdrawal and discharges

(GRI 303-3, 303-4)

megaliters

	FY2021	
	All areas	Areas with water stress
Water Withdrawal	7,070	844
<i>by type</i>		
ground water	4,799	716
municipal water suppliers	1,468	50
surface water	804	77
<i>by division</i>		
Farming	5,295	238
Oilseed Processing	1,753	604
Infrastructure and Trading	22	2
Water Discharges	1,122	362
<i>by type</i>		
to surface water	760	-
to municipal WWTPs	362	362
<i>by division</i>		
Oilseed Processing	1,120	362
Infrastructure and Trading	2	-

Discharge of substances with water

tons

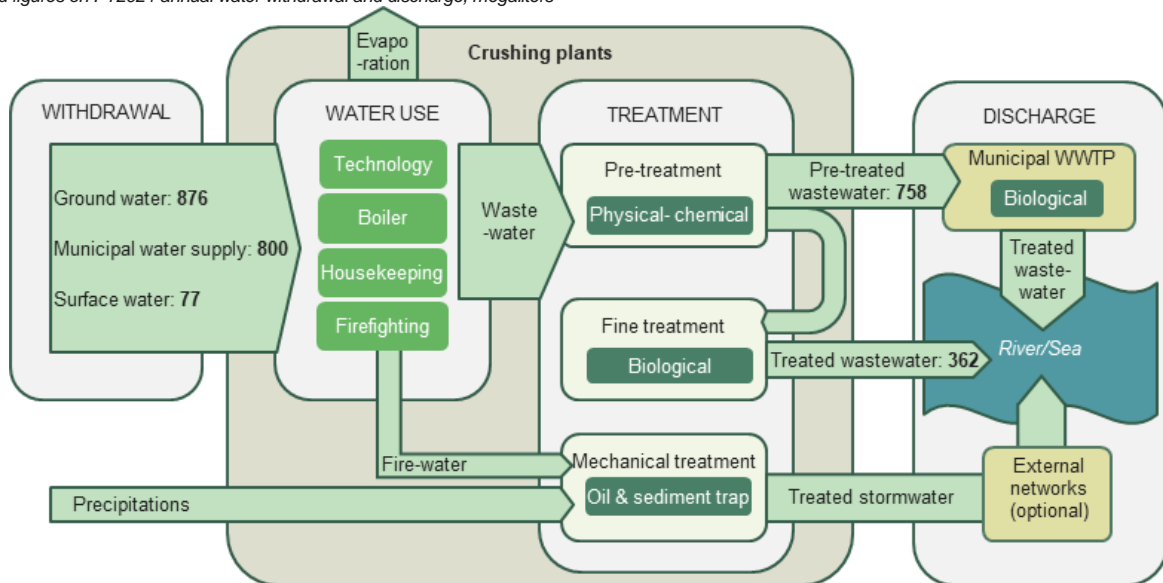
Dry residue (mineralization)	527	238
Sulfates	108	63
Chlorides	93	46
Suspended particles	39	1
Fats	7	0
Other substances	147	8

1 megaliter = 1,000 cubic meters.

Both withdrawal and discharge volumes have been compiled based on direct measurements (meter readings) and calculations. To quantify volumes withdrawn by facilities not equipped with meters we use records of a pump working time, multiplied by its productivity. Discharge volumes are defined by water balances that establish the share of water used and lost in a production and auxiliary process. This share is deducted from the entire withdrawn volume, thus providing us with the discharge volumes.

Typical water use pattern for Kernel oilseed-processing plants

Aggregated figures on FY2021 annual water withdrawal and discharge, megaliters



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

Sustainability continued

form an additional water stream that must be managed to prevent water and soil contamination with residues of oil, and solid particles that might be present at an active production site. Five of eight our plants are equipped with stormwater collection systems. Typically, stormwater is collected through wells, gets mechanical treatment to remove sediments and oils, and then is released to external networks or directly to water bodies. Due to food safety limitations stormwater cannot be widely applied in the production process.

Wastewater and effluents discharge

In FY2021, 362 megaliters of treated wastewater, that met established standards, was discharged by three plants to freshwater water bodies. Out of this volume freshwater¹ constituted 169 megaliters while other water – 193 megaliters. All these discharges took place at areas with high water stress.

Another five plants discharged 758 megaliters of pre-treated wastewater to municipal networks for further treatment².

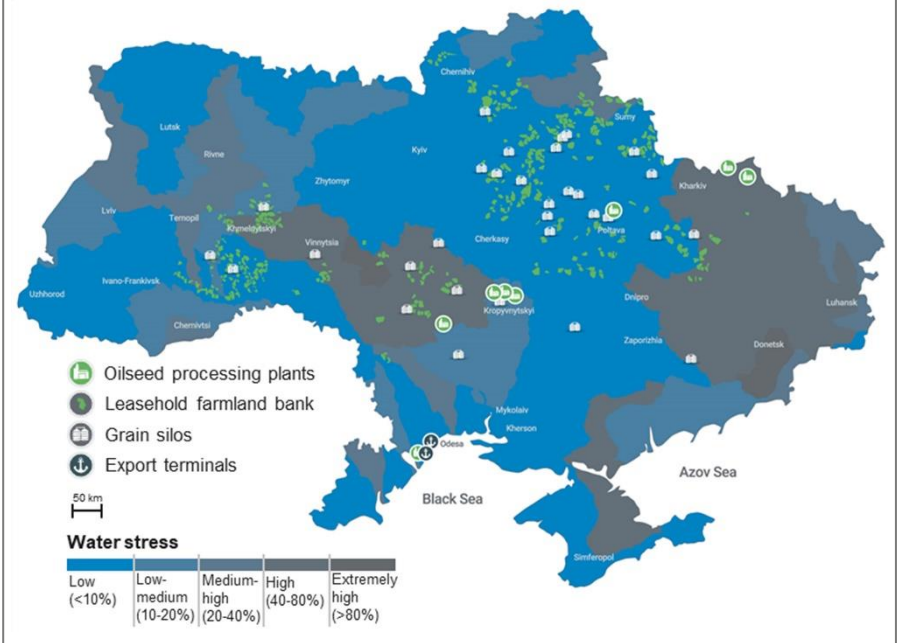
The quality of treatment is permanently controlled by onsite laboratories and complies with national legislation on discharges to water bodies. [Ukrainian law](#) defines a list of 10 controlled parameters (8 substances, BOD5, COD) that should be complemented with any other substance whose concentration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

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

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

Kernel's presence in water stress areas

Source: [Water Risk Atlas](#)



No incident of non-compliance with limits for discharges to a water body were recorded in FY2021. Only one incident was related to the quality of effluents sent to municipal WWTPs.

Investments to strengthen our approach

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

Additionally, in FY2021 we have launched a two-year program for overhauling condensate returns systems at our crushing plants aimed at saving both thermal energy and freshwater. Works have been completed at BSI plant resulting in savings nearly 8,000m³ of water annually and increase in generating capacity of the plant's CHP by 0.25MW (which enables

production of supplementary 2 GWh annually). Commissioning of the overhauled system at Kropyvnytskyi plant is scheduled for October 2021.

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

In FY2021, we have completed a US\$ 456 thousand investment project for rehabilitation of the onsite wastewater treatment system at Kropyvnytskyi crushing plant. Major treatment processes of the rehabilitated system include equalization, pH correction, reagent flotation; reagent preparation of sludge for dehydration, mechanical dehydration of sludge. The treatment capacity is 150 m³/day.

Farming

Our farming business relies mainly on natural precipitations rather than on water withdrawal. Only 0.5% of our landbank is irrigated. Withdrawn water, predominantly from underground sources, is mainly used for technological purposes such as application of crop protection agents and liquid fertilizers. Annual

¹ GRI 303: Freshwater ≤1,000 mg/L Total Dissolved Solids. Other water >1,000 mg/L Total Dissolved Solids.

² The limits for concentrations of Total Dissolved Solids (TDS) in these waters are set by operators of external treatment plants. An operator is in charge for controlling the quality of both wastewater incoming from clients and the quality of treated water discharged to water bodies. Therefore, we do not monitor TDS concentrations permanently, and consequently we do not categorize pre-treated wastewater sent to municipal networks by this parameter.

Sustainability continued

volume of water withdrawn by the Farming segment for crop production needs amounted to 5.3 million m³ in FY2021. Of that, 4.4 million m³ was used for the irrigation purposes, and 0.2 million m³ for cattle business needs, leaving 0.7 million m³ for the needs of rain-fed crop production.

We are committed to continuous progress in our water-efficiency. Though, it should be noted that there is not much space for improvement in our major water consuming process – irrigation: we operate modern equipment with minimal losses; the water needs of crops are established through advanced monitoring techniques. Nevertheless, we identified feasible options for reducing specific water consumption for pesticides and fertilizer

application purposes, which is the second biggest water consuming process. The current level of 160 l/ha per one application is 15% less than it used to be in 2018. The goal of 120 l/ha is set for 2023.

In cattle farming we prevent excessive water use through application of dry method (conveyor scrapers) for removing manure from cowsheds.

Measures taken by Kernel to prevent pollution are as follows:

- application of precise quantities of fertilizers and pesticides, preventing their runoff to water bodies;
- ban on farming operations in buffer zones of water bodies;

- ban on placing manure storages in buffer zones of water bodies.

Infrastructure and Trading

Kernel inland silos and transshipment terminal consumed 22 thousand m³ of withdrawn water, that was used mainly for housekeeping. Also, around 1,200 m³ was used for the needs of the truck fleet, with water supply and effluents treatment services being provided by the municipal operator.

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

Biodiversity (GRI 304)

Modern agriculture has enabled food production to increase dramatically, contributing much to ending hunger, achieving food security and improving nutrition. However, in some countries these improvements often come at a cost of adverse impacts on the natural environment, specifically on biodiversity.

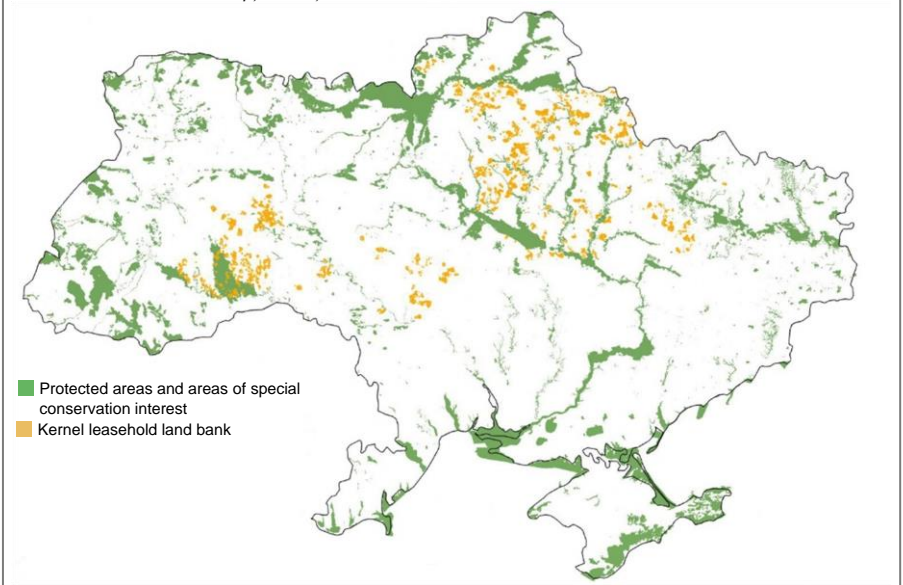
Globally, deforestation and other forms of land-use conversion, driven by the expansion of farmlands, are key reasons for biodiversity losses. Ukraine specifically faces such challenges as illegal conversion of natural step into farmlands, farming in protected areas or water buffer zones, that threaten biodiversity such. Therefore, it's our duty to prevent these malicious practices both in our own operations and in supply chains. Other substantial threats stem from crop farming operations such as land cultivation and application of pesticides. Our stakeholders, including clients (see the [case on ISCC certification](#)) express their interest in our potential contribution to these threats.

Kernel also respond to the CDP Water Security and CDP Forests questionnaires (see [CDP website](#)).

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

Areas with high biodiversity value in Ukraine

Source: Ukraine cadastral map, UNCG, [emerald.net.ua](#)



follows through the entire farming cycle.

Our Land Bank Service specialists evaluate both physical conditions, and legal status of each land plot earmarked for lease. The former includes type and quality of soil, presence of vegetation, and general suitability for farming; the latter - ownership rights, legal suitability for farming, and registered use limitations. The due diligence prevents us from renting land plots other than physically and legally eligible for farming.

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

- conservation zones of 7,621 protected areas in Ukraine recognized by national legislation¹; and
- wildlife and natural habitats located at 377 Areas of Special Conservation Interest (ASCI) constituting the Ukrainian part of the Emerald Network, introduced by the Berne Convention² for protecting habitats and species listed therein.

We are **not involved in deforestation** neither

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

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

Sustainability continued

in our own farming operations, nor in our grain & oilseeds supply chain in Ukraine. While globally commodity-driven deforestation and shifting agriculture account for over a half of annual tree cover loss, their contribution in Ukraine was below 0.1% (37 hectares)¹ of total tree cover loss in 2019 as a last reporting year. We have a **non-deforestation commitment**, being obliged not to convert forestry lands to farming.

Given the longstanding stability of the Ukrainian total farming acreage², there is **no statistically significant conversion of new land into farmland in Ukraine**. Nevertheless, we are aware of occasional conversion cases reported throughout the country. Kernel is committed to prevent the expansion of arable lands at the cost of natural habitats and other non-farming territories both in its own operations and in supply chains.

We mapped our 506 thousand ha leasehold lands under cultivation against the territory of protected areas and ASCIs (see map below). Revealed overlaps amount to 20,000 hectares (less than 4% of Kernel's land bank) located in two national parks - Podilski Tovtry and Dnistrovskiy Kanion, that are also encompassed by the Emerald Network as sites UA0000011 and UA0000122 respectively. However, all Kernel's operations within these areas take place at dedicated economic zones, and do not interfere conservation and other zones of the national parks where natural or wildlife habitats of special conservation interest are located. Such economic activity is allowed by the Law of Ukraine on Nature Reserve Fund.

Following the lease of a land plot, we carefully select and precisely apply farming techniques

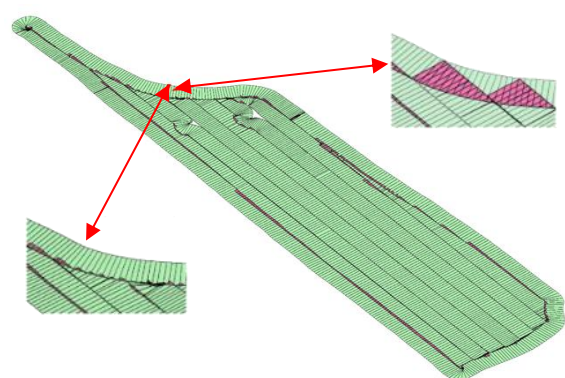
that minimize adverse impacts of our operations. This includes but are not limited with:

- **Seeds selection.** Kernel uses for sowing only breeds and hybrids of seeds listed in the State Register of Plant Species Eligible for Cultivation in Ukraine. The register does not contain genetically modified breeds and hybrids, **so neither Kernel nor our suppliers use GMO**. All seeds, regardless of origin – produced internally or sourced from the market – are tested in Kernel's accredited laboratory prior to sowing.
- **Maintaining proper soil nutrients.** To ensure proper replenishment of nutrients in the soil, we follow the balanced crop rotation practice, developed for each geozone of our presence. We practice mainly **3- and 4-field rotations with alternations of row crops and seed crops** to control disease, weed, and insect pressure. Monocultures are cultivated in line with scientifically substantiated principles. Rotations applied by Kernel comply with the Law of Ukraine on Soil Protection. At least once per crop rotation cycle (3-4 years) we analyze the quality of soils at our unique in Ukraine agrochemical laboratory by taking over 20,000 soil samples annually to a 30 centimeters depth. If required, we adjust our crop mix plans, production technology and fertilization practices. Test-based approach to application of fertilizers allows maintaining deficit-free balance of nutrients and thus prevents deterioration of the soil quality. Although sunflower is regularly the most profitable crop in our mix, the percentage of acreage under this crop does not exceed certain threshold to avoid soil quality deterioration.
- **Preventing soil over-compaction.** Kernel realizes the importance of and pays attention to the mechanical properties of soils. Measures taken to prevent their deterioration are as follows:

- control and limitation of machinery traffic within fields, use of caterpillars and reduced pressure in tires;
- selection of optimal timing and soil conditions for cultivation works;
- using deep loosening as the basic tillage technique, which is most favorable for preserving the soil structure;
- alternation of different tillage techniques, their depth and direction, within a rotation cycle, based on results of annual compaction monitoring;
- grinding and application of plant residues as a source of organic matter and basis of the soil structure. To optimize conditions for mineralization of residues and humus creation we complement them with biodestructors (microbiological products) and extra nitrogen;
- planting of siderates brings supplementary organic matter and improve soil structure of fields where wheat was harvested before.
- **Prevention of soil erosion.** Kernel does not operate on slopes steeper than 7 degrees. On slopes of 3 to 7 degrees, only deep loosening across the slope, with accumulation of plant residues on the soil surface are practiced.
- **Integrated pest management system,** which ensures thresholds are set for any pest control actions, and cultural methods aimed at reducing the exposure of plants to infection are applied prior to the use of pesticides. We comply with all applicable pesticides regulations and use only those crop protection agents which are authorized for the use in Ukraine. We do not apply products forbidden by the Stockholm Convention on Persistent Organic Pollutants and/or products listed in Annex 3 of the Rotterdam Convention. Beyond maintaining compliance with national legislation, we closely follow developments in pesticides



At least once per crop rotation cycle (3-4 years) we analyze the quality of soils at our unique in Ukraine agrochemical laboratory by taking over 20,000 soil samples annually.



Section control on our machinery allows to minimize crop inputs: seeds, fertilizers, and pesticides.

¹ The latest information on dominant drivers of tree cover loss reflects the results of 2019. Source globalforestwatch.org

² State Service of Ukraine for Geodesy, Cartography and Cadastre

Sustainability continued

regulations in other countries. We adjust our system by excluding most toxic pesticides banned internationally. For instance, since 2020 we have completely phased out organophosphorus-based products Chlorpyrifos and Chlorpyrifos-methyl. Since 2021 we are gradually reducing the use of neonicotinoid products. In a few years, their application will be limited with Thiacloprid and Acetamiprid that are used in certain EU countries and have lower toxicity for bees and other wild insects.

Any new substances are first tested on our inspection fields, and only then widely adopted in our production process, subject to strict limitation on minimal distance to sensitive recipients (300-500 m from settlements). Pesticides are stored in certified storages, subject to annual inspection by the Sanitary Authority.

All self-propelling spraying machinery is equipped with positioning control system that deactivates sprayers when leaving the boundaries of an assigned field. The system also prevents doubling and re-application of pesticides at areas that have been already sprayed. In our case study at curved part of the field an overlap area drops from 12,4% to 2,06% as a result of deactivation of sprayers. Automatic remote control for weather conditions during application process minimize off-the-field releases of pesticides.

Each year we have over 25,000 hectares of land dedicated for R&D purposes, where we test various innovative crop production approaches, and, if successful, adopt it for our whole landbank.

Inappropriate application of pesticides is also associated with risk of bee poisoning and causes conflicts between beekeepers and farmers. To prove the safety of our approach in pesticides application and to test the potential of crop yields increase, we initiated a "Pollination by Bees" project (see below).

As required by some of our customers, 486,000 hectares of fields under our operations have been ISCC-verified in FY2021. ISCC (International Sustainability and Carbon Certification) is a globally leading certification system focused on securing traceable and deforestation-free supply chains, and protection of land with high biodiversity value. It confirms our commitment to the highest sustainability requirements.

Pollination by bees – driving a market creation in Ukraine

In collaboration with several beekeepers' associations in Ukraine, Kernel has launched a largescale project "Pollination by Bees". The idea behind such partnership is to have private beekeepers and pollinating companies placing their hives on our fields. Kernel grants beekeepers a secure operating environment – we use pesticides that are safe for bees and coordinated our spraying operations with beekeepers. In return, Kernel benefits from additional quality pollination for our entomophilic crops, mainly sunflower and rapeseed. Better pollination results in higher crop yields, and we are now running tests to establish a robust correlation. In FY2021, we had over 40 thousand hectares pollinated by 7,186 bee families belonging to our partners and 1,400 bee families owned by Kernel. Also, this year we have piloted providing pollinating services to third-parties' berry plantations and orchards.

Kernel plans to upscale the practice of pollination by bees both through the growth of the inhouse beekeeping business and further development of partnership with external beekeepers, including the enhancement of the cooperation model.

Beekeepers benefit from the ability to easily upscale the honey production by moving quickly from one of our fields to another without any concerns about dangerous pesticides application.

The project serves as a perfect quality mark of our biodiversity-friendly farming approach. In the future this initiative could include contract payments to partner beekeepers for their positive impact on yields, making Kernel a frontrunner in driving the establishment of a nation-wide market of pollinating services. We believe that in addition to financial benefit, market-based incentives for sustainable beekeeping would contribute to the improvement of pesticide application practices across the industry and, subsequently, promote biodiversity conservation.



Sustainability continued

Emissions (GRI 305)

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

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

All our emissions occur in Ukraine. A table below presents major sources of emissions. Our Farming segment is responsible for 65% of Group's GHG emissions (Scope 1 + Scope 2) in FY2021, Oilseed processing – for 30%, and Infrastructure and Trading – for 5%.

This year we have also progressed to quantifying **indirect GHG emissions** associated with operations in our primary supply chains (**Scope 3**) – procurement of grain and oilseeds.

In line with mitigation hierarchy, we prefer prevention over end-of-pipe treatment. Resource efficiency is our key preventive strategy. Since 45% of Group's GHG emissions stems from our energy consumption, we keep investing in measures for rising efficiency and corresponding decrease of emissions, as described in the [Energy](#) disclosure above.

All stationary sources of emissions in Ukraine are subject to a permitting procedure that encompasses emissions inventory, dispersion modelling, and public disclosure of the outcomes in the press. The modeling provides estimates on concentrations of emitted pollutants at neighboring sensitive receptors areas (housing, schools, hospitals, etc.). All Group companies operating stationary emission sources hold valid permits (covering GHG and

Greenhouse gas emissions (GRI 305-1, 305-2, 305-3)

thousand tons of CO₂ equivalent

	FY2017	FY2018	FY2019	FY2020	FY2021
Gross direct (Scope 1) GHG emissions	748	922	981	955	942
by gas type					
CO ₂	174	200	192	174	208
CH ₄	32	33	25	22	22
N ₂ O	542	688	764	759	712
by division					
Oilseed Processing	14	3	3	9	19
Infrastructure and Trading	63	70	59	44	64
Farming ¹	670	847	918	900	857
Other	1	2	1	1	1
by source					
Fuel-sourced	184	211	203	186	220
Cattle Farming	35	37	28	25	24
Fertilizers application	529	673	750	744	697
Biogenic GHG emissions	587	401	710	628	433
Sunflower seed husk combustion	304	317	316	356	350
Changes in organic carbon stocks in soils	283	83	394	272	84
Gross indirect (Scope 2) GHG emissions	104	120	114	96	87
Electricity ²	83	94	90	96	87
Heat	22	26	24	0	0
GHG emissions (Scope 1 + Scope 2)	1,439	1,443	1,805	1,679	1,462
Purchase of grain and oilseeds (Scope 3) ³	n/a	n/a	n/a	n/a	3,397
Total GHG emissions	n/a	n/a	n/a	n/a	4,860

The company use financial control consolidation approach for emission. Emissions are calculated based on volumes of fuel consumed and conversion factors sourced from GHG Protocol (GHG Emissions from Stationary Combustion)⁴. Emissions from livestock farming are calculated based on the average headcount of cattle for the reporting period and established regional normative levels for emissions per head.

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

² The conversion factor is calculated as the ratio of total emissions from electricity production in Ukraine sourced from UN GHG Inventory to energy production itself sourced from Ministry of Energy and Coal Mining. We use IPCC 4th Assessment Report rates for global warming potential calculation.

³ Calculated by applying specific emission factors defined for crops produced by Kernel to the volume of grains and oilseeds procured from 3rd-party farmers.

⁴ GHG Protocol. A Corporate Accounting and Reporting Standard; GHG Protocol. Agricultural Guidance; The Land Use, Land-Use Change, and Forestry Guidance for GHG Project Accounting.

other emissions), monitor emissions' parameters, and pay environmental tax (US\$ 195 thousand in FY2021, including US\$ 135 thousand of tax applied on CO₂ emissions) accrued based on actual emissions volume, waste management and water discharges.

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

Direct (Scope 1) GHG emissions

Our **Farming** segment produced 91% of Group's gross direct GHG emissions in

FY2021. 83% of the segment's direct emissions is attributed to N₂O, caused directly by supply of available Nitrogen through application of mineral and organic fertilizers and plant's residues, and indirectly via Nitrogen leaching and volatilization. Other large contributors are CO₂ produced by combustion of motor fuels by machinery for field works and grain transportation (15% of total segment emissions) and CH₄ emitted via enteric fermentation from our cattle business (3%).

To reduce N₂O emission, we apply differentiated mineral fertilization that prevents

Major sources of emissions

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

Sustainability continued

GHG emissions intensity ratios (GRI 305-4)

kg of CO₂ equivalent

	FY2017	FY2018	FY2019	FY2020	FY2021
GHG emissions per ton of sunflower seeds processed	146	143	139	128	142
GHG emissions per ton of grain grown	419	343	386	365	318

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

Other significant air emissions (GRI 305-7)

thousand tons

	FY2017	FY2018	FY2019	FY2020	FY2021
Carbon oxide	0.4	0.5	0.4	0.4	0.9
Sulfur dioxide	0.2	0.3	0.1	0.1	0.1
Nitrogen dioxide	n/d	n/d	n/d	0.1	0.1
Particulate matter	0.7	1.0	1.6	1.1	1.1

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

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

Infrastructure and Trading operations resulted in 7% of Kernel gross direct GHG emission in FY2021, mostly in silo business when burning natural gas for grain drying.

Biogenic GHG emissions

Additionally, our operations contribute to biogenic emissions, which amounted to 436 thousand tons of CO₂e in FY2021. 80% of that stands for emissions due to sunflower seed husk combustion in our **Oilseed Processing** segment, and 20% attributes to biogenic losses of soil carbon in our **Farming** business.

Other potential direct GHG emissions

Another potential GHG source is hydrofluorocarbon refrigerants. Total amount R407c, R134a, and R507 refrigerants circulating in industrial cooling equipment operated at Kernel's 2 crushing plants and the cattle business is 413 kg (equivalent of 1,378 tons of CO₂). No refrigerants leakage occurred in FY2021.

Indirect (Scope 2) GHG emissions

When consuming purchased electricity and heating, we indirectly cause GHG emissions occurred during energy generation. 75% of such emissions is associated with electricity consumed by our oil-extraction plants. In FY2021, following the liberalization of the

electricity market, 9% of our total electric consumption has been secured with low-carbon energy purchased from a trader distributing energy from renewable and nuclear producers. Therefore, to account and report our energy indirect (Scope 2) GHG emissions we used both the location-based and market-based methods.

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

Scope 3 GHG Emissions

Following recommendations of the GHG Protocol we have analyzed our value chain to identify emission sources that match criteria as follows:

- are large (or believed to be large) relative to the company's scope 1 and scope 2 emissions;
- contribute significantly to the organization's total anticipated other indirect (Scope 3) GHG emissions;
- offer potential for reductions the organization can undertake or influence;
- are deemed material by our customers.

Based on this analysis we have chosen to focus on accounting of GHG emissions that derive from production of grain and oilseeds purchased by Kernel. In FY2021 the volume of our Scope emissions associated with purchased crops amounted to 3,397 thousand tons of CO₂e (including 892 thousand tons of CO₂e of biogenic emissions), 52% of which stemming from procurement of sunflower.

GHG emissions intensity

GHG emissions intensity ratio in **Oilseed Processing** increased 11% y-o-y, to 142 kg of CO₂e per ton of sunflower seeds processed, with three reasons driving the growth:

- we consumed more natural gas due to the

break of biomass-powered boiler in Prydniprovskiy plant and an emergent switch to gas-powered boiler;

- secondly, while reducing the oilseed processing volumes in FY2021, the relative consumption of biomass (sunflower seed husk) increased driven by the 2.5x y-o-y growth in the production of the renewable electricity to be sold to the national grid. Moreover, extra volume of husk was consumed for start-up and commissioning works of CHPs under construction.

The progress achieved does not correspond to our **mid-term target** to reduce the segment's energy consumption and associated emissions intensity per ton of processed oilseeds by 5% till FY2025 vs FY2020.

In the **Farming** segment, emissions intensity in FY2021 reduced 13% y-o-y, to 318 kg of CO₂e per ton of grain grown, driven by 2/3 y-o-y reduction in biogenic emissions as a result of decrease in crop yields.

Other significant air emissions

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

All new boilers we install under our US\$ 248 million renewable energy investment project **comply with emission limit values set by the EU directives**, although such limits in some cases are more stringent than local Ukrainian requirements.

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

Where prevention is not feasible, treatment equipment is applied. Our crushing plants operate six electrostatic precipitators (ESP) for removing PM from boilers' flue gases. These highly efficient (95-98%) filtration devices use electric energy to generate electrostatic charge that captures fine particles. In FY2021 the value of electricity consumed by ESP amounted to US\$ 366,000. All grain handling installations at silos and transshipment terminals are equipped with cyclone filters.

Sustainability continued

An ongoing investment project envisages development of 6 CHPs. In FY2021, each of them has been equipped with ESP with total value of EUR 9.5 million. Annual operational cost will be around US\$ 1.3 million, attributed to the cost of 17.4 GWh electric energy. Two

boilers have received selective non-catalytic reduction equipment to lessen nitrogen oxide emissions.

Emissions of hexane – a solvent used for oil extraction, are strictly controlled and prevented throughout transportation, storage and

application for both resource efficiency and safety reasons. All the equipment contacting with hexane at Kernel's plants follows [EU ATEX Directive](#). The solvent is reused through multiple extraction cycles. In FY2021, 1,259 tons of hexane left the cycle by evaporating to atmosphere or with products.

Waste (GRI 306)

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

This year we have chosen to focus on impacts related to waste generated in the Kernel's own activities. We have amended our approach to waste accounting that enabled us to disclose Farming segment's waste volumes that were

missing last year. Management's approach presented in this section applies to every segment.

Management approach

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

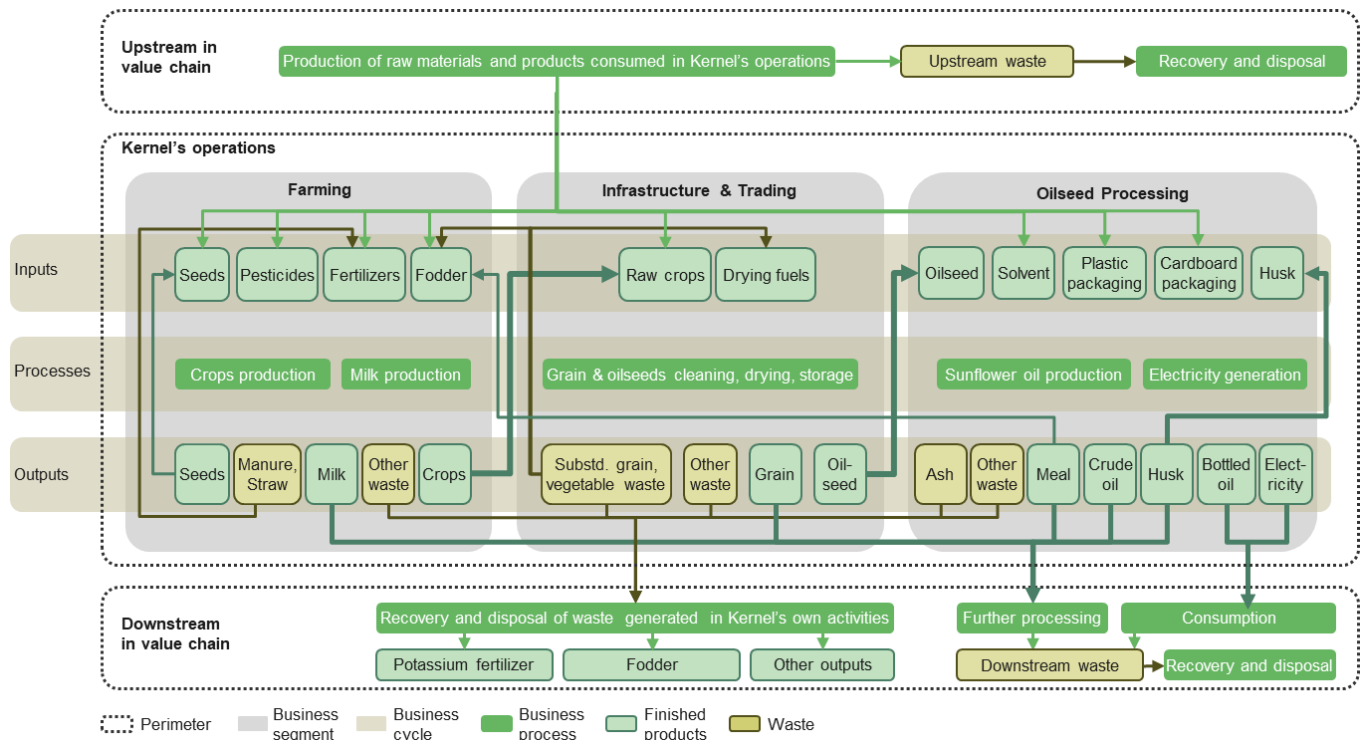
With our approach, we contribute to

Sustainable Development Goal 12: Responsible Consumption and production, by implementing environmentally sound waste management and preventing and reducing waste through reuse and recycling.

Farming

Production of crops is the segment's principal process. Fertilizers, seeds, and pesticides are its key inputs (excluding fuel and water). Pesticides are sourced exclusively from external suppliers, while significant shares of seeds (72% in FY2021) and fertilizers (35%, mostly organic ones) are produced internally. As a side business, we have a milking herd of 9,258 heads (milk cows and calves). Fodder for cattle is the key input of the production process. Over 85% of fodder comes from sub products and wastes of other segments' operations.

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



Sustainability continued

Key farming segment products include:

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

Key farming segment wastes include:

- **Straw**, which is mainly left in the fields after harvesting. Onsite burning of straw is strictly forbidden. Some straw is used by cattle business as a bedding for cows.
- **Manure**, after being removed from cowsheds with scraper conveyors, is transported to embanked storage sites, undergoes natural composting in piles, and finally gets applied to the fields and partly distributed among local people for their gardening needs. All the storages are located outside of settlements, on their leeward sides. None of storage locations fall within water protection buffer zones. Environmental quality is regularly monitored. 120 thousand tons of composted cow manure mixed with straw, has been applied as organic fertilizer to the fields in FY2021.
- **Cows' carcasses** are disposed in registered bio-thermal pits in line with the rules set by the [State Veterinary Committee](#).
- **Pesticides packaging** are normally segregated by class of hazard and handled to licensed contractors.

Infrastructure and Trading

The segment's most waste-intensive operations are cleaning, drying and storage of crops both produced by the Farming segment (81% of total grain intake in FY2021), and produced by third parties (19%). Main outputs include grain sold in bulk to global markets and oilseeds that are subsequently crushed at Kernel's plants. Fractions of substandard grain and vegetable waste, separated from the products, are used as an input for fodder both internally by the cattle business and by external consumers. One of Kernel's grain drying installations applies vegetable waste as a biomass fuel for production of steam.

Oilseed Processing

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

Around 90% of oil is crude, sold in bulk for further processing. While the remaining volume

is refined, bottled and packed. Thus, plastic and cardboard packaging moves downstream to retailers for further distribution. Other valuable sub-products are meal and husk that are both supplied to the market and used in Kernel's operation as fodder and biofuel correspondingly. Husk is the source of all thermal energy consumed by our crushing plants. Furthermore, an ambitious program for cogeneration is being implemented. Husk-fired CHPs at two plants already supply electricity to the public grid, while new CHPs are under construction at five plants. Another output of power generation is ash. Its favorable and stable chemical composition (potassium rich, no hazardous admixes) makes sunflower ash an in-demand raw material for fertilizer production. In this way, nutrients harvested from fields are returned back.

Other waste

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

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

Waste generated (GRI 306-3)

tons	FY2021
Waste generated	47,569
<i>by nature</i>	
Grain impurities	28,327
Household waste	3,500
Recyclables (scrap metal, waste paper, pallets, polyethylene)	3,488
End-of-life tires	451
Waste big bags	284
Pesticides packaging	180
Waste oils	150
Waste batteries	50
Fluorescent tubes and other mercury-containing waste	1
Other low-hazard waste ¹	11,138
<i>by division</i>	
Infrastructure and Trading	20,163
Oilseed Processing	26,184
Farming	1,222
<i>by type of treatment</i>	
Sold to 3rd party (recycling)	30,947
Landfilling	9,739
Passed for disposal	1,947
Change in on-site storage	4,936

Note 1. Includes ashes, grease trap sludge, sludge from wastewater treatment, fuses of light oils

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

Sustainability continued

Supplier environmental and social assessment (GRI 308, 414)

Our Vision is to become a leader in global agribusiness and make our region a key supplier of the agricultural products to the world market. We realize that environmental and social sustainability of our supply chain is a prerequisite for bringing that vision into life, and serves as a safeguard against risks of business disruption and reputational losses, as well as an opportunity for cutting production costs through better resource efficiency.

The topic is relevant for all our segments, but key impact potential exists in the **procurement of grain and oilseeds in Ukraine**. In FY2021, we purchased 8.1 million tons of grain and oilseeds in Ukraine from 3,989 suppliers, being by far the largest originator in Ukraine. **Direct purchases** from farmers constituted 63% of that volume, and **indirect purchases** from intermediaries being 37% (including 31% purchased from 1st intermediary, and 6% from 2nd intermediary). 83% was originated from existing suppliers, and 17% we purchased from new suppliers. Such split allows us to achieve a good traceability of originated volumes.

In FY2021, we have chosen to strengthen our

management approach through the Group-wide Supply Chain Sustainability Program adopted by Kernel's Risk Committee. We are probably **the first agricultural company in Ukraine** developing a thorough and consistent supply chain management program to cover farmers in Ukraine, which includes education of our suppliers and dissemination of best sustainability practices.

An overall strategy for achieving traceability and sustainability in our supply chains envisaged by the Program, includes four steps, as follows.

1. Setting E&S standards

As a starting point in impacting environmental and social performance of our suppliers, we define our expectations in the **Code of Interaction with Suppliers** and **Anti-Corruption Clause**. In these documents, we incorporate best practices applicable to Kernel and which we translate further to our suppliers. Such practices include the respect of human rights, environmental protection, fair business practices and other principles reflecting the spirit of UN Global Compact and other initiatives Kernel committed to.

In FY2021 we have amended the Code with

new requirements on ensuring acceptable living conditions and specified our expectations regarding working hours, paid overtime, minimum living wages, freedom of association and the right to collective bargaining.

2. Binding E&S compliance clauses

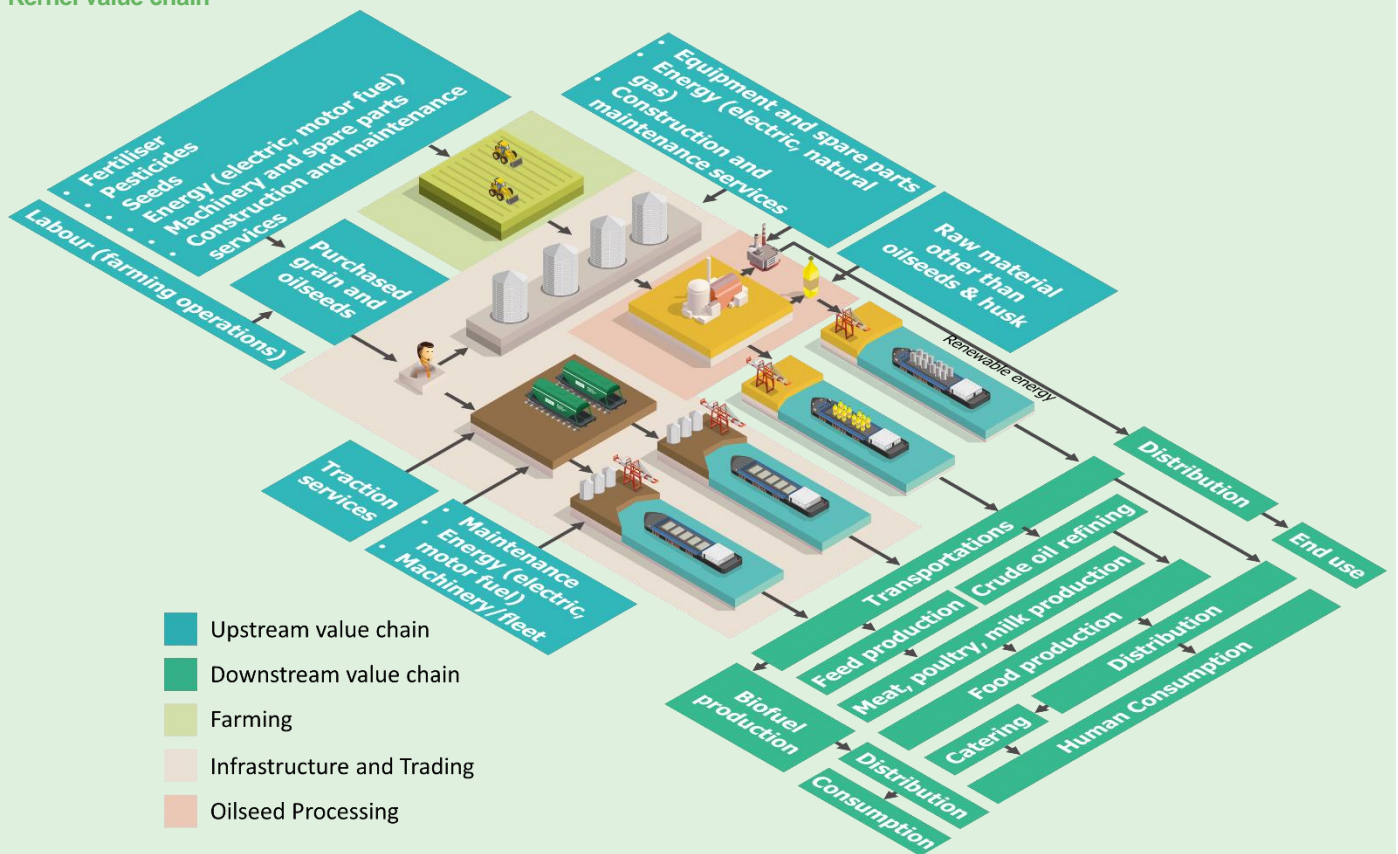
Formal obligations to comply with Code are taken by all Kernel's counterparts through signing the **Anti-Corruption Clause** that is a standard supplement of any Kernel's contract. According to the Code, Kernel reserves the right to verify whether suppliers comply with its terms and we exercise this right systematically. Failure to comply with the Code entails business consequences up to termination of valid contracts.

3. Verification of compliance status

Verification of compliance with Kernel's requirement is practiced both for new and running suppliers and includes two levels:

- **Initial screening** is an important stage in development of new relationships. In FY2021, 14,679 Kernel's potential counterparties have been screened by the corporate Economic Security Service against economic and compliance risks for cooperation. The revealed risk levels defined contractors' eligibility for supplying goods and

Kernel value chain



Sustainability continued

services to Kernel.

For now, only anticorruption provisions of the Code are integrated in the screening process on a groupwide level. However, in FY2021 we have developed a set of environmental and social screening criteria to assess risks of the Code violation based on types and location of suppliers' operations, their certified compliance with recognized standards (ISCC, ISO 14001 and 18001), inspections and risk classifications conducted by competent authorities, etc. Adding E&S dimensions to the screening process will allow us to concentrate our auditing activities on suppliers with higher exposure to E&S risks, while avoiding unnecessary administrative burden for suppliers who meet low-risk criteria.

Meanwhile in FY2021 we were piloting implementation of the screening process with 54 suppliers representing all business segments. We asked our partners to fill in the questionnaire covering environmental and social issues.

- **An audit** is the next level of compliance verification. In FY2021, we audited 13 Kernel suppliers, visiting their production facilities, interviewing their management and personnel, and review pertaining documentation and business practices.

When verifying suppliers, we provide them with valuable comments on the approval of sustainability approach and share with them best practices adopted by Kernel, serving as a 'free-of-charge' external advisor.

4. Applying business consequences

Audit findings define "business consequences" or the mode of cooperation with suppliers: we eagerly continue cooperation with partners who comply with the Code; for identified non-compliance we agree corrective actions and monitor its implementation; Kernel reserves the right to terminate cooperation with organizations failing to meet our requirements.

We have not identified any significant actual or potential negative environmental and social impacts in verified supply chains in FY2021. Thus, no business relations were terminated for the compliance reasons during the reporting period. Key audit findings communicated to suppliers were related to establishing/improving the compliance system, integrated management system, quality management process and sanitary conditions at production sites visited.

Onsite contractors

In addition to controls imposed on suppliers of

Environmental and social assessment (GRI 306-3)

FY2021

Number of suppliers...

...screened for anticorruption provisions	14,679
...screened for E&S issues through questionnaires	54
...assessed for E&S issues through audits	13
...identified as having E&S non-compliance	0

Onsite contractors...

...active within the period	578
...assessed for OHS impacts prior to entering the site	578
...assessed for OHS impacts during onsite works	439
...identified as having OHS non-compliance	172
...assessed for environmental impacts prior to entering the site	4
...assessed for environmental impacts during onsite works	9
...identified as having environmental non-compliance	6

goods and materials we pay special attention to environmental and OHS performance of construction and maintenance contractors working at Kernel's facilities through all business segments.

A standard contract template used by Kernel entities for involvement of onsite contractors contains detailed provisions supplementing the Code, including, but not limited with 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, etc.

The summary of environmental and social assessment of onsite contractors in FY2021 is presented in the table below.

The most typical identified non-compliance issues were as follows:

- violation of the safety instructions for works at height, loading and unloading operations, operations with scaffolding and ladders, operations with power tools
- non-use of personal protective equipment PPE and fences,
- failed alcohol tests,
- improper onsite storage and delayed removal of construction waste

Improvements were agreed upon with all (100%) suppliers identified as having OHS and environmental noncompliance. All onsite contractors have implemented agreed upon improvement measures, that enabled further cooperation with them. Thus, no business relations were terminated for the reason of poor OHS and environmental performance in FY2021.

On top of abovementioned measures, Oilseed Processing segment have introduced supplementary instruments aimed at managing contractors' OHS performance at all the segment's entities:

- the *Contractor Management Standard* with

detailed OHS provisions aligned with ISO45001:2018. Each contractor's employee working at Kernel's site reads and acknowledges the Standard in writing.

- The *Contractor Register* containing OHS performance scores. That derive from Kernel's internal OHS inspections of contractors' operations. Scores are used as criteria for future procurement of contractors' services.

From compliance to value creation

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

Finally, Kernel provides all interested parties, including suppliers' management and personnel with access to a grievance mechanism through the corporate Hotline. In FY2021, four complaints from suppliers' employees have been collected, registered, investigated, and resolved.

Sustainability continued

Social impacts (GRI 400)

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

Kernel charity spending in FY2021 amounted to US\$ 3.9 million. The management of the company regularly assess the rationality of such spending.

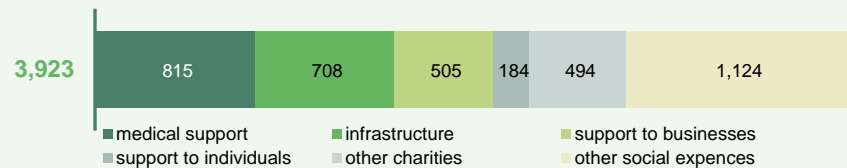
Charity spending (GRI 203-1)

thousand US\$

	FY2017	FY2018	FY2019	FY2020	FY2021
Total charity spending	2,616	2,440	2,303	7,714	3,923
incl. infrastructure	1,049	760	625	759	708

Charity spending includes only direct expenses by the Company.

Charity spending structure in FY2021



Our response to COVID-19

A second year of life under pandemic-related restrictions proved the **resilience of our business model**. The measures initiated in FY2020 allowed to transform business processes, adopt rapid reaction mechanisms for COVID-19 spread among our employees and their families, and minimize risks and pandemic consequences.

We introduced new contactless processes, like grain sampling and receipt, and digital transactions with our counterparties. With several lockdowns over the period, we focused substantially on securing good mental health and emotional wellbeing of our employees, organizing necessary remote trainings and team-building events.

We created a corporate COVID-19 fund to provide financial support to infected employees with severe illness. In total, Kernel spent US\$ 1.4 million in FY2021 on coronavirus prevention and control measures within the company. Every infected employee receives support from the company to cover costs of drugs, additional tests if necessary, and even oxygen concentrators. All employees, including those in remote regions with lack of access to high-quality medical services, can consult with medical experts hired by the company to observe the disease progress in close-to-live mode. Daily monitoring of the situation allows us to immediately identify infected employees and isolate for self-quarantine those employees who contacted with infected. We share with infected employees the best applicable treatment and recovery protocols. Additionally, we entered into contractual agreements with regional COVID-19-specialized hospitals and test laboratories to secure immediate necessary medical support for our employees. Our approach in overcoming COVID-19 was recognized by the UN Global Compact "Partnership for Sustainable Development 2020" [project](#).

As of 27 September 2021, there were 1,734 identified cases of COVID-19 among Kernel employees. 1,701 employees recovered, 26 were fighting with the disease. Regrettably, seven of our employees died. While we made everything we could do, the infection was identified at the very late stage, when all the efforts taken were not sufficient enough to save lives.

When vaccines first appeared in Ukraine, we strongly promoted it among our employees and helped with organizing necessary logistics and covering all the possible related costs. As of 27 September 2021, 3,152 employees were vaccinated.

Sustainability continued

Employment (GRI 401)

Kernel's [Code of Conduct](#) proclaims our professional team of leaders as one of three key values. Aligning with that, we aim to find and attract the best people and develop and retain them to ensure sustainability of our operations. We adhere to the International Labor Organization's (ILO) Fundamental Conventions.

Total number of Group employees declined 6% y-o-y, to 11,256 employees (full-time equivalent) as of 30 June 2021, facing two opposite tendencies:

- *on the one hand*, our continuous labor productivity improvement efforts resulted in staff optimization in farming and silo businesses. Additionally, a small portion of the decline is explained by disposal of some entities as a part of our asset base optimization program;
- *on the other hand*, we have been hiring new employees for our greenfield assets, both recently commissioned and those under construction.

Although we expect further headcount optimization on the existing platform, our investments under Strategy 2021 results in creation of over 600 new jobs by 2022. A large part of those jobs was already created, and we expect to fill 225 additional vacancies in the future.

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

Employment relationships in Kernel are regulated by national laws.

In FY2021, Kernel again was named among best employers in Ukraine, this time according to [Focus](#) media. In a rating compiled by [Forbes Ukraine](#), Kernel scored #4 among top-50 best employers in Ukraine and #1 employer in agriculture, ranking particularly high in such pillars as employee's loyalty, workplace and work schedule, openness and opportunities for growth.

Our projects "Kernel Employee Data Center" and "#StopCoronavirusTogether" were [awarded](#) as the best HR projects in Ukraine, according to the independent premium "HR - brand Ukraine".

Kernel HR team received three awards within international [HR Brilliance Awards 2020](#), namely, including nominations of "HR team of

Human capital indicators

As of 30 June of the respective year

	FY2017	FY2018	FY2019	FY2020	FY2021
Total number of employees	16,103	15,116	13,397	11,928	11,256
by geography					
Ukraine	16,048	15,066	13,355	11,882	11,208
Other countries	55	50	42	46	48
by level					
Managers	1,157	991	885	908	936
Specialists	3,841	3,959	3,665	3,452	3,354
Workers	11,105	10,166	8,847	7,568	6,966
by business division					
Oilseed Processing	2,592	2,501	2,258	2,203	2,253
Infrastructure and Trading	3,501	3,447	2,990	2,718	2,592
Farming	9,389	8,448	7,405	6,232	5,609
Headoffice and other	621	720	744	775	802
by employment contract, by region					
Permanent	15,659	14,724	12,794	11,440	10,614
Ukraine	15,605	14,674	12,752	11,394	10,566
Other countries	54	50	42	46	48
Seasonal and temporary	444	392	603	488	642
Ukraine	443	392	603	488	642
Other countries	1	0	0	0	0
by employment contract, by gender					
Permanent	15,659	14,724	12,794	11,440	10,614
Male	10,956	10,882	9,383	8,440	7,750
Female	4,703	3,842	3,411	3,000	2,864
Seasonal and temporary	444	392	603	488	642
Male	351	289	514	409	581
Female	93	103	89	79	61
by employment type, by gender					
Full-time	15,459	14,774	13,143	11,641	11,162
Male	11,029	11,002	9,774	8,538	8,279
Female	4,431	3,772	3,369	3,103	2,883
Part-time	644	342	254	287	94
Male	278	169	123	196	54
Female	365	173	131	91	40

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

the Year" and "Recruitment and Retention".

Competitive remuneration and benefits

We consider our employees our company's most valuable asset, and constantly strive to maintain competitive remuneration. Group's payroll and related costs amounted to US\$ 208 million in FY2021 (up 27% y-o-y), including US\$ 74 million expenses related to our production staff (down 12% y-o-y) and US\$ 133 million expenses related to administrative staff (up 69% y-o-y).

Kernel remuneration is based on three pillars: base compensation and benefits, leadership, and incentive system.

Base compensation and benefits

The first level in Kernel remuneration system includes:

- **salaries and wage-type bonuses**, set at the level which matches or exceeds the benchmark paid in our industries (with regular monitoring of labor market);
- additional payments and compensations related to working conditions,

Voluntary medical insurance program

At the end of FY2021, Kernel initiated a voluntary **medical insurance** program for all our permanent employees. Kernel covers 100% of insurance costs for Kernel employees and 50% of insurance costs for employees' children. The program also allows employees' relatives to join the program at corporate terms but bearing all insurance costs themselves. The coverage started in September 2021, with 7.8 thousand employees revealing a desire of being covered, bringing also almost 800 their children.



Sustainability continued

HR Strategy 2026

To support the execution of announced Kernel Strategy 2026, we developed a new HR strategy 2026. The strategy is focused on 5 key directions and has clear targets and KPI, together with respective initiatives. The extract from the strategy is presented below:

Key directions:	Talent acquisition & management	Performance management	Compensation & Benefits	Learning & Development	Corporate culture
Key targets and KPIs:	1. Best employer: Top-5 in Ukraine, #1 in agri in Ukraine 2. Low staff turnover: max 12% for Group in general, max 5% of key staff 3. New employees' retention: min 70% stay after 1 year.			a. Min 60% of management grown inhouse. b. Employee satisfaction level: min 8.4/10 c. Employee engagement level: min 8.9/10 d. Employee loyalty level: min 8.7/10	
Key initiatives:	a. Constant labor productivity improvement b. Regular internal performance benchmarking c. Active cooperation programs with colleges and universities in Ukraine d. Special programs to develop and retain personnel in rural areas			a. Promotion of model of competencies and success culture b. Competitive compensation package (fully transparent and aligned with Kernel Strategy 2026 targets) c. E-learning courses for all key production processes d. HR brand enhancement activities	

- **healthcare services**, including:
 - a voluntary **medical insurance** for all our permanent employees.
 - full coverage by Kernel of all **COVID-19 treatment** costs for our employees.
 - **life insurance** for some employees, covering the insurance costs
 - **OHS insurance**.
- fixed payments in case of retirement, retirement provisions and privileged pensions for employees at hazardous jobs
- financial support in case of employee's personal life difficulties.
- **incentives for productivity improvements**. Our events "Champions' League in Agribusiness" and "Superleague" allows teams to compete and be awarded for the best achievements: highest crop yield achieved, most efficient shift on the crushing plant, best team in the silo business etc. Regular healthy competition and internal benchmarking facilitate the productivity gains. Employees may also receive one-time monetary incentives for operational accomplishments, business processes optimization, labor safety improvement and other achievements.
- **other benefits**, including providing food at workplaces and transfers to workplaces, additional paid leave and rewards and other benefits dedicated for special events (birth, marriage), numerous events organized for employees' children, gifts, trainings and education programs, various discounts for employees (vaccination, tickets for sport, art, and culture events etc.), financing sport initiatives for employees, sponsoring training and development of personnel.

Kernel complies with all the regulatory labor requirements, including parental leaves, transparent salaries, payment of all salary-

related taxes and social contributions. Moreover, **many components** of base compensation **are Kernel's own initiative** not required by applicable legislation.

Employees of the Group receive **pension benefits from the government**. Our contributions to the State Pension Fund of Ukraine in FY2021 totaled at US\$ 18 million.

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

733 Kernel employees (663 on FTE basis) receive minimum wage.

Reward for leadership

Trying to establish a corporate culture necessary for the next stage of Kernel development, we identified eight competencies required for our employees. Each year we assess our staff for demonstration of such competencies (self-assessment and assessment done by linear manager). A **high ranking achieved impacts the increase of the base salary**.

Incentive system

The third component and core of the Kernel remuneration structure is the **incentive system** to achieve personal, business lines and Group's goals synchronized with Group's strategy. Each year, Kernel creates financial and operational quantitative and qualitative goals segmented by business lines, which are cascaded down to specific relevant employees with determined KPIs. Such KPIs are quite granular, including, for example, various indicators for each separate field in our

farming business. KPIs also could be proposed by employees themselves. Annual performance assessment quantifies the achievement of KPIs and automatically **impacts the size of the annual performance bonus**. The system is fully transparent and prevents any prejudice. We provide employees all tools to directly affect KPIs and monitor the KPIs' execution on close-to-online basis.

Working conditions

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

Our employment practice proven to be resilient to COVID-19-related issues. Despite several lockdowns in FY2021 and intensive remote work mode, no processes suffered. "Work-from-home" mode proved to be quite successful in FY2021 and even increased labor productivity. So, we plan to partially save such approach going forward.

There are **no forms of forced or compulsory labor or child labor** within the Group. Our hotline mechanism allows anybody to inform our compliance officer about breaching abovementioned principles by any Group entity.

Performance management system

The main tool in the performance management is the annual performance appraisal ("APA") created to develop competencies and improve efficiencies of each employee. APA results serve to identify competencies which

Sustainability continued

require additional development, help in setting goals for the next year and individual development plan, reviewing the salary and determining the size of the annual salary bonus. Following the APA, employees can nominate themselves or be nominated to the special Talent Pool program. Participants of that program receive additional trainings and are considered first when new vacancies appear in the company (*see more details in Training and education*). APA held at the end of FY2021 covered 3,242 employees, all of whom participated in competency assessment and 1,130 of whom also participated in performance assessment.

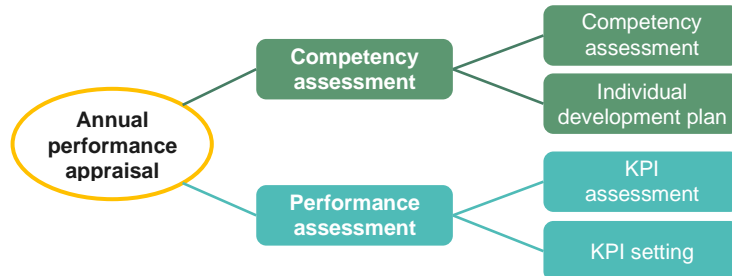
Performance assessment is done in a special digital system. Setting KPIs for individual employees and business units is a transparent pro-active process. During APA, manager analyzes the achievement of employee's goals and evaluates competencies. Based on the assessment results, the annual bonus is calculated, manager provides feedback to employee, and they together determine the directions of further professional's employee development.

Competency assessment. We identified 8 competencies which shall facilitate the transition to the corporate culture aligned with the strategic vector of Kernel development. These eight traits will help each employee in personal growth and result in the growth of the company. Assessment results impact the career advancement, individual development plan and salary level. Employee together with management select a competency for development in next year, and HR team creates an Individual development plan. The competency model became a core for all key HR-processes.

Employee engagement

Every second year we conduct a study evaluating employees' work satisfaction, loyalty and engagement, and benchmarking Kernel

Kernel annual performance appraisal



results with market averages. The employee engagement study conducted in FY2020 by independent marketing and social research company InMind demonstrated that the Kernel employee satisfaction level is 24% above the market averages, employee loyalty is 12% higher than market averages, and employee engagement level exceeds its peers by 3%. All indicators improved 2-5% as compared to the results of the previous similar study.

New employee hires and employee turnover (GRI 401-1)

Group hired 3,023 new employees for permanent jobs in FY2021, of which 2,454 male and 569 female. 743 of the hired employees were below 30-year-old, 1,671 were between 30-50-years-old, and 609 were aged 50+. All employees were hired in Ukraine.

Up to 6% of Kernel workforce consists of seasonal employees with regards to the harvest recruitment.

To enhance our hiring process, we launched in FY2021 a special external [career portal](#).

During the reporting period, 3,549 employees left the Group, of which 2,794 were male and 755 female. 636 of such employees were aged below 30, 1,791 were aged between 30 and 50 years old, and 1,122 were older than

50 years.

In FY2021, 96 of our employees left Kernel due to retirement.



Sustainability continued

Occupational health & safety (GRI 403)

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

Our transformational OHS approach resulted in a record low number of work-related injuries and no fatalities in FY2021. We pursue our ultimate goal of zero injuries among our employees.

Occupational health and safety management system (GRI 403-1)

Our occupational health and safety management system ("OHSMS") is based on both legal requirements (Ukrainian labor safety legislation), and ISO 45001 standards guidelines.

OHSMS covers activities of our employees and contractors working at Kernel workplaces and sites. In FY2021 we increased the scope of OHSMS to cover also activities of contractors who work on Kernel sites but where we have limited control. To impact these operations, we:

- instruct contractors based on our OHSMS standards;
- created a system to monitor OHS violations done by contractors on our sites, including regular OHS inspections. We appointed a dedicated OHS specialist who oversee labor safety on investment projects;
- in case of recurring violations, we imply penalties for contractors and rank all contractors according to their OHS approach. To make such changes binding, we modified all contractual agreements with our contractors and specified OHS duties and obligations.

All but one of our oilseed processing plants, grain export terminal in Chornomorsk, two farming clusters with total farmland bank of over 250,000 hectares, 15 silos (out of 30) and key trading company Kernel-Trade successfully completed certification under ISO 45001 (conducted by Bureau Veritas) and under local standards. By FY2023, we plan to complete similar certifications for the remaining our assets in Ukraine.

We have a consolidated database of regular OHS inspections and monitoring of elimination of discovered OHS discrepancies.

OHSMS is leaded by a dedicated manager who once per year reports to a committee headed by the CEO.

The **ultimate goal** of our OHSMS is to achieve zero fatalities and work-related injuries at our workplaces.

Work-related injuries (GRI 403-9)

	FY2017	FY2018	FY2019	FY2020	FY2021
Recordable work-related injuries	14	16	25	17	10
Oilseed Processing	2	1	-	2	1
Infrastructure and Trading	2	3	17	8	1
Farming	10	12	8	7	8
of which					
Fatalities	-	4	1	1	-
Oilseed Processing	-	1	-	-	-
Infrastructure and Trading	-	1	1	1	-
Farming	-	2	-	-	-
High-consequence work-related injuries (excl. fatalities)	5	6	9	5	2
Oilseed Processing	-	-	-	1	-
Infrastructure and Trading	2	1	5	3	-
Farming	3	5	4	1	2
Hours worked, million	31	29	28	25	22
Rate of recordable work-related injuries (LTIFR ¹)	0.45	0.55	0.88	0.68	0.46
Rate of fatalities as a result of work-related injury	-	0.14	0.04	0.04	-
Rate of high-consequence work-related injuries (excl. fatalities)	0.16	0.21	0.32	0.20	0.09

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

Note 1 Lost Time Injury Frequency Rate

best practices.

These processes are arranged in line with ISO 45001 standard.

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

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

The **results** of these **processes** are assessed for each asset and respective records are added to the Risk and Threat Assessment Document. Assessment methods also include workplace condition assessment, asset self-assessment and statutory inspections, while continuous improvement includes actions to continually improve the results of these processes. Each injury case is thoroughly analyzed applying and Ishikawa (fishbone) diagram approach, and response actions are created accordingly and widely communicated to employees.

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

1. Fully eliminate risk / hazard
2. Reduce potential impact of risk / hazard to acceptable level

Sustainability continued

3. Isolate risk / hazard from employees
4. Control risk / hazard, including providing instructions and information, personal protective equipment, training, first-response means, lockout / tagout devices, etc.

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

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

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

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

We comply with all applicable legal requirements and regulations pertaining to OHS. In FY2021, we had 40 statutory OHS inspections on our assets, that resulted in no fines for breaching the labor safety requirements.

Occupational health services (GRI 403-3)

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

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

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

In FY2021, our 17 externally certified OHS inspectors spent 255 man-days on internal labor safety audits.

Our expenses to maintain the OHS system totaled at US\$ 1.3 million in FY2021, including the special clothes and personal protection equipment, OHS-related services, trainings and promo materials, investments to improve the labor safety and eliminated gaps discovered.

In FY2021, we significantly improved the work clothes quality in our Farming business, standardizing it for all our farming clusters.

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

Worker participation, consultation, and communication on OHS (GRI 403-4)

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

- Employee surveys;
- Hotline calls register;
- Near Miss and Stop-card letterforms;
- "Gold Safety Rules" composed by employees;
- "Walk the Talk" project (managers and OHS specialists interview employees to find out safety gaps and ideas to improve the OHS system).

At entrances to all our production facilities we installed monitors showing the current and record number of days without accidents at such asset and business division. We also developed a professional video instruction on labor safety, aligned for all assets of the company.

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

Worker training on OHS (GRI 403-5)

OHS trainings for Kernel employees include:

- e-learning courses (one general for the whole company and several specialized for various professions) which are mandatory for all employees. In case the minimum pass rate is not achieved, employee user account is blocked;
- specialized trainings on high-risk work with the obligatory exams and the subsequent authorization;
- trainings on modeling dangerous situations and practicing actions in such situations, with the involvement of specialized equipment and state rescue services.

In FY2021, 873 employees completed our new mandatory e-learning OHS course since its launch in May 2020. On top of that, 2,273 employees spent 85 thousand hours in total on special OHS trainings. Additionally, we organized 405 emergency response drills with 5,949 employees attending during the reporting period.

Promotion of worker health (GRI 403-6)

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

- Free of charge testing for COVID-19.
- We maintain a stock of immune drugs to provide to our employees free of charge in case of severe COVID-19 symptoms.
- In case of serious health diseases, we provide financial and organizational support to our employees for medical treatment and rehabilitation. In FY2021, 190 our employees received in total US\$ 29 thousand financial support for such needs.
- We facilitate life insurance for our employees, covering insurance costs.
- Seasonal vaccination of employees (655 people in FY2021) at company's costs, not accounting for the COVID-19 vaccination.
- 258 workers of hazardous professions are regularly provided with milk at company's cost.
- We provide face masks to employees.

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

Prevention and mitigation of OHS impacts directly linked by business relationships (GRI 403-7)

Even when we have no control over both the work and workplace, we still consider it our responsibility to make efforts and exercise the

Sustainability continued

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

Workers covered by an occupational health and safety management system (GRI 403-8)

All Group employees (11,256 FTE as of 30 June 2021) are covered by OHSMS, which was internally audited. Of that, 10,667 employees are covered by OHSMS which was also audited or certified by external parties (statutory inspections and Bureau Veritas certifications).

Work-related injuries (GRI 403-9)

Comprehensive transformation of our OHSMS initiated in FY2020 resulted in a 41% y-o-y reduction of recordable work-related injuries in FY2021, to 10 such cases. Severe

work-related injuries declined by 60% y-o-y, to two accidents, which were caused by human carelessness. Luckily, we had no work-related fatalities in the reporting period.

We had one work-related injury (classified as high-consequence) among contractors who worked on Kernel sites in FY2021.

According to the most popular topic-specific media “[Ohorona Praci](#)” Kernel was recognized as the best company in Ukraine in the implementation of risk management system.

Training and education (GRI 404)

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

Our core framework to structure training and educational activities is a **Competency model**. It is a set of eight competencies discovered to be the most crucial at current stage for Kernel development. Based on the results of the annual competencies assessment (organized for 3,242 Kernel employees in FY2021) each covered employee creates together with manager an **Individual development plan** to enhance the targeted competencies. After that, our Learning & Development team prepares for each covered employee a set of learning and education activities (“**Corporate minimum**”) to address the needs specified in the Individual development plan. Corporate minimum includes at least five courses, including one professional course, one competency course, and at least three courses for general development. In any case, employees are not restricted with Corporate minimum only and may require additional training.

Workers are not covered by the Competency model. Training for them is organized in a way of professional education, which is fully covered by inhouse expertise. Professional education is based on Individual development plans and job profiles – standardized requirements to each professional job position.

In FY2021, almost 5,400 employees participated in our training and education activities.

Our approach to training and education

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

Average hours of training (GRI 404-1)

	FY2017	FY2018	FY2019	FY2020	FY2021
Training expenditures, US\$ thousand	445	474	456	637	589
Total training hours	83,943	78,477	97,273	112,186	242,833
Average hours of training per employee	5.2	5.2	7.3	9.4	21.6
by gender					
Male	5.6	5.3	7.8	10.1	21.2
Female	4.2	5.0	5.8	7.4	22.7
by employee category					
Managers	n/d	n/d		33.1	26.5
Specialists	n/d	n/d		13.2	15.7
Workers	n/d	n/d		2.2	4.5

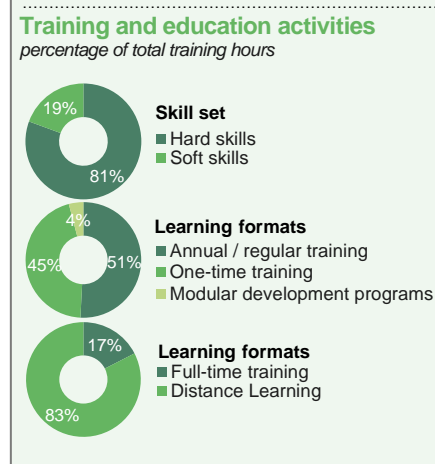
edge farming approaches in our operations.

Secondly, we organize both education delivered by **external** providers and by **internal** coaches. External format of education also assumes attendance of various conferences, exhibitions, workshops, experience-exchange trips in Ukraine and abroad, and brings Kernel new expertise from outside. 45 internal coaches share their knowledge with other employees.

Thirdly, we generally provide a **traditional** (face-to-face) **format** of learning (classical trainings, hackathons, community events and business games), with 1,328 employees investing over 39 thousand hours in such education in FY2021. At the same time, given the COVID-19 pandemic, we substantially extended our **distance learning** program (webinars, e-courses via Kernel Hub). We upgraded our e-learning hub by redesigning user interface, simplifying content creation integrating cloud solutions and introducing adaptable learning process management and reporting. Our distance learning and knowledge web/mobile platform allows any employee to take hard and soft skills learning e-courses, and get access to accumulated in-house expertise and e-books from various fields of personal / professional development. All Kernel employees have access to our distance learning program. Kernel Hub is daily visited by 650 users on average and provide visitors access

to over 1,000 e-books, 200 training videos, and 155 e-courses.

Finally, we structure our training and education activities on a **regular** basis (mostly hard skills), **one-off trainings** (master-classes, conferences and seminars led by both internal and external trainers, as well as one-time courses for new managers) and **modular development programs** (focused mainly on soft skills development). Modular programs include also corporate MBA programs for various our business divisions, consisting of workshops, case studies, team-based assignments and a final project, and is tutored by



Sustainability continued

lecturers who teach at certified MBA programs.

Once per month 400-500 our employees on average attend the webinar "The magic of your morning with Kernel" where external speakers share valuable insights on physical and mental health, wellbeing and family, soft skills etc.

Key developments

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

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

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

We also offer a **mentorship program**, which is designed to accelerate the adaptation of new employees. The program manager assigns mentors to new employees, and structures, formalizes and oversees mentor-

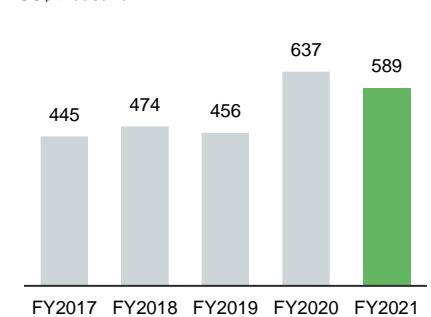
employee relationships. Mentors get monetary incentives and proper training to improve their coaching skills and ability to provide feedback. First introduced in 2015, the program now includes 59 mentors.

Since 2014, we have made progress on implementing a unified approach to planning individual development, the coverage of which increased in FY2021 to 1,130 employees (vs 180 employees in FY2017), including employees from a central office, and management and key staff from regional branches. The assessment conducted as a part of this program is used to identify key areas for growth, improve career planning and provide better visibility of the ambitious talent pool, their training needs and prospects.

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

For proactive ambitious employees, we have a **Talent Pool** project. The aim is to secure and strengthen internal candidates pool for promotion to top positions by developing initiative employees who are willing and ready to actively move by career steps. The project helps such employees to develop hard and

Total training expenditures
US\$ thousand



soft skills. New training round started in FY2021, with 441 employees nominated and 130 accepted.

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

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

Diversity and equal opportunity (GRI 405)

We are committed to the active promotion of diversity and equal opportunity at work and outside of Kernel. As an employer, we aim to ensure equal employment opportunities without discrimination or harassment based on race, color, religion, sexual orientation, gender identity or self-expression, age, disability, marital status, citizenship, national origin, genetic information or any other characteristics.

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

Our management approach

Our approach is based on [the Equality, Diversity, and Inclusion Policy](#) (since 2018) and [Anti-Discrimination Policy](#) (since 2021). We recognize that following diversity and equality

Diversity and equal opportunity (GRI 405-1)

	FY2017	FY2018	FY2019	FY2020	FY2021
Percentage of individuals within the Board of Directors in each of the following diversity categories					
by gender					
Male	63%	63%	63%	63%	63%
Female	38%	38%	38%	38%	38%
by age					
30-50 years old	75%	75%	75%	75%	75%
more than 50 years old	25%	25%	25%	25%	25%
Percentage of employees per employee categories¹ in each of the following diversity categories					
by gender					
Male	70%	74%	74%	74%	74%
Female	30%	26%	26%	26%	26%
by age					
less than 30 years old	18%	21%	20%	20%	17%
30-50 years old	56%	55%	55%	56%	53%
more than 50 years old	25%	24%	24%	25%	29%
Percentage of women in executive management	33%	25%	25%	25%	33%

Note 1 Combined for all employees' categories: managers, specialists, workers.

principles is beneficial both for our business and for the society in general. We promote internal awareness on the matter, encourage reporting of all anticipated (possible) cases of discrimination or harassment, and are obliged to investigate such reports quickly and thoroughly, with whistle-blowers being protected.

According to the results of internal survey conducted in FY2021, 99% of Kernel employees who participated in the survey (2,279 employees) are informed about rules and principles of the [Diversity and Inclusion Policy](#). 93% of staff are confident that there is no gender inequality in the Company. 93% of the staff believe that the Company sufficiently

Sustainability continued

demonstrates and supports the commitment to cultural diversity and equal opportunities policy, accounting for such factors as age, gender, religion and culture, disability, race, nationality, ethnicity, and social status.

Overall, 488 Kernel employees passed an e-learning course on equality, diversity and inclusion, developed in FY2020 and also included five mandatory courses for new employees when onboarding.

Our highest decision-making body, the Board of Directors, follows the diversity approach in terms of gender, age, tenure and experience composition. In particular, diversity enhancement was an important criterion when nominating new non-executive independent directors Mrs. Pieternel Boogaard for the EGM approval in August 2021.

A similar approach is followed at the Executive Management Team level: three experienced executives joined to the team in FY2021, increasing the gender and professional diversity of the body (see [Board of Directors](#)). Diversity of competences and views allows us to improve the quality of our decisions.

In order to recruit and retain diverse talent and create **equal opportunities for newcomers**, we launched a mentorship program in 2015 with 59 acting mentors as of today (see also [Training and education](#)).

To create **equal opportunities for young people**, we cooperate with 10 specialized universities in Ukraine. All of them participate in "Kernel Chance" – a paid internship program for undergraduates and graduates allowing them to work in the company for several months under the mentorship of our professionals, learn theoretical and practical aspects of the selected area, and propose the area for optimization. Following the evaluation process, the best students get job offers from Kernel, and once employed, undergo intensive on-job training and rigorous mentoring, thus creating a ready-made career plan. Since the launch of the program in 2011, we employed 441 "Kernel Chance" alumni. In FY2021, we received over 300 applications for the program. We also organized two meetings with 140 students in total, discussing practical aspects of working in agronomy and logistics management.

In the reporting period, Group became a first employer for 14 students. Additionally, 10 students started as trainees in Group companies in FY2021.

While we comply with all applicable legal regulations on diversity and equal opportunities, our initiatives go far beyond the legal compliance. Since FY2020, Kernel is a member signatory to a [Declaration on gender equality and preventing domestic violence](#), initiated by UN Population Fund and Ukrainian Center for CSR development. We took a public commitment by 2025:

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

As a part of our approach, in FY2021 we launched through Company's social networks and external media a massive corporate fleshmob "I can be whoever I want" to support gender equality and demonstrate that women can be successful in various, even male-dominated professions. Our employee shared a [story](#) for the United Nations Population Fund on how it is to be a single farther and work for Kernel.

We provide equal access for all our permanent employees to our training and education programs, healthcare initiatives and medical insurance, career advancement. We promote the openness management model: any employee can address top or middle managers at any time. We have no dress-code requirements.

We provide **equal working opportunities to aged people and people with disabilities**. As of 30 June 2021, Kernel was an employer for 422 working pensioners (387 on FTE basis) and 571 people with disabilities (496 on FTE basis). All workplaces of disabled employees are properly equipped to meet their needs, although part of them work distantly from home.

[Employee affinity and networking groups](#)

Our employees participate in a few affinity groups, naming, among others:



WHERE TO SEEK HELP IF YOU BECOME A VICTIM OF DOMESTIC VIOLENCE?

Phone numbers

Nearest trauma centre/hospital – if the abuse was physical or sexual
☎ 103

Authorised units of the National Police of Ukraine
☎ 102

A government hotline for victims of domestic violence
☎ 15-47

National child hotline – if a family has children who are victims or witnesses of violence, then contact the child protection services in their area
☎ 772 or ☎ 0 800 500 225

A chatbot in Telegram from the Ministry of Internal Affairs
@police_helpbot

National hotline for the prevention of domestic violence, human trafficking and gender discrimination.
☎ 116-123 or ☎ 0 800 500 335

Free legal aid "Free legal aid centre"
☎ 0-800-213-103

Social service centres for families, children and young people
Contact details of the centres can be found anonymously by calling Kernel Hotline
☎ 0-800-501-483

Kernel initiated a promo campaign to combat domestic violence. In all Kernel offices we published posters on where to seek help if someone became a victim of domestic violence.

- **Kernel Sport Team**, within which our employees coordinate for participation in sport events, running clubs, organize sport tournaments between Group's business units. Company provides financial and organizational support for such activities;
- **Kernel Green Team**, an initiative of our employees to jointly participate in various environmental events: tree planting, garbage collection, promotion of environmentally friendly behavior;
- **Mental Health**, a community, for which we organize webinars, online morning, afternoon and evening yoga classes and fitness breaks, learning events on the health improvement and emotional intelligence.

In FY2021, we prepared a special e-learning course on diversity, which is mandatory to all new employees when onboarding with a minimum pass rate of 90%.

A new e-training course on equal opportunities and cultural diversity is mandatory for all new employees when onboarding, with 90% minimum pass rate.

Sustainability continued

Freedom of association and collective bargaining (GRI 407)

Kernel supports freedom of association and collective bargaining. As a signatory of UN Global Compact initiative, we publicly declare our support of one of its principles: "Uphold the freedom of association and the effective recognition of the right to collective bargaining." Implementing this principle, we approved a [Freedom of association and unions Policy](#) in FY2021. This policy publicly declared Company's recognition and support of the right of employees to unite in trade unions, to appoint and commissioner from the labor union and to conduct a collective bargaining.

We comply with all applicable local regulations on freedom of association and collective bargaining, namely the Labor Code of Ukraine and the Constitution of Ukraine. We do not have any company-specific policies considered likely to affect workers' decisions to form or join a trade union, to bargain collectively or to engage in trade union activities.

As of 30 June 2021, 78% of total employees were covered by **collective bargaining agreements**. For several legal entities not covered, we plan to sign such agreements in FY2022.

9% of all employees belonged to **trade unions** as of 30 June 2021. Trade unions representing employees function at Kropyvnytskyi, Prykolotne, Poltava and Vovchansk oil extraction plants, as well as at one grain storage facility. There were no outstanding disputes between trade unions and Kernel business entities as of the date of this report.

Human rights (GRI 412)

Kernel is committed to respecting human

rights (including core labor standards), expecting the same approach also from its management, employees and business partners. Company's position on human rights is outlined in [Sustainable development and corporate social responsibility policy](#) and in acting as a signatory to the UN Global Compact since FY2020. We support and respect the protection of internationally proclaimed human rights and are obliged not to be complicit in human rights abuses. Since FY2021, we follow the action plan to promote these human rights principles, and report on the progress as a part of our UNGC Communication on Progress.

Our commitment under UN Global Compact initiative consists of:

- **Primary commitment:** rights of women, persons with disabilities, local communities, smallholder farmers, workers (those under temporary contracts, sub-contractors, migrant workers).
- **Secondary commitment** (no direct impact from our side): children, indigenous people, victims of trafficking in human beings.

We receive financing from international financial institutions (the European Bank for Reconstruction and Development, the European Investment Bank, the Black Sea Trade and Development Bank), which implies our commitment to environmental and social matters, including human rights protection. As an example, under EBRD's Environmental and Social Policy we are obliged to respect human rights, avoid infringement on the human rights of others, and address adverse human rights risks and impacts caused by the business activities of clients.

The processes for receiving and addressing

complaints, and mitigating and providing remedies to human rights violations includes the hotline mechanism with such channels as a 24 / 7 / 365 toll-free hotline, form on the company's website, special e-mails (hotline@kernel.lu and compliance@kernel.lu) and Telegram-chatbot KernelHotline.

More than 4% of our employees are people with disabilities, and more than 8% belong to socially vulnerable groups, meeting the requirements of local Ukrainian legislation.

Our approach extends also to Kernel **suppliers and business partners**, thus impacting the respect of **human rights indirectly**. Our agreements oblige our counterparties to comply with Kernel's [Code of interaction with suppliers](#), including respect of human rights (equal opportunities for employees), following of the diversity approach (gender, age, disability, ethnicity, social status, culture etc.), and a complete ban of child and forced labor. We also conduct human rights due diligence throughout our value chain to assess risk exposure to human rights issues, including child and forced labor.

There is **no forced labor** on Kernel enterprises, and we have found no evidence of any forced labor in our supply chain.

In FY2021, we approved an [Anti-discrimination policy](#) aimed to ensure equal employment opportunities and environment which prohibits illegal discriminatory practices, including harassment.

The Group was not complicit in any human rights abuses over the reporting period.

Local communities (GRI 413)

By leasing lands on territories of 503 local councils in Ukraine and having the majority of our employees working and living in rural areas, we strongly interact with local communities. Villages in Ukraine suffer from high poverty rates, accelerating urbanization, and a lack of access to basic services and infrastructure. As a reputable long-term partner, Kernel shares responsibility for the development of neighboring local communities, so our purpose is to continuously contribute to the improvement of local communities' well-being in the regions of our operations and help communities prosper.

Our impact is directed by a [Good Neighborhood Policy](#), which proclaims the general principles of our cooperation with local

communities.

To identify and engage with stakeholders (local communities), better understand their needs and get feedback about our social activities, we benefit from:

- **a team of 252 dedicated relationship managers** who serve as our representatives in rural regions, communicate with landowners, local officials and opinion makers, help with offering seasonal and full-time jobs in Kernel to people in rural regions, coordinate our social projects and initiatives. The team has proven to be useful and effective, and we treat it as one of our competitive advantages, as a limited number of other crop producers in Ukraine apply such a practice;
- **a countrywide 24/7 toll-free hot line (0**

800 50 10 59). We received 1,387 calls in the reported period, a 51% of which covers questions related to local communities;

- [website](#) of our charity fund 'Together with Kernel' with description of our initiatives and contact details. All our support of local communities is structured through this fund.
- **a constant dialogue with local municipalities.**

Prior to settling investment projects in new areas, we assess potential environmental and socio-economic impacts of the planned developments during the statutory Environmental Impact Assessment (EIA). **Public consultations and hearings with potentially project-affected communities** are an integral part of the EIA process. During the hearings we inform people on the assessment findings,

Sustainability continued

collect, and address their questions and concerns. Similarly, assessment of project-related risks and adverse impacts to the health and safety of the potentially project-affected communities and development of protection, prevention and mitigation measures proportionate to the impacts and risks is required by our creditors who fund the investment projects. In case community opposes the project, we do not proceed with such. For example, Kernel agreed to change the location of the planned seed plant and urea-ammonium nitrate production facility due to ambiguous attitude of the local community.

After understanding the needs, we structured our efforts in two directions: monetary donations and non-cash support.

Monetary donations

In FY2021 we invested US\$ 3.9 million into well-being of local communities, including US\$ 0.8 million investments into infrastructure (excluding spending related to Kernel business needs).

Our initiatives include:

- **Infrastructure investments:** maintenance and repairs of roads, bridges, street lighting, waterpipes, bus stops etc.
- **Education:** maintenance and repairs of schools, kindergartens, and children's playgrounds, providing necessary equipment
- **Charity:** targeted support of needy landowners, orphan homes, nursing homes, severely ill people, and cash donations to other charity organizations.
- **Donations for funeral arrangements**
- **Sport and culture:** building and repairs of

libraries, athletic fields, community cultural centers; supplying equipment for gyms, sponsorship of sport and cultural events.

- **Healthcare:** maintenance and repairs of rural health posts, purchases of medical equipment.

In FY2021, our projects (repairs, purchase of new equipment) touched 111 rural health posts, 159 schools and 59 kindergartens, 67 libraries and other cultural and public buildings located in 441 local communities.

We also cooperate with other business in Ukraine to develop rural regions. In FY2021, Kernel and Ukgazvydobuvannya, part of the Naftogaz Group, have signed a [Memorandum of Partnership](#) for the sustainable development of the regions in which the companies operate. We have chosen four schools to provide with necessary equipment and furniture.

Non-cash support

Besides cash donations, we provide various other types of support to local communities.

We support **social entrepreneurship** by helping to establish municipal enterprises in the regions of our operations. We provide machinery or equipment to such enterprises for free or rent it out at some nominal costs, or sometimes purchase new equipment. Municipal enterprises provide landscaping, municipal and agricultural services (field cultivation) to local communities and local citizens, support and maintenance of local infrastructure (waterpipes), waste collection, snow cleaning etc. As of the date of this report, we helped to create 11 such enterprises with 79 new jobs

created.

In FY2021, we launched a program "[Family income](#)", which offered people in rural regions seasonal work in berry picking. Kernel helped to address organizational, sales and transportation issues, delivering berries to processing plant.

In one of regions of our presence with limited access to **healthcare services**, we acquired and fully equipped a medical car and hired a professional doctor who completed 315 visits to villages and provides medical services for free to almost 6,700 people living there.

Two of our plants located in areas with high water stress **provide** local communities with **access to water supply and wastewater treatment**, supplying in total 18,201 m³ of water to 481 people. Wastewater from all the households returns to the plants for treatment.

We also contribute to local communities' development **indirectly, by creating jobs and opportunities** there. At the same time, we understand that in the long-term our constant efficiency improvements in farming operations result in gradual reduction of the full-time headcount. Through our employees, we are spreading corporate culture, knowledge and skills, and leaving other positive footprints in rural areas we are unable to touch it in other ways. We are also disseminating best farming practices, which are quickly adopted by small neighboring farmers.

We try to engage local communities to co-finance the projects we do – it allows us to

Community development project "Academy of Regional Change Leaders"

While our direct support of local communities will persist, it will always be limited given the unlimited needs. We decided to look at that from another angle and provide tools to communities to unlock their internal transformation potential.

Considering investments in education as having one of the highest returns long-term, Kernel created the [Academy of Regional Change Leaders](#) – an educational project for proactive people willing to develop communities. Launched in November 2020, the project aims to provide trainings on attracting grants for rural development, volunteering, social entrepreneurship and reforms to implement effective social projects within communities. We learn to manage project risks, apply IT tools in project management, consider legal and financing issues in project implementation, and build a successful communication strategy. Kernel experts, representatives of well-known public organizations and government agencies act as trainers in the program.

By the date of this report, we organized six webinars, each hosting on average 250 participants. Invited speakers represented US-Ukrainian Business Council, Global Communities (initiative which is implementing a five-year USAID project "Decentralization Brings Better Results and Efficiency"), Deloitte Ukraine, the Swiss-Ukrainian Decentralization Support Project DESPRO, the Western NIS Enterprise Fund Local Economic Development Program (WNISEF), the USAID Program, healthcare sector, providers of solutions for communities' property management, and Kernel experts, among others.

The Academy is not only a powerful training base, but a high-quality communication platform for improving cooperation between business, government, and the communities.



**Academy of Regional
Change Leaders**

Created by Kernel

Sustainability continued

select only the most important projects for communities. In FY2021, we supported almost 1,200 such projects with total financing from our side of US\$ 1.4 million.

Finally, being a responsible taxpayer committed to full compliance with tax obligations, we indirectly support local communities, as a sizable portion of the taxes we pay goes directly to local budgets. In FY2021, we paid US\$ 94

million (UAH 2.5 billion) of taxes, a substantial portion of which served as local budgets revenues, supporting the well-being of local communities.

In a recognition of our merits, our charity fund "Together with Kernel" was awarded as a winner (among 147 applicants) in the nomination "Social Charity" in the prestigious National Charity Award "Charity Ukraine" in FY2021.

The contest included 1,163 applications in 25 nominations.

Responsible neighborhood approach allows us to maintain best relations with local communities and owners of land we lease. Thus, the average tenor of farmland lease contracts increased over FY2021 from 12 years as of 30 June 2020 to 12.5 years as of 30 June 2021.

Customer health and safety (GRI 416)

Kernel is committed to setting the benchmark in terms of product quality, guaranteeing the highest standards of our goods. Our purpose is to deliver the best quality products to our customers and prevent any incidents of non-compliance with regulations, as well as expand geographies of product export as a result of recognition of our customer health and safety approach.

Our key products include:

- **sunflower oil** (sold in bulk and bottled), sunflower meal (a protein-rich type of feed), sunflower husk. We are the largest global sunflower oil producer.
- **grains and oilseeds** produced by our farming segment and exported from Ukraine through our infrastructure and trading value chain. We are the largest crop producer in Ukraine and the largest grain exporter from Ukraine.

Our impact occurs across all our business lines, but most significantly in the Oilseed Processing segment, where we touch the final customer with our bottled sunflower oil product. Other business lines deliver mostly commodity-type products or related services with globally standardized product quality characteristics.

We maintain a preventive food management system, targeted at addressing the risk of potential biological, chemical, and physical hazards in production processes. It ensures the traceability of products across the entire value chain under our control.

In FY2021 one of our grain shipments to Asia incurred certain difficulties with regards to specific quality requirements. Besides that, there were no other incidents of non-compliance with regulations concerning the health and safety impacts of products and services within FY2021.

General quality and safety recognitions

Our export terminal and oilseed processing plants are certified under **ISO 9001** (quality management system). Oil-extraction plants

are also certified under **ISO 22000** (food safety management), which integrates the principles of the Hazard Analysis and Critical Control Point (HACCP) system and application of procedures developed by the Codex Alimentarius Commission.

All but one our oilseed processing plants, grain export terminal in Chornomorsk, two farming clusters with total farmland bank of over 250,000 hectares, 15 silos (out of 30) and key trading company Kernel-Trade successfully completed certification under **ISO 14001** (environmental) and **ISO 45001** (occupational health & safety) management system (conducted by Bureau Veritas).

Since 2018, our crushing and bottling facility in Poltava is compliant with **BSCI** requirements (grade "A") which confirms the corporate social responsibility of our business and simplifies our access to retail chains in EU. In FY2022, we plan to pass the **BSCI** audit also for our second oilseed processing plant with refining and bottling capacities, located in Prykolotne.

Our laboratory in Poltava is accredited under **ISO 17025** standard, which allows us to conduct a wide scope of the analysis of sunflower oil, meal and grain for our own needs and also provide services to third parties.

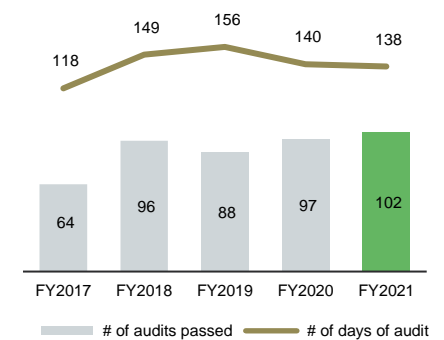
Kernel's TransBulkTerminal is certified under **Gafta** standards to conduct fumigation activities, resulting in no further needs in third-party certified fumigation services.

Sunflower oil

Our facilities comply with **Kosher**, **Kosher Passover**, **Badatz** and **Badatz Passover** requirements of Jewish dietary regulations and conform to the Muslim **Halal** food standards. Five of our plants are FDA-registered, which opens the USA market to our sunflower oil (including high-oleic) in bottles and in flexi-tanks. Food safety systems on our two bottling facilities are certified under **FSSC 22000**, increasing our market reach to large retailers.

Being certified under **ISCC EU**, production of

Number of independent quality audits passed



vegetable oils and meals at five of our crushing plants comply with the legal sustainability requirements specified in the EU Renewable Energy Directive and Fuel Quality Directive. Our trading entities also obtained **ISCC EU** certification.

Our oil-extraction plants with bottling facilities are certified under **IFS**, which allows us to sell bottled sunflower oil and sunflower oil in flexi-tanks to European countries. Additionally, one of our plants obtained the country-specific registration to sell sunflower oil to South Korea.

We supply bottled sunflower oil to reputable international retail chains (Auchan, Metro, Walmart, Maxima etc.).

Sunflower meal

All our oilseed processing plants have **GMP+B1** certificates which ensure feed safety and quality for our protein meal production. Further along the value chain, our export terminals and trading entities are certified under **GMP+B3** (feed safety in trade, collection and storage & transshipment), and our Swiss trading entity Inerco also complies with **GMP+B4** (feed safety in transportation and airfreightment).

Our Bandurka plant complies with the requirements of **ISCC PLUS** certification system in the meal production.

Sustainability continued

Additionally, our crushing facilities have country-specific registrations allowing us to export sunflower meal to China and Belarus.

Crop production

Kernel crops on 486 thousand hectares have been produced in an environmentally and socially sustainable way, meeting the **ISCC EU** requirements - prerequisites set for biofuel supply chain sustainability under the EU Renewable Energy Directive. See more details in [Biodiversity](#) section.

At all our grain silos, we implemented HACCP principles which address the food safety concerns for grain storages.

In FY2021, we expanded the coverage of 11 existing certificates by adding more products under the certificates' umbrella and obtained eight new certificates.

Next year, we plan to certify our Prykolotne oilseed processing facility with BSCI, align the activity of Black Sea Industry crushing plant with ISCC EU and ISCC Plus, and obtain the wide range of certificates for our new crushing plant in Starokostiantyniv.

Our food safety and quality system is regularly tested by independent third-party auditors and constantly overseen by our internal food safety team. The audits' scope includes production, storage, distribution and supply processes. In FY2021, we passed 102 independent audits, taking in total 138 days.

Product quality and safety certificates and registrations

Standard	Oilseed processing plants						Terminals		Trading			Farming	Silos	Total
	Bandurka	Vovchansk	Kropyvnytskyi	Poltava	Prykolotne	BSI	Prydniprovskiy + Ellada	TransBulkTerminal	TransGrainTerminal	Kernel-Trade	Inerco	Avere		
ISO 9001	✓	✓	✓	✓	✓	✓	✓	✓						9
ISO 14001	✓	✓	✓	✓	✓	✓	✓	✓		✓			2	26
ISO 22000	✓	✓	✓	✓	✓	✓	✓						8	8
ISO 45001	✓	✓	✓	✓	✓	✓	✓	✓		✓			2	26
GMP+B1	✓	✓	✓	✓	✓	✓	✓						8	8
GMP+B3								✓	✓	✓	✓		5	9
GMP+B4											✓			1
BSCI				✓										1
FSSC 22000				✓	✓									2
Kosher	✓	✓	✓	✓	✓		✓							7
Kosher Passover					✓									2
Badatz				✓	✓									2
Badatz Passover				✓	✓									2
Halal	✓	✓	✓	✓	✓		✓							7
FDA registration			✓	✓	✓		✓							5
ISCC EU	✓			✓	✓		✓			✓	✓	✓		8
ISCC PLUS	✓			✓	✓		✓							3
IFS				✓	✓									2
Gafta								✓						1
China (sunseed meal)	✓	✓	✓	✓	✓	✓	✓							8
China (rapeseed meal)	✓			✓	✓	✓	✓							4
Belarus (meal)		✓	✓	✓	✓	✓	✓							6
Total	11	9	10	17	14	7	26	5	1	4	3	1	9	147



Obtained in FY2021



Coverage expanded in FY2021

Sustainability continued

GRI Content Index

In accordance with the GRI Standards: Core option

GRI	Disclosure	
101: Foundation 2016		
102: General Disclosures 2016		
		1. Organizational profile
102-01	Name of the organization	Kernel Holding S.A.
102-02	Activities, brands, products, and services	Our business model (p.6), Kernel at a Glance (p. 7), brands (p.17), website
102-03	Location of headquarters	Kyiv, Ukraine
102-04	Location of operations	Key Kernel assets are in Ukraine (p.7)
102-05	Ownership and legal form	Group structure (p. 88), Share capital and significant shareholdings (p. 88)
102-06	Markets served	<ul style="list-style-type: none"> • Geographic locations: sunflower oil sold in bulk (p.15) bottled sunflower oil (p.15), grain export markets (p.23) • Sectors served: food and agriculture • Types of customers and beneficiaries: global soft commodity traders and processors of agricultural commodities, feed compounders, retail chains and distributors.
102-07	Scale of the organization	<ul style="list-style-type: none"> • Total number of employees: (p.69) • Total number of operations: three business segments: Oilseed Processing, Infrastructure and Trading, Farming (p.6, 7, 105). • Net revenues: key highlights (p.2) • Total capitalization: market capitalization (p.9; for updated figures please see Kernel profile on Warsaw Stock Exchange website); credit metrics (p. 11) • Quantity of products or services provided: Kernel at a Glance (p. 7)
102-08	Information on employees and other workers	a. Human capital indicators (p. 69) b. Human capital indicators (p. 69) c. Human capital indicators (p. 69) d. Workers who are not employees perform insignificant portion of activities e. Significant variations in the numbers includes only seasonal variations of employees in Kernel farming business, which does not exceed 6% of total headcount. f. Data compiled by Kernel employee accounting system; Human capital indicators (p. 69)
102-09	Supply chain	<ul style="list-style-type: none"> • Our Business Model (p.6), Supplier environmental and social assessment (p. 66) • Types of suppliers: independent farmers-suppliers of grain and oilseeds, suppliers of inputs to crop production (seeds, fertilizers, crop protection agents, fuel), suppliers of other inputs (natural gas, energy)
102-10	Significant changes to the organization and its supply chain	Significant changes to the organization: Note 1 to the Consolidated Financial Statements (p.110), Oilseed Processing (p. 13), Infrastructure and Trading (p. 19), Supplier environmental and social assessment (p. 66-67).
102-11	Precautionary Principle or approach	<p>There were no significant changes to Kernel supply chain in FY2021.</p> <p>The Group's entities apply the Precautionary Principle through maintaining compliance with the Law of Ukraine on Environmental Impact Assessment (see p. 54). The law requires a promoter to provide scientific evidence of no threats of serious or irreversible environmental damage associated with the planned development and activities. Unless such evidence is presented, no statutory authorization can be granted to the development and activities in question.</p> <p>The same principle works for environmental permitting. No emission or water use permit can be granted unless an applicant presented evidence of impacts staying below established thresholds (environmental quality standards). Kernel's subsidiaries hold all applicable</p>

Sustainability continued

GRI	Disclosure	
		environmental permits (see p. 58, 62).
102-12	External initiatives	<p>Kernel endorses the following externally-developed economic, environmental and social charters, principles, and other initiatives:</p> <ul style="list-style-type: none"> • International Labour Organization's Fundamental Principles and Rights at Work; • United Nations Global Compact (UNGC); • United Nations Universal Declaration of Human Rights; • Carbon Disclosure Project (CDP); • Task Force on Climate-Related Financial Disclosures (TCFD); • Global Reporting Initiative (GRI).
102-13	Membership of associations	<p>Kernel, through its subsidiaries, is a member of several industry associations in Ukraine, including:</p> <ul style="list-style-type: none"> • European Business Association (incl. Logistics Committee); • American Chamber of Commerce; • Ukrainian Grain Association; • Ukrainian Agrarian Association; • U.S.-Ukraine Business Council; • Federation of Oils, Seeds and Fats Associations; • Grain and Feed Trade Association; • UkrOliyaProm; • Ukrainian Network of Integrity and Compliance; • UN Global Compact.
2. Strategy		
102-14	Statement from senior decision-maker	<p>Chairman's speech (p. 4)</p> <p>Our approach (p. 41)</p>
3. Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	<p>Business ethics and compliance section on our website</p> <p>Sustainability section on our website</p>
102-17	Mechanisms for advice and concerns about ethics	Anti-corruption (p. 53)
4. Governance structure		
102-18	Governance structure	<p>a. Governance structure of the organization (p. 88-89)</p> <p>Company does not have a separate committee responsible for decision-making on economic, environmental, and social topics on the Board of Directors level. Respective responsibilities are attributable to people in the management team.</p>
5. Stakeholder engagement		
102-40	List of stakeholder groups	Key stakeholder groups and engagement channels (p.43)
102-41	Collective bargaining agreements	Freedom of association and collective bargaining (p. 77-77)
102-42	Identifying and selecting stakeholders	'Our approach to materiality and report content' and 'Key stakeholder groups and engagement channels' (p. 43-44). Although the frequency of our engagement varies, we are intent on staying engaged with all our stakeholders in areas of mutual interest
102-43	Approach to stakeholder engagement	Key stakeholder groups and engagement channels (p.43)
102-44	Key topics and concerns raised	Key stakeholder groups and engagement channels (p. 43), Stakeholder inclusiveness (p.43). Also discussed throughout this report.
6. Reporting practice		
102-45	Entities included in the consolidated financial statements	Notes 1 to the Consolidated Financial Statements (p.110). Certain sustainability information does not include data for all entities, which is highlighted in each case
102-46	Defining report content and topic Boundaries	<p>An explanation of the process for defining the report content and the topic Boundaries (p.43).</p> <p>Implementation of the Reporting Principles for defining report content (p. 43):</p> <ul style="list-style-type: none"> • Stakeholder Inclusiveness • Sustainability Context • Materiality • Completeness • Accuracy • Balance • Clarity

Sustainability continued

GRI	Disclosure	
		<ul style="list-style-type: none"> • Comparability • Reliability • Timeliness
102-47	List of material topics	Topic Boundaries (p.44)
102-48	Restatements of information	GRI 305-1, 305-2, 305-4 Greenhouse gas emission Reason - expanding the scope of reporting GRI 404-1 Training and education Reason - measurement methods
102-49	Changes in reporting	There were no significant changes in the list of material topics and topic boundaries.
102-50	Reporting period	Financial year 2021 ended 30 June 2021. See also Note 1 to the Consolidated Financial Statements (p.110).
102-51	Date of most recent report	5 October 2020 is the date of the most recent previous report, as a sustainability section of the FY2020 annual report.
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	ir@kernel.ua; sustainability@kernel.ua
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI content index	p.81-87
102-56	External assurance	<p>a. The Company does not have a policy with regard to external assurance. Current practice is to obtain external assurance annually. The Company obtained independent external assurance report for FY2015 and FY2020 Sustainability reports.</p> <p>b. FY2021 Sustainability report has been externally assured (p.44). Baker Tilly Ukraine performed a limited assurance engagement. Kernel has no other relationship with Baker Tilly Ukraine. The initiative to obtain external assurance comes from the Board of Directors.</p>
Material topics		
Economic performance		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Economic performance (p. 49), Strategy (p. 8), , Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44). Also discussed throughout the strategic report (p. 1-40), UN SDG Goals (p. 47), Sustainability agenda for FY2022 (p. 41).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
201: Economic performance 2016		
201-1	Direct economic value generated and distributed	Economic value generated, distributed, and retained (p. 49)
201-2	Financial implications and other risks and opportunities due to climate change	Economic performance (p. 49-50)
201-4	Financial assistance received from government	Economic performance (p. 50)
Indirect Economic Impacts		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Indirect economic impact (p. 51), Local Communities (p.77-79), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), Company website, UN SDG Goals (p. 47).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
203: Indirect Economic Impacts 2016		
203-1	Infrastructure investments and services supported	Local Communities (p. 77), Charity spending (p. 68).
203-2	Significant indirect economic impacts	Indirect economic impact (p. 51), Local Communities (p. 77).
Anti-corruption		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Anti-corruption (p. 52-53), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47).
103-2	The management approach and its components	Business ethics and compliance section on our website
103-3	Evaluation of the management approach	
205: Anti-corruption 2016		
205-1	Operations assessed for risks related to corruption	Anti-corruption (p. 52)
205-2	Communication and training about anti-corruption policies and procedures	Anti-corruption (p. 52). We do not provide a breakdown of communication and training by regions, as all such activities happen in Ukraine.
205-3	Confirmed incidents of corruption and actions taken	Anti-corruption (p.52)
Energy		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Energy (p.55-56), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47),
103-2	The management approach and its components	

Sustainability continued

GRI	Disclosure	
103-3	Evaluation of the management approach	Environmental impacts (54). The Company is not subject to any government or industry-specific policy for energy use, while the renewable energy produced from biomass at the Company's sites falls under the legal incentive scheme (feed-in tariff).
302: Energy 2016		
302-1	Energy consumption within the organization	a-g. Energy consumption (p. 55)
302-3	Energy intensity	a. Energy intensity (p. 55); b. Organization-specific metric (the denominators) chosen to calculate the energy intensity ratios: volumes of sunflower seeds processed (for Oilseed Processing Segment), ton-percentages of grain dried (for Infrastructure and Trading Segment) and volumes of grain and oilseeds produced (for Farming segment); c. All the energy consumed by respective business segment (fuel, electricity, heating etc.) was included to calculate the energy intensity ratios for Oilseed Processing and Farming. For Infrastructure and Trading, we used only energy consumed by silo business line to calculate the energy intensity ratio; All the ratios use energy consumption <u>within</u> the organization;
Water and Effluents		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Water and Effluents (p. 57-59), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), Environmental impacts (54), Environmental Protection Policy , UN SDG Goals (p. 47).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
303: Water and Effluents 2018		
303-1	Interactions with water as a shared resource	Water and Effluents (p. 57-59), Environmental Protection Policy , UN SDG Goals (p. 47).
303-2	Management of water discharge-related impacts	Water and Effluents (p. 57-59)
303-3	Water withdrawal	a. Total water withdrawal from all areas in megaliters, and a breakdown of this total by the sources (p. 57) b. Total water withdrawal from all areas with water stress in megaliters, and a breakdown of this total by the sources (p. 57)
303-4	Water discharge	a. Water withdrawal and discharges (p. 57-59); b. Reason for omission: information unavailable (p. 58); c. Water withdrawal and discharges (p. 57); d. Reason for omission: information unavailable; e. Water withdrawal and discharges (p. 57-59).
Biodiversity		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Biodiversity (p.59-61), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47), Environmental impacts (p. 54). Sustainability section on our website.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
304: Biodiversity 2016		
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Biodiversity (p. 59) Reason for omission - Confidentiality constrains. We omit disclosure of details of each separate site falling within the territory of a national park, as all such sites are lands we lease from third parties, and detailed list of such sites constitutes a commercial information, as we compete for leasing land with other players in Ukraine.
Emissions		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Environment (p.62-64), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47), Environmental impacts (p. 54), Sustainability agenda for FY2022 (p. 41). Sustainability section on our website.
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
305: Emissions 2016		
305-1	Direct (Scope 1) GHG emissions	a-c. Emissions (p. 62-63); d. Base year is FY2016 (a year since which the verifiable emissions data are available);

Sustainability continued

GRI	Disclosure	
		e-f. Emissions (p. 62-63).
305-2	Energy indirect (Scope 2) GHG emissions	Emissions (p. 62-63).
305-3	Other indirect (Scope 3) GHG emissions	a. Gross Scope 3 GHG emissions: Emissions (p. 62); b. Gases included in the calculation: CO ₂ , N ₂ O; c. Biogenic CO ₂ emissions: 892 thousand tons of CO ₂ e; d. Scope 3 GHG emissions categories and activities included in the calculation: combustion of motor fuels by machinery, application of fertilizers and plant residues, changes in organic carbon stocks in mineral soils, consumption of purchased electricity; e. FY2021 is the base year for the calculation, as verifiable emissions data for this year are available; f. Source of the emission factors and the GWP rates used: same as for 305-1; g. We applied specific emission factors defined for crops produced by Kernel to the volume of grains and oilseeds procured from 3rd-party farmers.
305-4	GHG emissions intensity	Emissions (p. 63).
305-7	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	Emissions (p. 63).
Waste		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Waste (p. 64-65), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47), Environmental impacts (p. 54).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
306: Waste 2020		
306-1	Waste generation and significant waste-related impacts	Waste (p. 64)
306-2	Management of significant waste-related impacts	Waste (p. 64-65)
306-3	Waste generated	Waste (p.65)
Environmental compliance		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Environmental impacts (p. 54-55), Our approach to materiality and report content (p. 43-44).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
307: Environmental Compliance 2016		
307-1	Non-compliance with environmental laws and regulations	Environmental impacts (p. 54-55, 58).
Supplier environmental assessment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Supplier environmental and social assessment (p. 66-67), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), Sustainability agenda for FY2022 (p. 41).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
308: Supplier environmental assessment 2016		
308-2	Negative environmental impacts in the supply chain and actions taken	Supplier environmental and social assessment (p. 66-67)
Employment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Employment (p. 69-71), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47), Sustainable development and corporate social responsibility policy .
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
401: Employment 2016		
401-1	New employee hires and employee turnover	Employment (p. 71). The Company is not disclosing the rate of new employee hires and the rate of employee turnover, considering the high number of seasonal workers as at the end of the reporting periods (reasons for omission – not applicable).
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	a. Standard benefits for full-time employees in Ukraine (p. 69-70). Temporary and part-time employees are not provided with some training and development programs, are not covered by voluntary medical insurance program, and are not subject to annual performance appraisal system. Ukraine is considered as a significant location of operations for the

Sustainability continued

GRI	Disclosure	
		purposes of GRI 401-2 disclosure.
Occupational health and safety		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Occupational health and safety (Oilseed Processing) (p. 18)
103-2	The management approach and its components	Occupational health and safety (Infrastructure and Trading) (p.24)
103-3	Evaluation of the management approach	Occupational health and safety (Farming) (p.30) Occupational health and safety (p. 72-74), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47).
403: Occupational Health and Safety		
403-1	Occupational health and safety management system	Occupational health and safety (p. 72).
403-2	Hazard identification, risk assessment, and incident investigation	Occupational health and safety (p. 72-73).
403-3	Occupational health services	Occupational health and safety (p.73).
403-4	Worker participation, consultation, and communication on occupational health and safety	a. Occupational health and safety (p. 73); b. Company does not have a formal joint management-worker health and safety committee.
403-5	Worker training on occupational health and safety	Occupational health and safety (p. 73).
403-6	Promotion of worker health	Occupational health and safety (p. 73), Voluntary medical insurance program (p. 69); Base compensation and benefits (p. 69-70).
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Occupational health and safety (p. 72-74).
403-8	Workers covered by an occupational health and safety management system	Occupational health and safety (p. 72, 74). No workers have been excluded from this disclosure. OHSMS covers all Group's entities and, respectively, all Groups workers.
403-9	Work-related injuries	a. Work-related injuries (p. 72, 74). Main types of work-related injuries include slips, trips, and falls; b. Not applicable due to insignificant number of such workers; c. Occupational health and safety (p. 72-74); d. Actions taken to eliminate other work-related hazards include, among others, installation of alcohol detectors in all company's industrial and infrastructure assets and re-design of business processes with high potential risks; e. Rates have been calculated based on 1,000,000 hours worked; No workers have been excluded from this disclosure.
Training and education		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Training and education (p.74-75), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), Employee training and development (p. 18, 24, 30), UN SDG Goals (p. 47).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
404: Training and Education 2016		
404-1	Average hours of training per year per employee	Training and education (p. 74).
404-2	Programs for upgrading employee skills and transition assistance programs	a. Training and education (p. 74-75); Transition assistance programs provided to facilitate continued employability are described in section "Training and education" (p. 74). We do not provide any specific transition assistance programs to facilitate management of career endings resulting from retirement or termination of employment, apart from one-off severance payment or retirement benefit.
Diversity and equal opportunity		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Diversity and equal opportunity (p.75-76), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), UN SDG Goals (p. 47).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
405: Diversity and Equal Opportunity 2016		
405-1	Diversity of governance bodies and employees	Diversity and equal opportunity (p. 75).
Freedom of association		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Freedom of association and collective bargaining (p. 77), Our

Sustainability continued

GRI	Disclosure	
103-2	The management approach and its components	approach to materiality and report content (p. 43-44), Topic boundaries (p. 44).
103-3	Evaluation of the management approach	
407: Freedom of Association and Collective Bargaining		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	<p>a. We have no operations in which workers' rights to exercise freedom of association may be violated or at significant risk. For 22% of our operations (measured by the headcount) there may exist difficulties to exercise collective bargaining rights, as such employees are not covered by collective bargaining agreement. We have no identified suppliers in which workers' rights to exercise freedom of association or collective bargaining may be violated;</p> <p>b. Freedom of association and collective bargaining (p. 77).</p>
Human Rights Assessment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Human rights assessment (p. 77), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
412: Human Rights Assessment		
412-1	Operations that have been subject to human rights reviews or impact assessments	No our operations have been subject to human rights reviews or human rights impact assessments.
Local communities		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Local communities (p.77-79), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), Social spending (p. 68), Kernel local communities selected initiatives in FY2021 (p. 30).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
413: Local Communities 2016		
413-1	Operations with local community engagement, impact assessments, and development programs	Local communities (p. 77-79). 100% of operations in our Farming segment (topic boundary for this topic disclosure) are involved in local community engagement, impact assessments and/or development programs. Albeit the frequency and depth of engagement may differ by region.
413-2	Operations with significant actual and potential negative impacts on local communities	Kernel is not aware of any significant negative impacts on local communities as a result of its activities.
Supplier social assessment		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Supplier environmental and social assessment (p. 66-67), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44), Sustainability agenda for FY2022 (p. 41), UN SDG Goals (p. 47).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
414: Supplier Social Assessment 2016		
414-2	Negative social impacts in the supply chain and actions taken	<p>a. Supplier environmental and social assessment (p. 67);</p> <p>b. Supplier environmental and social assessment (p. 67);</p> <p>c. Supplier environmental and social assessment (p. 67);</p> <p>d. Supplier environmental and social assessment (p. 67);</p> <p>e. Supplier environmental and social assessment (p. 67).</p>
Customer health and safety		
103: Management Approach 2016		
103-1	Explanation of the material topic and its Boundary	Customer health and safety (p.79-79), Our approach to materiality and report content (p. 43-44), Topic boundaries (p. 44).
103-2	The management approach and its components	
103-3	Evaluation of the management approach	
416: Customer Health and Safety 2016		
416-1	Assessment of the health and safety impacts of product and service categories	We assess health and safety impacts for improvement for all our significant products.
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Customer health and safety (p.79)

Corporate Governance

Main characteristics of Kernel

Group structure

Kernel Holding S.A. is a public limited liability company (société anonyme) incorporated on 15 June 2005 under the laws of the Grand Duchy of Luxembourg (RCS Luxembourg B109173) and having its registered address 9 Rue de Bitbourg, L-1273 Luxembourg. Kernel Holding S.A. is a holding entity for the group of companies (altogether 'the Group' or 'the Company' or 'Kernel') and has its share listed on the main market of the Warsaw Stock Exchange (Bloomberg ticker: KER PW) since November 2007. The list of primary subsidiaries is disclosed on page 110 of this report.

Share capital and significant shareholdings

The issued capital of the Kernel Holding S.A. as of 30 June 2021 consisted of 84,031,230 fully paid ordinary single class shares, all ranking pari passu and having equal voting rights and no special control rights attached to any of the shares.

According to notifications received by the company, one shareholder owned more than 5% of Company's shares as of 30 June 2021:

- Namsen Limited, a legal entity directly controlled by the Chairman of the Board of Directors and founder of the business, Mr. Andrii Verevskiy, owning 39.16% of shares;

Ownership structure as of 30 June 2021

	Shares owned	%-age owned
Namsen Limited	32,903,278	39.16%
Other	51,127,952	60.84%
Total	84,031,230	100.00%

in FY2021, the Company received one notification about shareholder's crossing the significant threshold: Cascade Investment Fund informed about controlling less than 5% of the share capital and total votes.

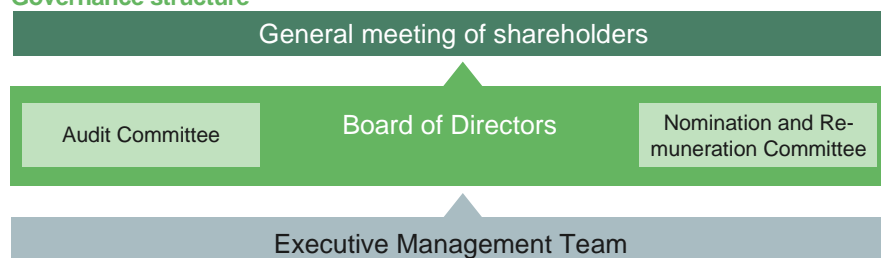
The Company is not aware of any other shareholders except Namsen Limited who keep more than 5% of the share capital and total votes.

The Company held no treasury shares as of 30 June 2021.

As of 30 June 2021, there were no outstanding options granting rights to acquire shares of the Company.

On 30 August 2021, the Extraordinary General Meeting of shareholders (the "EGM") approved a 2-year **share buyback program** for US\$ 250 million size, authorizing the Board of Directors to purchase a maximum of 19.2 million Company's shares within a PLN 50-65 price range. On 3 September 2021, the Company announced an **invitation to tender for sale** in a form of the modified Dutch auction of

Governance structure



up to 3,872,400 shares in the Company for a maximum total consideration of PLN 193,620,000, assuming a price range of PLN 50-65. On 20 September 2021, the Company announced that **as a result of the auction its subsidiary purchased 3,227,000 Company's shares at PLN 60 buyback price**, with a settlement date being 24 September 2021. The shares will be kept on the account of the Company's subsidiary, being treated as treasury shares for the consolidation purposes without any dividend and voting rights, until the Board of Directors decides about the purpose of the bought-back Shares, including in particular cancellation of Shares, sale or other legitimate purpose. After the settlement, **the number of shares having voting and dividend rights reduced to 80,804,230**. Namsen Limited has not participated in the share buyback transaction.

Corporate governance framework

Kernel is committed to high standards of corporate governance and is guided by 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 Practice for WSE Listed Companies 2021** as a place of Company's shares listing. The paragraph 29 of the **Warsaw Stock Exchange Rules** require issuers to publish the report indicating which rules the issuer complies with and which rules the issuer does not comply with on a permanent basis. The Company published such report on 12 August 2021, available on Company's [website](#). The Company applied all the principles except for detailed principles 1.4., 1.4.1., 1.4.2., 1.5., 2.1., 2.11.3., 2.11.5., 2.11.6., 3.6., 3.9., 6.2., 6.3., 6.4.

Key internal documents laying out the principles of corporate governance are Kernel Holding S.A. Articles of Association and Corporate Governance Charter. On 30 August 2021, the EGM also approved the Remuneration Policy, which is applicable to the Board of Directors and the Executive Management Team. All these documents are available on [Company's website](#).

Following the regular review of Company's

compliance with best corporate governance practices, the Board believes that the Company put its best efforts to comply with:

- the applicable corporate governance principles;
- disclosure obligations concerning compliance with corporate governance principles defined in the [WSE Rules](#);
- regulations on current and periodic reports published by Company as an issuer of securities.

General Meeting of Shareholders

General Meeting of Shareholders is the highest governance body of the Company, having the broadest power to order, carry out or ratify all acts relating to the operations of the Company. All the details about organizing and functioning of the general meeting of shareholders are listed in the Articles of Association and Corporate Governance Charter, both published on [Company's website](#).

The annual general meeting held on 10 December 2020:

- approved the management report of the Board of Directors, consolidated financial statements of the Company and standalone annual accounts of the Kernel Holding S.A., and the report of the independent auditor for the year ended 30 June 2020;
- granted discharge to the directors of the Company for the exercise of their mandates in FY2020;
- renewed the mandates of all directors and approved the fees of executive and non-executive directors for the year ended 10 December 2021;
- granted discharge to the independent auditor and reappointed Deloitte Audit S.a.r.l. independent auditor of the Company for one-year term mandate.

The next annual general meeting of shareholders is scheduled for 10 December 2021.

There were no extraordinary meetings of shareholders of Kernel Holding S.A. ("EGM") in FY2021.

Extraordinary general meeting of shareholders held on 30 August 2021:

- approved new long-term management incentive plan;
- approved the 2-year share buyback program for US\$ 250 million size, authorizing

Corporate Governance continued

the Board of Directors to purchase a maximum of 19.2 million Company's shares within a PLN 50-65 price range;

- approved and ratified the remuneration policy of the Company;
- appointed Mrs. Pieternel Boogaard as a new non-executive independent director of the Company and approved her remuneration;
- appointed PwC as a new independent auditor of the Company.

All recent general meetings were held without any physical presence of shareholders, as all shareholders who had decided to attend the meeting opted for direct electronic voting or indirect voting via the independent proxy.

All the documents and resolutions adopted by the shareholder meetings are available on [Company's website](#).

Board of Directors

Company is managed by the Board of Directors ("the Board"), which is the ultimate decision-making body, except for the powers reserved for the general meeting of shareholders by law, the Articles of Association and the Corporate Governance Charter. The Board is vested with the broadest powers to perform all acts of administration and disposition in compliance with the Company's corporate purpose. The Board resolves to take its decisions objectively, in the best corporate interest of the Company. The Board is collectively responsible and accountable to the shareholders for the proper conduct of the business, the long-term success of the Company, the effectiveness of the reporting system and the corporate governance framework.

The responsibilities of the Board include approval and review of strategies and policies, governance of the Company and management supervision. More detailed responsibilities are specified in Company's [Corporate Governance Charter](#).

All Directors are equally accountable for the proper stewardship of the Company's affairs. The non-executive directors have a responsibility for ensuring that the business strategies proposed are fully discussed and critically reviewed. This enables the Directors to promote the success of the Company for the benefit of

its shareholders, while having regard to, among other matters, the interest of employees, the fostering of business relationships with customers, suppliers and other stakeholders, as well as promoting the impact of the Company's operations on the communities and the environment in which the business operates.

The Board approves every investment, divestment, acquisition, disposal, and funding transaction exceeding in value 5% of average 12 months trailing daily market capitalization of the Company.

Board composition

The Board is composed of nine directors, of which five are executive (including a Chairman) and four are non-executive directors. Three non-executive directors fulfill the criteria of being independent. None of the four non-executive directors have material relations with any shareholder who holds at least 5% of the total vote in the company.

There were no changes in the composition of the Board in FY2021. After the end of the reporting period, Mrs. Pieternel Boogaard, was appointed by the extraordinary general meeting of shareholders held on 30 August 2021 as a new independent non-executive director of the Company. Mrs. Boogaard showcases strong skills and significant experience in the field of agriculture, sustainable development and finance that shall positively contribute to the Company's growth and expansion, these skills and experience being fundamental for a potential member of the board of directors of the Company. Such appointment increases independence of the Board and its ability to perform its proper oversight role.

The non-executive directors are experienced and influential individuals from a range of industries and countries with an appropriate mix of skills and business experience to contribute to the proper functioning of the Board and its Committees.

The mandate of the Chairman expires at the annual general shareholder meeting in December 2025. The mandates of all other directors expire at the annual general shareholder meeting in December 2021.

N&R Committee regularly review the composition of the Board to ensure that the Board has an appropriate, diverse and balanced mix of competences, skills, experience, background and knowledge of the Company's affairs. Key principles governing the processes of nomination, appointment and re-election of Directors are described in the Company's Corporate Governance Charter, published on [Kernel's website](#).

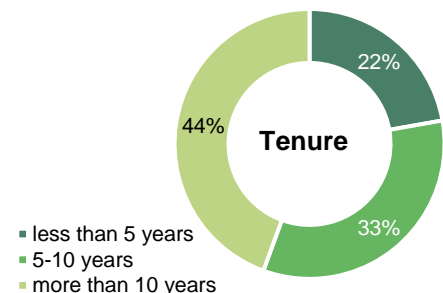
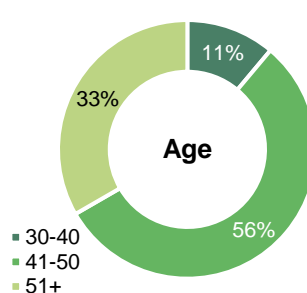
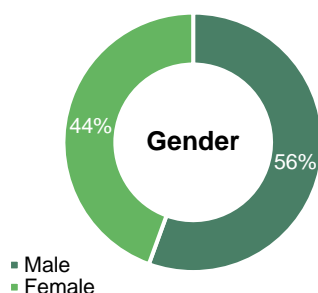
Board diversity

Diversity among Directors makes the Board high-performing and efficient, serving the best interests of the Company's key stakeholders. The diversity within the Board is enhanced by [Kernel's Equality, Diversity and Inclusion Policy](#), which was adopted in 2018. The policy is on constant basis considered by the N&R Committee of the Board and Executive Management Team when making employee and management appointment decisions. In particular, increasing the diversity among Board members is one of the key decision factors when nominating new directors for the appointment. Board diversity significantly improved after Mrs. Pieternel Boogaard was appointed by the EGM as a new independent non-executive director of the Company in August 2021.

The Company benefits from diversity in:

- **gender** (44% female Directors, well above the minimum 30% threshold recommended by the Best Practice for WSE Listed Companies 2021);
- **age and tenure;**
- **professional experience** (industry and operations expertise, soft commodities trading, finance and audit, banking and investments, sustainability, legal, among others);
- **nationality and culture** (while majority of Directors are Ukrainians, we have also citizens of UK, Netherlands, Canada and Poland in the Board).

Composition of the Board of Directors as of 4 October 2021



Corporate Governance continued

Effective and experienced leadership

Kernel Holding S.A. is governed by the Board of Directors composing of nine members, including four non-executive directors, three of which are independent). Biographical details of the Board are as follows (with further details available on Company's [website](#)).

Andrii Verevskyi, 47  Chairman of the Board, Founder Tenure: 14 years Skills and experience: Founded the Group's business in 1995, holding various executive positions within the Group. Presently, he oversees the strategic development and overall management of the Group. Board Committee: Nomination & Remuneration Committee	Sergei Shibaev, 62  Independent non-executive director Tenure: 9 years Skills and experience: Occupied different managerial roles with international consultancy and financial services firms including PwC, ING Barings, Deloitte & Touché and Roland Berger, among others Board Committee: Chairman of the Audit Committee
Andrzej Danilczuk, 58  Non-executive director Tenure: 14 years Skills and experience: His rare know-how combines with a strong understanding of western corporate culture and modus operandi and a deep knowledge of local culture and business practices in the Black Sea region. Board Committee: Chairman of the Nomination & Remuneration Committee, Audit Committee	Nathalie Bachich, 47  Independent non-executive director Tenure: 5 years Skills and experience: Mrs. Bachich has over 15 years' experience in international equity markets and investment banking. Board Committee: Nomination & Remuneration Committee, Audit Committee
Pieterneel Boogaard, 54  Independent non-executive director Tenure: <1 year Skills and experience: Mrs. Boogaard has 24 years of banking experience at ING and FMO in food and agri financing across the entire value chain. Since 2018, she focuses on sustainable financing projects allowing to transform food systems. Board Committee: None	Yevgen Osypov, 45  Chief Executive Officer Tenure: 4 year Skills and experience: Mr. Osypov is responsible for the day-to-day management of the Company's subsidiaries, execution of strategy, budgets, and Board decisions. He completed several educational programs in Harvard Business School. Board Committee: None
Anastasiia Usachova, 50  Chief Financial Officer Tenure: 14 years Skills and experience: Mrs. Usachova is responsible for the overall financial management of Kernel. She holds an MBA degree from IMD (Switzerland). Board Committee: None	Viktoriiia Lukianenko, 45  Chief Legal Officer Tenure: 14 years Skills and experience: Mrs. Lukianenko is responsible for providing legal advice and counseling in all aspects of Kernel's business operations. Board Committee: None
Yuriy Kovalchuk, 40  Corporate Investment Director Tenure: 10 years Skills and experience: Mr. Kovalchuk contributes to strategy formulation and is responsible for the execution of investment projects. Yuriy has been a Fellow with Association of Chartered Certified Accountants (FCCA), since September 2013. Board Committee: None	

Corporate Governance continued

Directors consider the diversity among Board members while evaluating the Board's effectiveness. During the annual Board self-evaluation process conducted in FY2021, most directors recognized the sufficient range of expertise, attitudes and external relationships within the Board members.

Directors' independence

Each non-executive director annually provides the other members of the Board with a statement of meeting the independence criteria indicated in Annex II of the European Commission Recommendation of 15 February 2005. The statements are published on Company's website.

As per statements received in September 2021, three non-executive directors meet the independence criteria. One non-executive director does not meet the independence criteria, serving as a director for more than 12 years already.

Conflict of interest

A [Corporate Governance Charter](#) adopted in May 2018 pays special attention to disclosing conflicts of interests among Board members. Any Director having a direct or indirect conflict of interest must inform the Board thereof and shall refrain from deliberating or voting on the relevant item of the agenda. Any conflict of interest should be properly declared and documented.

Members of the Board shall refrain from professional or other activities which might cause a conflict of interest or adversely affect their reputation as members of the governing bodies of the Company, and where a conflict of interest arises, immediately disclose it.

The following non-exhaustive list is an example of the duties that shall be followed by the Directors:

- duty not to accept any benefits from third parties, which may give rise to a personal financial interest and/or gain;
- duty to disclose any interest in a proposed transaction or arrangement with the Company and a separate and independent duty to disclose any arrangement with the Company; and
- duty to avoid conflicts of interest unless authorized.

There were two cases of conflict of interest declared by Directors in FY2021:

- Three executive directors declared a conflict of interest when taking the decision to approve the call option buyback agreements, under which the Company bought back call phantom options from entities controlled by directors of the Company;
- Four executive directors declared a conflict of interest when taking the decision to recommend the long-term management

incentive plan for approval by the general meeting of shareholders.

As of September 2021, non-executive directors occupied the following positions in companies outside Kernel:

- Mr. Sergei Shibaev is an Independent Director and Audit Committee Chair at RESO Garantia, an Independent Director and Audit Committee Chair at Bank Zenit, an Independent Director and Audit Committee Chair at Katren.
- Mr. Andrzej Danilczuk is a Director at JDI Brokers and a Director at Agroil S.A.
- Mrs. Nathalie Bachich does not occupy positions in companies outside Kernel.
- Mrs. Pieterneel Boogaard is a Global Head of Agribusiness, Food and Water at Dutch Development Bank FMO.

Board committees

The Board has two committees appointed amongst its members:

- Audit Committee;
- Nomination & Remuneration Committee (hereinafter "N&R Committee");

The Board believes this structure is sufficient enough to ensure its efficient performance of duties and tasks, as certain specific matters are heard first by specialized bodies with explicit professional experience, and only then considered by the Board.

The Board regularly reviews the necessity to establish new committee, striving to adapt to changing needs of the business. Following the regular annual review in FY2021, the Board decided not to establish any new committees.

Board self-evaluation

Following the best standards of corporate governance, the Board regularly undertakes a formal self-evaluation of its performance and effectiveness as a collective body, operating efficiency, composition, organizational structure, compliance with the rules of good government and relationship with the executive management and other stakeholders. The survey conducted in FY2021 identified no major issues with regards to the items mentioned above. Board recognized the quality and timeliness of the information provided to the Board, quality of Board practices and meetings, appropriate composition of the Board, adequate Board roles and responsibilities, proper established committee practices etc.

Independent advice

All directors can consult with the corporate secretary, who is available to provide assistance and information on governance, corporate administration and legal matters as appropriate. Directors may also seek advice on such matters, or on other business-related matters relating to the performance of his

duties, directly from independent professional advisors, if so desired, at the Company's expense.

Board activity report

The Board held nine meetings in FY2021, all of which via teleconference. The chairman and three non-executive directors attended all the meetings, three executive directors attended eight out of nine meetings, and one executive director attended seven of nine meetings.

Usually, the Board has two physical meetings per year, but no such meetings took place in the reporting period given the COVID-19-related travel and social distancing restrictions. Since the second half of FY2020, Board meetings are conducted in video format.

Typically, at each meeting, the Chairman of the Board, together with the Chief Financial Officer, report on strategy implementation, present recent developments and management accounts. The workplan of the Board for FY2021 included, among others, the following items:

- review of Company's mid-term strategy and approval of budget;
- review and approval of annual, semi-annual and quarterly accounts; review of operations updates;
- review of management accounts and financing transactions;
- review of corporate-governance-related questions, including the review of results of the Board self-evaluation exercise, approval of the remuneration policy to submit it to the vote of shareholders at EGM, ratification of new management incentive plan to be voted at the EGM, approval of management incentive transactions;
- ratification of the share buyback transaction to be voted at the EGM;
- supervision of the risk management process: approval of top risks for the Company and mitigation plan, review of reports on top risks mitigation activities; update on implementing the risk management system; review of risk limits; review of outstanding legal cases;
- updates from Audit Committee and N&R Committee;
- review of the performance of the Group sustainability function;
- approval of the external auditor selection procedure, review of the auditor selection process, and decision on the results of the process to recommend the winner for approval at the EGM;
- selection and nomination of new independent non-executive director;
- various ad-hoc items (M&A updates, updates on market situation, Avere performance review).

Corporate Governance continued

Over the course of FY2021, the Board also approved financing and investment transactions, short-term bonus system, long-term management incentive program for approval by the shareholders' meeting, and appointment of new members to the Executive Management Team via 19 circular resolutions signed.

Executive Management Team

The Executive Management Team is responsible for the overall financial and operating results of the Company's subsidiaries, heading operating segments and providing support functions on a daily basis. The Executive Management Team focuses on strategy implementation, financial and competitive performance, commercial and technological developments, succession planning and organizational development.

The Executive Management Team is headed by the Chief Executive Officer (the "CEO"), who is appointed and removed by the Board and report directly to the latter. The CEO is responsible for the day-to-day management of the Company's subsidiaries, execution of strategy, budgets, and Board decisions. The CEO delegates his/her responsibilities to other members of the Executive Management Team.

To enhance the diversity among its members, three experienced professionals were added to the executive management team in FY2021, namely Head of Grain Trading Department, Head of Trading: vegetable oils and proteins, and Head of Communications, PR, and GR. Consequently, the Executive Management Team consists of 15 professionals including CEO as of 30 June 2021. All the members of the Executive Management Team other than CEO are appointed and removed, as applicable, by the Board upon proposal by the N&R Committee after prior consultation with the CEO, save where he is subject of the procedure. The full list of the members of the Executive Management Team, including short biographies for each member is available on the [Company's website](#).

Responsibilities of the Executive Management Team are described in more detail in Company's Corporate Governance Charter, available on [Company's website](#).

There are various committees operating on the Executive Management Team level, including Strategic Committee, Investment Committee, Trade Committee, Risk Committee.

Remuneration report

This remuneration report is published in accordance with the article 7ter of the same law, the Luxembourg law of 24 May 2011 on the

exercise of certain rights of shareholders at general meetings, as amended.

The compensation principles for the Board and the Executive Management Team are specified in the [Remuneration Policy](#) of the Company. The Group pays remuneration to the Board and to the Executive Management Team only in the accordance with the Remuneration Policy. The Remuneration Policy must be submitted to a vote by the general meeting at every material change and in any case at least every four years.

There were no new management incentive plans approved over FY2021, and no amendments to the Executive Management Team remuneration policy in FY2021. On 30 August 2021, the EGM:

- approved a new long-term management incentive plan in a form of share put option agreements; and
- approved the [Remuneration Policy](#), following the requirements of the Article 7bis of the Luxembourg law of 24 May 2011 on the exercise of certain rights of shareholders at general meetings, as amended.

ESG-linked KPIs are not integrated into the compensation schemes of the Board and the Executive Management Team.

Remuneration of the Board

Compensation of the Directors of the Company is comprised only of the fixed fees paid for the services provided by the Directors in their capacity as members of the Board of Directors of the Company. There is no performance-based variable component, pension, retirement, or similar benefits provided by the Company. This ensures a certain degree of independence when it comes to fulfilling the Board's duties towards the Executive Management Team. On top of that, Directors are reimbursed for certain travel, hotel and other expenses related to the exercise of their duties. The fees paid to the independent directors and the fees paid to executive directors are approved at the annual general

shareholders' meeting. See more details on the remuneration of the Board in the [Remuneration Policy](#) of the Company.

Four executive Directors in their capacity as members of the Executive Management Team also receive compensation for their services provided to subsidiaries of the Company, with such compensation being paid by the subsidiaries of the Company.

Remuneration of the Executive Management Team

Compensation of the members of the Executive Management Team (15 people in total) is based on a pay-for-performance principle, rewarding sustainable growth and long-term value creation for shareholders of the Company. A significant portion of the remuneration comes from a variable part depending on the Group's consolidated financial performance. For details, please see the figure on the next page.

The principles of the remuneration of the Executive Management Team are specified in the [Remuneration Policy](#).

Members of the executive management team are not granted any pension, retirement or similar benefits provided by the Company, apart from those required by the law.

The Company believes that the Remuneration Policy strongly contributes to the long-term shareholder value creation and the company's stability.

Nomination and Remuneration Committee

The Nomination and Remuneration committee is a continuously operating collective body of the Board. It is established from amongst the members of the Board and consists of three members, including a chairman elected by the members of the N&R Committee amongst themselves. The majority of the members of the N&R Committee (including the chairman) are nonexecutive Directors.

Remuneration of the Board of Directors

US\$ thousands

	FY2017	FY2018	FY2019	FY2020	FY2021
Chairman of the Board	200	250	200	200	200
Three non-executive Directors	269	268	260	260	260
Four executive Directors	40	50	40	40	40
Total Board of Directors	509	568	500	500	500

Excluding reimbursement of travelling expenses incurred by Directors in performing their duties

Remuneration of the Executive Management Team

US\$ thousands

	FY2017	FY2018	FY2019	FY2020	FY2021
Total remuneration	5,699	3,294	5,518	8,834	29,334
Base salary	2,409	2,467	2,419	2,508	2,834
Short-term variable bonus	3,290	827	3,099	6,326	26,500
Number of executive managers	10	12	12	12	15

Corporate Governance continued

Compensation structure of the Executive Management Team

Fixed remuneration	<p>Members of the Executive Management Team receive a base salary determined at the discretion of the Board of Directors, commensurate with the respective position and the individual profile of the relevant members in terms of qualifications, skill set, and experience. All amounts are fixed and shall be paid monthly. In FY2021, the aggregated base salary for 15 members of the Executive Management Team amounted to US\$ 2,834 thousand paid by the subsidiaries of the Company.</p>
Variable remuneration	<p>An annual variable monetary bonus (if applicable) is paid as well. Such bonus is determined by the formula approved by the Board of Directors upon the recommendation of the N&R Committee. The bonus shall reward the members of the Executive Management team for the financial performance of the Group which derives from the financial performance of each of its subsidiaries where each respective member of the Executive Management Team is employed or has contractual obligations. The structure of the variable remuneration is as follows:</p> <ul style="list-style-type: none"> The bonus pool for 13 members of the Executive Management Team (the "Bonus Pool") is expressed as a percentage of the consolidated EBITDA of the Group less the consolidated financial costs of the Group ("EBITDA Less Finance Costs"), with a minimum threshold level of US\$ 123 million required to activate the pay-out. The Bonus Pool as a percentage of EBITDA Less Finance Costs is gradually increasing starting from 0.46% of EBITDA Less Finance Costs in case EBITDA Less Finance Costs exceeds US\$ 123 million and reaching 3.66% of EBITDA Less Finance Costs in case EBITDA Less Finance Costs exceeds US\$ 443 million. The exact allocation of the Bonus Pool between the relevant members of the Executive Management Team is determined by the N&R Committee. Two members of the Executive Management Team have different metrics determining their variable remuneration, including the financial results of the business divisions they lead, Group EBITDA and personal key performance indicators. <p>The variable remuneration is paid by the subsidiaries of the Company for duties and services provided by members of the Executive Management Team to subsidiaries of the Company. In FY2021, the aggregated variable remuneration for 15 members of the Executive Management Team amounted to US\$ 25,842 thousand paid by the subsidiaries of the Company.</p>
Long-term management incentive plan	<p>Seven members of the Executive Management Team are subject to the long-term management incentive plan which shall reward such members of the Executive Management Team for accomplishing individual performance goals related to the duties and services provided by such individuals to subsidiaries of the Company, altogether contributing to the better financial and non-financial results of the group of companies to which the Company belongs over the long-term period and aligning the interests of the Executive Management Team with those of the shareholders of the Company. The long-term management incentive plan is duly reviewed by the N&R Committee and approved by the Board of Directors after the generic terms thereof having been approved by the general meeting of shareholders. Seven members of the Executive management team are granted with put options providing the right but not the obligation to sell a fixed number of Company's shares owned by management at the moment at Put Price during the exercise period:</p> <ul style="list-style-type: none"> exercise period shall commence on 1 November 2024 and end on 31 December 2025, if no put options are exercised during Exercise Period, then such put options shall lapse. Put option also provides for acceleration events which dictate that the put options may be exercised before the commencement of the exercise period if the following events occur: 1) the cessation of trading of Company's shares at the Warsaw Stock Exchange or any other recognized stock exchange; or 2) a change of control event where the shareholding of Namsen Limited or its ultimate beneficial owner in Kernel's total votes falls below twenty five percent (25%) Put Price is determined as lower of (1) US\$ 23.80; or (2) operating profit before working capital changes minus interest paid plus interest received minus interest tax paid minus maintenance capital expenditures in the fixed amount of US\$ 155,000,000, where all amounts, except for the maintenance capital expenditures, are specified in US\$ in the relevant paragraph of the consolidated statement of cash flows of the audited annual consolidated accounts of the Company and its subsidiaries for the Financial Years 2022-2024, divided by 3 divided by 12% and divided by 84,031,230. <p>Some members of the Executive Management Team also keep in total 1,200,000 phantom share options which are fully vested and lapse on 4 November 2036. Each option grants the beneficiary the right to receive the phantom payment determined as a difference between:</p> <ul style="list-style-type: none"> the price of Company's share traded on the Warsaw Stock Exchange and exercise price. The exercise price is equal to the PLN 67.71 less specified leakage value per share; or US\$ 23.80 and exercise price, if Company's shares cease to be traded on the Warsaw Stock Exchange or any other recognized stock exchange, or if specified change of control in relation to the Company occurs.

The role of the N&R Committee is to assist the Board in fulfilling its responsibilities by reviewing, advising and making recommendations to the Board, the Chairman and the CEO on the nomination to the Board and Executive Management Team and their remuneration. The N&R Committee assists the Board in nominating and assessing candidates for both

directorship and managerial positions, establishing and reviewing the compensation principles specified in the Remuneration Policy. N&R Committee ensures that only persons with the adequate competences, experience and skills are appointed to the Board. N&R Committee also supports the Board in preparing the Board's remuneration proposals to the shareholders' general meeting. A detailed list

of N&R Committee responsibilities is available in Corporate Governance Charter, published on [Company's website](#).

Nomination and Remuneration Committee's activity report

The N&R Committee held three scheduled meetings during the reporting period, discussing the composition of the Board,

Corporate Governance continued

performance of the CEO and the Executive Management Team, changes within key management personnel. Additionally, the Nomination and Remuneration Committee discussed:

- the nomination of the new independent non-executive director;
- a draft of the Company's remuneration policy;
- new management incentive program in a form of put option agreements; and
- option buyback agreements with management.

On the additional meeting held in September 2021, the N&R Committee settled on the Executive Management Team compensation for FY2021 standing at US\$ 29,334 thousand (including a short-term variable bonus of US\$ 25,842 thousand) for 15 key executives, as compared to the total compensation of US\$ 8,834 thousand (including a bonus of US\$ 6,326) a year ago for 12 executives.

Accountability and audit Going concern

The Group's business activities, together with the factors affecting its performance, position and future development are set out in the strategic report on pages 6-30. The financials of the group, its liquidity position, borrowing facilities and applicable terms are described in the financial statement's accounts.

Current economic conditions have fostered the development of a number of risks and uncertainties for the Company, in particular in regard to global soft commodity prices and harvest expectations (see details in the [Risks and Uncertainties](#) section of this report).

Directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about the future trading and production performance, as well as debt requirements.

The results show that the Company should be able to operate within the levels of its available capital. Therefore, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board continues to adopt the going concern basis in preparing the annual report and accounts.

Takeover disclosure

The Company's shares are in electronic form and are freely transferable, subject only to the provisions of law and the Company's Articles of Association. There are no agreements between the Company and its employees or directors providing for compensation of the loss of office or employment (whether through resignation, purported redundancy, or otherwise) that would occur because of a takeover bid.

Put options and phantom options granted under management incentive plans incorporate accelerated vesting in the event of a takeover.

The Company in the ordinary course of business has entered into various agreements with customers and suppliers around the world. Some of the Company's borrowing agreements, which either by their nature or value may represent significant agreements, do provide for the right of termination upon a change of control of the Company. The commercial sensitivity of these agreements prevents their details from being disclosed.

Except for the preceding disclosure, there are no other significant agreements to which the Company is a party that take effect, alter, or terminate upon a change of control following a takeover of the Company.

Audit Committee

The Audit Committee is a continuously operating collective body of the Board. It consists of three members including a chairman, all of whom are non-executive directors, and two of whom meet the independence criteria. The members have competence in accounting and audit, and the competence relevant to the sector in which the company is operating. The Audit Committee is fully capable of overseeing the affairs of the Company in the areas of adequacy and effectiveness of the Kernel's system of financial reporting, internal controls, and risk management.

The functioning and key responsibilities of the Audit Committee are described in the [Articles of Association](#), and further specified in the [Corporate Governance Charter](#).

Audit Committee activity report

The Audit Committee had eight meetings in FY2021, all of which via teleconference. Usually, the Audit Committee has two physical meetings per year, but no such meetings took place in the reporting period given the COVID-19-related travel and social distancing restrictions. Since the second half of FY2020, Audit Committee meetings are conducted in video format.

Two members of the Audit Committee attended all the meetings of the committee in FY2021, and one member attended seven of eight meetings. Chief Financial Officer, head of internal audit and compliance officer were invited and attended all the meetings of the Audit Committee. Chief Executive Officer was invited to all the meetings and attended seven of eight meetings. Representatives of Deloitte, Company's external auditor, were invited and attended five meetings of the Audit Committee.

During its meetings, Audit Committee had one

closed session with the external auditor to communicate without the presence of executives. Additionally, decisions of the Audit Committee were taken via five circular resolutions signed over the course of FY2021, mostly related with the approval of non-audit services provided by Deloitte.

On top of that, members of the Audit Committee attended three teleconferences related to the oral presentations of auditors as a part of the auditor selection process.

To execute its key functions and discharge its responsibilities as outlined in the [Corporate Governance Charter](#), the Audit Committee, during FY2021:

- assisted the Board in **monitoring the reliability and integrity of the financial information provided**. The committee reviewed the consolidated quarterly, semi-annual and annual financial reports of the Group, standalone annual accounts of the Company, Avere financial statements, reviewed critical accounting policies and management estimates, among other things;
- conducted **oversight over the performance of the internal audit function**, including the review of the internal audit activities and action plans and reports. The audit committee was also involved in the process of selection and appointment of new head of internal audit. Because of such process, the usual audit committee meeting with the Head of Internal Audit in the absence of executives was rescheduled to FY2022;
- conducted **oversight over the performance of the external audit function** including review of the annual audit plan and scope of semiannual accounts review and areas of focus, review of auditor reports, presentations and additional auditors report, management letter review. The Audit Committee had one face-to-face discussion with the external auditors in the absence of executives. The Audit Committee monitored the fee cap of non-audit services, and reviewed the contract with auditors (including review of expected fees for the audit and consulting services) and independence of external auditor. Additionally, given that the duration of Deloitte mandate as an independent auditor of the Company reached 10 years, the Audit Committee led the **auditor selection process** and provided the Board with its proposal for selection of auditor. Finally, with the launch in FY2021 of **external assurance of Sustainability section of the annual report**, the Audit Committee initiated the review of such report prepared by Baker Tilly on the annual basis;

Corporate Governance continued

- conducted **oversight over the risk management function**. The Audit Committee assisted the Board in the discharge of its risk management responsibilities, monitoring and examining the effectiveness of the Company's internal control and risk monitoring system; reviewing top risks, risk mitigation plans and results of risk mitigation activities, overseeing group risk management procedures; reviewing trade management position risk mitigation activities (including Avere). The Audit Committee also reviewed Kernel group-wide business continuity plan (including Avere IT business continuity plan);
- conducted **oversight over the compliance function**, including implementation of the [Corporate Governance Charter](#) provisions, compliance with good corporate governance practices with respect to the functioning of the Audit Committee, and reviewing reports from Kernel Compliance Officer on the progress achieved in the enhancement of Company's compliance function;
- discussed various ad-hoc items.

After each meeting, the chairman of the Audit Committee reports to the Board on key matters.

Over the course of FY2021 Audit Committee conducted annual self-evaluation procedure, which indicated potential areas of Audit Committee performance and activities improvement and resulted in a clear action plan based on results of the self-evaluation procedure.

Internal audit

As an integral part of the system of internal control, the Company has an internal audit division headed by an experienced professional reporting directly to the Board of Directors via Audit Committee and to the CEO of the Company as a chairman of the Risk Committee within the Executive Management Team, and working closely with the Board. Since the FY2021, the internal audit has no functional accountability to the financial department any longer and is a separate independent unit in Kernel's organizational structure.

The Internal Audit provides independent and objective assurance and consulting services in the areas of internal controls and risk management, aimed at improving the operations and performance of the Company and its subsidiaries. Efficient internal audit function is adequate to the size of the Company and the type of and scale of Company's activities.

The independence rules defined in generally accepted international standards of the professional internal audit practice apply to members of the internal audit division.

Main responsibilities of internal audit are:

- to maintain continuous support for the

Directors on the risk management, internal controls and mitigation activities by undertaking regular or ad hoc reviews;

- to provide independent and objective evaluation of effectiveness and efficiency of internal control systems within operational framework of the Company;
- to assist personnel and management of the Company in improving the effectiveness of risk identification and internal control systems in operations; advise and consult them regarding how to effectively execute their responsibilities, including recommendations on specific improvements in policies and procedures; and
- to assist in open and two-way communication among internal and external auditors, management and personnel, Audit Committee, and the Board.

Head of internal audit regularly presents the results of its work to the Audit Committee, including the communication with the members of committee in the absence of executives.

External auditor

Deloitte Audit S.a.r.l. ("Deloitte"), with its registered office at 560 rue du Neudorf, L-2220 Luxembourg and register number B 67 895 with the Luxembourg Trade and Companies' Register, acts as an external auditor of Kernel's consolidated and standalone accounts since FY2012. Annual general meeting of shareholders held on 10 December 2020 appointed Deloitte as Kernel's external auditor also for the year ended 30 June 2021.

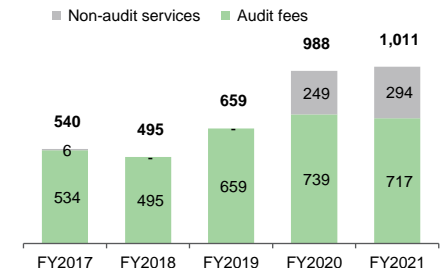
Deloitte attended five meetings of the Audit Committee in FY2021, presenting the results of the annual audit, additional auditor's report, management letter, review of the semi-annual accounts, audit plan for FY2021, and presenting to the Audit Committee the approach to accounting and audit of various business operations, among other things. The Audit Committee also had one meeting with Deloitte without presence of the executives. The Audit Committee review and monitor the level of fees paid by the Company to external auditor, preapprove permissible non-audit services and monitor the cap on non-audit fees.

Audit fees in FY2021 amounted to US\$ 717 thousand, as compared to US\$ 739 thousand in FY2020. Additionally, external auditors provided Kernel with non-audit services for the amount of US\$ 294 thousand, mainly related to issuing Eurobonds in October 2020. Non-audit services for FY2020 amounted to US\$ 249 million, mainly related to issuing Eurobonds in October 2019.

EGM held on 30 August 2021 appointed PwC Société coopérative, having its registered office at 2, rue Gerhard Mercator B.P. 1443 L-1014 Luxembourg, registered with the Luxembourg Trade and Companies' Register under

External auditor's fees

US\$ thousand



number B 65 477 as a new independent auditor of the Company in respect to the audit of the consolidated and unconsolidated annual accounts of the Company for a one-year term, which shall begin on 10 December 2021 and which shall terminate on 12 December 2022.

Buthiness ethics and compliance

Kernel have embedded strong ethical standards in company's everyday operations, as outlined in the [Code of Conduct](#).

In December 2016, Kernel initiated a **Corporate Compliance Program ("CCP")** – an action plan of bringing Company's compliance system in accordance with best international standards. Progress on CCP implementation was monitored each quarter by Baker Tilly, with final report presented in summer 2019, after completion of the CCP in June 2019. Baker Tilly recognized a significant progress achieved in the implementation of Kernel's Compliance Program due to the actual execution of both internal and external control activities, highlighting also the aspects for further continuous improvement.

Since 2017, compliance function within Kernel is headed by a dedicated Compliance Officer, who reports directly to CEO and Board of Directors via Audit Committee of the Board, as well as attends all Audit Committee meetings and reports on the functioning of compliance system and compliance controls not less than twice per year.

Compliance at Kernel is focused on the following areas:

- preventing fraud, corruption and other misconduct** (see details in section [Anti-corruption](#));
- managing risk of cooperation with unreliable counterparties and international sanctions**. Compliance officer and security department check business partners for compliance risks: sanctions, corruption, money-laundering, terrorism financing;
- making company activities compliant with various external initiatives** (GDPR, United Nations Global Compact, equality, diversity, and inclusion initiatives, etc.);

Corporate Governance continued

- **compliance** by employees **with internal documents**, including [Code of Conduct](#), [Policy for managing conflicts of interests](#), [combating fraud and corruption](#), and other internal documents on compliance. Compliance officer leads the compliance incident management processes for all interested parties.

We have a compliance risk management system. We assessed compliance risks in 19 risk areas and introduced necessary compliance controls in business processes to mitigate the most significant risks. We regularly assess our compliance with internal standards of conduct and take corrective actions accordingly.

To increase employee awareness of business ethics, we have a special e-learning course on the Code of Conduct. All new employees shall reach a minimum 80% pass rate when onboarding.

In FY2021, we **created an Ethics Committee** within the Executive Management Team. The

committee is chaired by the CEO, and Compliance officer acts as a secretary. The focus of the committee is on business ethics management and control, including:

- ensuring the development of programs for the implementation and promotion of ethical standards in accordance with the principles and values of the Company;
- approval of the register of compliance risks and identification of the most significant risks for ongoing monitoring and management;
- consideration of issues related to the application of the rules and principles of the [Code of Conduct](#) and the [Policy for managing conflicts of interests, combating fraud and corruption](#). Harmonization of disciplinary sanctions;
- assessment of the status of Supply Chain management. Implementation of risk response measures, monitoring of supplier performance, risk assessment;
- consideration of situations presented by the Security Department based on the results of internal investigations. Harmonization of

disciplinary sanctions;

- approval of changes and additions to policies and procedures for managing compliance risks, risks of corruption and fraud;
- approval of measures to minimize / eliminate the consequences of the implementation of the risk (incident), appointment of those responsible for their implementation, deadlines;
- consideration of recommendations of external auditors, Compliance, the Internal Audit Service, the Economic Security Service on risk management to control the implementation of measures to minimize them;
- monitoring the implementation of the decisions of the Committee.

Our efforts in enhancing corporate governance and compliance practices were recognized by such reputable institutions as European Investment Bank and EBRD, which provided Kernel with financing in FY2019 after a very granular inspection of corporate governance, compliance and environmental practices adopted by the company.

Independent Auditor's Report

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kernel Holding S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 30 June 2021, the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 30 June 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of *Réviseur d'Entreprises Agréé*" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
--	---

Valuation of biological assets	
As indicated in the note 12, the balance of Biological assets as of 30 June 2021 consists primarily of Crops in	Our audit procedures for testing management estimate of the fair value of the biological assets included the

Independent Auditor's Report **continued**

Why the matter was determined to be a key audit matter

fields in amount of USD 375,095 thousand. As described in the Note 4, those are recorded at fair value less costs to sell and the fair value is determined using a discounted cash flow model based on the expected crops' yield by sowing area size, the market price for respective crops, and after allowing for harvesting costs, contributory asset charges for the land and sowing areas and other costs yet to be incurred in getting the harvest to maturity.

Given the significant judgments made by management to estimate the fair value of the Crops in fields performing audit procedures to evaluate the reasonableness of management's estimates related to the expected yields, prices and discounts rates specifically due to the sensitivity of these assumptions, required a high degree of auditor judgment and an increased extent of effort, including the need to involve fair value specialists.

How the matter was addressed in the audit

following:

- We obtained an understanding of controls surrounding valuation of biological assets.
- We tested the mathematical accuracy and methodology of valuation models and reviewed management's sensitivity analysis calculations.
- We tested discount rate with the assistance of our internal valuation specialists.
- We evaluated management's assumptions with reference to historical data (yields) and, where applicable, external benchmarks (prices) and other market data
- We performed an independent recalculation of fair value of biological assets as of 30 June 2021 using prices forecast based on futures' prices, median actual yields for last seven years taking into account weather considerations and discount rates calculated by our internal valuation specialists.
- We tested the accuracy and methodology of valuation models and carried out audit procedures on management's sensitivity calculations.
- We considered the appropriateness of the related disclosures provided in the consolidated financial statements.

Impairment of goodwill

Annually, as of the reporting date, or as required per IAS 36 "Impairment of Assets" more frequently, if there are indicators that the carrying amount of goodwill is no longer recoverable, the Group performs an impairment test. As indicated in note 4, The Group manages its goodwill at the group of cash generating unit ("CGU") level. Impairment is tested with reference to fair value less cost to sell or the value-in-use, based on the cash flow forecast for each CGU. Majority of the goodwill balance relates to oilseed processing segment and amounts USD 98,017 thousand as of 30 June 2021.

Impairment considerations were significant to the audit because management's assessment process is complex, involves significant judgments and is based on assumptions, which are affected by expected future market and economic conditions. The assumptions with the most significant impact on the cash flow forecasts were the discount rate ("WACC"), which is based on the weighted average cost of capital, the terminal growth rate and business assumptions, including but not limited

Our audit procedures included the following:

- We obtained an understanding of controls around goodwill impairment test.
- Our procedures included using internal valuation experts to assist us in evaluating the methodology and data used to estimate the WACC of each CGU's value-in-use estimate.
- We evaluated management's ability to reasonably estimate future cash flows by comparing actual results to management's historical forecasts.
- We performed audit procedures on impairment models relating to Oilseed Processing segment CGUs. We evaluated reasonableness of the models by comparing the assumptions made to internal and external data. In particular:
 - We tested the integrity and mathematical accuracy of the models;
 - We compared short-term revenue growth rates to

Independent Auditor's Report **continued**

Why the matter was determined to be a key audit matter

to expected operating margins, which are volatile.

How the matter was addressed in the audit

the latest approved budgets and long -term to the forecasts obtained from publicly available data;

- We challenged the reasonableness of the assumptions in management's forecasts with reference to past performance, market conditions and external benchmarks, where applicable;
- We tested discount rate with the assistance of our internal valuation specialists and carried out audit procedures on management's sensitivity analysis calculations;
- We prepared an independent estimation of value-in- use and compared amount obtained to the carrying value of non-current assets of these CGUs.
- We also considered the adequacy of the Group's disclosures in respect of goodwill impairment testing statements and whether disclosures, related to the sensitivity of the valuation model used, properly reflecting the risks inherent in such assumptions.

Revenue recognition

The Group sells different commodities, goods and services to various counterparties as disclosed in Note 25, and operates in different business and geographical segments as described in Note 5 in the consolidated financial statements.

ISAs require an auditor in assessing risk of material misstatement to presume fraud risk in revenue recognition. There could be a pressure for management to meet the requirements and expectations of third parties due to profitability level expectations of shareholders, investment analysts and significant creditors. In view of current year performance, there is significant risk of revenue cut-off misstatement in order to improve Group's next period performance. There might be an intention to transfer part of profit to the next period in view of uncertainty related to COVID-19, volatile commodity markets, crops: revenue transactions which occurred in year ended 30 June 2021 may be recorded in year ended 30 June 2022.

Our audit procedures included the following:

- We obtained an understanding of the process and controls in respect of timely recognition of revenue.
- On a sample basis, we have performed substantive detailed testing for revenue recognition in a correct period, in particular:
 - verified agreement terms including point of control transfer;
 - checked and agreed the date and quantity to the source documents.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the Corporate Governance Statement, but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express

Independent Auditor's Report continued

any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we concluded that there is a material misstatement of this other information; we are required to report this fact. We have nothing to report in this regard.

Responsibilities of Board of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the « Réviseur d'Entreprises Agréé » for the Audit of the Consolidated Financial Statements

The objectives of our audit are to obtain a reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N°537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty

Independent Auditor's Report continued

exists, we are required to draw attention in our report of "Réviseur d'Entreprises Agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

We have been appointed as « Réviseur d'Entreprises Agréé » by the General Meeting of the Shareholders on 10 December 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 10 years.

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, included in the management report (in corporate governance section) and as published on the Group's website <https://www.kernel.ua> is the responsibility of the Board of Directors. The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audited services referred to in the EU Regulation No 537/2014 on the audit profession were not provided and that we remain independent of the Group in conducting the audit.

Other matter

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19

Independent Auditor's Report continued

December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

For Deloitte Audit, *Cabinet de révision agréé*

Marco Crosetto,
Réviseur d'entreprises agréé
Partner

1 October 2021

Statement of the Board of Directors' Responsibilities for the Preparation and Approval of the Consolidated Financial Statements

for the year ended 30 June 2021

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the consolidated financial statements, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

- The consolidated financial statements of Kernel Holding S.A. (the 'Company') presented in this Annual Report and established in conformity with International Financial Reporting Standards as adopted by the European Union give a true and fair view of the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies; and
- The Management Report includes a fair review of the development and performance of the business and position of the Company and the undertakings included within the consolidation taken as a whole, together with a description of the principal risks and uncertainties it faces.

01 October 2021

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Selected Financial Data

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

	USD ¹		PLN		EUR	
	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020
I. Revenue	5,647,154	4,106,780	21,345,055	16,192,212	4,735,703	3,715,404
II. Profit from operating activities	812,181	337,276	3,069,874	1,329,812	681,095	305,134
III. Profit before income tax	674,841	144,825	2,550,757	571,016	565,922	131,023
IV. Profit for the period from continuing operations	642,589	122,750	2,428,851	483,979	538,875	111,052
V. Net cash generated by operating activities	459,842	269,356	1,738,105	1,062,017	385,624	243,687
VI. Net cash used in investing activities	(205,143)	(202,691)	(775,397)	(799,170)	(172,033)	(183,375)
VII. Net cash (used in)/generated by financing activities	(48,053)	224,122	(181,630)	883,668	(40,297)	202,763
VIII. Total net cash flow	206,646	290,787	781,078	1,146,515	173,294	263,075
IX. Total assets	3,996,579	3,164,703	15,200,988	12,597,417	3,362,322	2,820,700
X. Current liabilities	783,013	412,593	2,978,190	1,642,368	658,749	367,744
XI. Non-current liabilities	1,130,858	1,257,987	4,301,218	5,007,543	951,391	1,121,244
XII. Issued capital	2,219	2,219	8,440	8,833	1,867	1,978
XIII. Total equity	2,082,708	1,494,123	7,921,580	5,947,506	1,752,182	1,331,712
XIV. Number of shares	84,031,230	82,983,367	84,031,230	82,983,367	84,031,230	82,983,367
XV. Profit per ordinary share (in USD/PLN/EUR)	6.10	1.42	23.06	5.60	5.12	1.28
XVI. Diluted number of shares	84,031,230	83,328,986	84,031,230	83,328,986	84,031,230	83,328,986
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	6.10	1.41	23.06	5.58	5.12	1.28
XVIII. Book value per share (in USD/PLN/EUR)	23.16	17.76	88.09	70.70	19.48	15.83
XIX. Diluted book value per share (in USD/PLN/EUR)	23.16	17.91	88.09	71.29	19.48	15.96

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

Consolidated Statement of Financial Position

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2021	As of 30 June 2020
Assets			
Current assets			
Cash and cash equivalents	8, 36	574,040	369,117
Trade accounts receivable, net	9, 32, 36	381,124	215,279
Prepayments to suppliers, net		127,726	116,113
Corporate income tax prepaid		12,041	247
Taxes recoverable and prepaid, net	10	185,966	132,748
Inventory	11	332,027	303,402
Biological assets	12	376,644	252,184
Other financial assets	13, 36	294,156	141,495
Assets classified as held for sale		—	432
Total current assets		2,283,724	1,531,017
Non-current assets			
Property, plant and equipment, net	14	1,065,205	984,368
Right-of-use assets	15	364,699	347,296
Intangible assets, net	16	62,144	68,085
Goodwill	17	120,925	123,487
Deferred tax assets	25	15,098	9,152
Non-current financial assets	18	46,322	58,002
Other non-current assets	32	38,462	43,296
Total non-current assets		1,712,855	1,633,686
Total assets		3,996,579	3,164,703
Liabilities and equity			
Current liabilities			
Trade accounts payable	36	150,061	87,508
Advances from customers and other current liabilities	19, 32	187,047	68,039
Short-term borrowings	21	13,888	44,581
Current portion of long-term borrowings	22	21,715	6,871
Current portion of lease liabilities	23	37,338	44,872
Current bonds issued	24	212,495	—
Interest on bonds issued	36	15,353	21,945
Other financial liabilities	20, 36	145,116	138,777
Total current liabilities		783,013	412,593
Non-current liabilities			
Long-term borrowings	22	227,740	172,403
Lease liabilities	23	287,154	265,128
Deferred tax liabilities	25	20,806	24,449
Bonds issued	24	593,942	793,777
Other non-current liabilities	36	1,216	2,230
Total non-current liabilities		1,130,858	1,257,987
Equity attributable to Kernel Holding S.A. equity holders			
Issued capital	2	2,219	2,219
Share premium reserve		500,378	500,378
Additional paid-in capital		39,944	39,944
Equity-settled employee benefits reserve	2	1,850	4,624
Revaluation reserve		57,290	62,249
Other reserves	3	(896)	(3,523)
Translation reserve		(703,034)	(697,555)
Retained earnings		2,048,399	1,584,331
Total equity attributable to Kernel Holding S.A. equity holders		1,946,150	1,492,667
Non-controlling interests	33	136,558	1,456
Total equity		2,082,708	1,494,123
Total liabilities and equity		3,996,579	3,164,703
Book value		1,946,150	1,492,667
Number of shares	2, 37	84,031,230	84,031,230
Book value per share (in USD)		23.16	17.76
Diluted number of shares	37	84,031,230	83,328,986
Diluted book value per share (in USD)		23.16	17.91

On behalf of the Board of Directors

Andrii Verevskyi
Chairman of the Board of Directors

Anastasiia Usachova
Director, Chief Financial Officer

Consolidated Statement of Profit or Loss

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

	Notes	For the year ended 30 June 2021	For the year ended 30 June 2020
Revenue	26, 32	5,647,154	4,106,780
Net change in fair value of biological assets and agricultural produce	12	132,631	(20,979)
Cost of sales	27, 32	(4,876,827)	(3,628,622)
Gross profit		902,958	457,179
Other operating income, net	28	95,329	7,017
General and administrative expenses	29, 32	(186,106)	(126,920)
Profit from operating activities		812,181	337,276
Finance costs, net	30, 32	(141,759)	(147,220)
Foreign exchange loss, net		(6,306)	(1,012)
Other income/(expenses), net	31, 32	10,725	(50,524)
Share of income/(loss) of joint ventures		—	6,305
Profit before income tax		674,841	144,825
Income tax expenses	25	(32,252)	(22,075)
Profit for the period from continuing operations		642,589	122,750
Profit for the period		642,589	122,750
Profit for the period attributable to:			
Equity holders of Kernel Holding S.A.		512,708	117,865
Non-controlling interests		129,881	4,885
Earnings per share			
From continuing operations			
Weighted average number of shares	37	84,031,230	82,983,367
Profit per ordinary share (in USD)		6.10	1.42
Diluted number of shares	37	84,031,230	83,328,986
Diluted profit per ordinary share (in USD)		6.10	1.41

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

	Notes	For the year ended 30 June 2021	For the year ended 30 June 2020
Profit for the period		642,589	122,750
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss:			
Decrease in revaluation reserve due to impairment loss	14	(6,048)	—
Income tax related to components of other comprehensive income	25	1,089	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(5,634)	37,053
Gain/ (loss) arising on cash flow hedge	3	3,908	(5,644)
Income tax related to cash flow hedge	25	(542)	785
Other comprehensive (loss)/income, net		(7,227)	32,194
Total comprehensive income for the period		635,362	154,944
Total comprehensive income attributable to:			
Equity holders of Kernel Holding S.A.		503,553	151,183
Non-controlling interests		131,809	3,761

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 30 June 2021 (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	—	—	—	—	—	—	—	117,865	117,865	4,885	122,750
Other comprehensive (loss)/income	—	—	—	—	—	(3,523)	36,841	—	33,318	(1,124)	32,194
Total comprehensive (loss)/income for the period	—	—	—	—	—	(3,523)	36,841	117,865	151,183	3,761	154,944
Increase in share capital (Note 2)	55	13,555	—	—	—	—	—	—	13,610	—	13,610
Distribution of dividends (Note 2)	—	—	—	—	—	—	—	(21,008)	(21,008)	—	(21,008)
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(16)	(16)
Effect of changes on minority interest	—	—	—	—	—	—	—	(2,631)	(2,631)	2,631	—
Recognition of share-based payments (Note 2)	—	4,945	—	(4,487)	—	—	—	109	567	—	567
Balance as of 30 June 2020	2,219	500,378	39,944	4,624	62,249	(3,523)	(697,555)	1,584,331	1,492,667	1,456	1,494,123
Profit for the period	—	—	—	—	—	—	—	512,708	512,708	129,881	642,589
Other comprehensive (loss)/income	—	—	—	—	(4,959)	1,283	(5,479)	—	(9,155)	1,928	(7,227)
Total comprehensive (loss)/income for the period	—	—	—	—	(4,959)	1,283	(5,479)	512,708	503,553	131,809	635,362
Distribution of dividends (Note 2)	—	—	—	—	—	—	—	(35,293)	(35,293)	—	(35,293)
Effect of changes on minority interest	—	—	—	—	—	1,344	—	(4,637)	(3,293)	3,293	—
Repurchase of share options (Note 2)	—	—	—	(2,774)	—	—	—	(8,710)	(11,484)	—	(11,484)
Balance as of 30 June 2021	2,219	500,378	39,944	1,850	57,290	(896)	(703,034)	2,048,399	1,946,150	136,558	2,082,708

On behalf of the Board of Directors

Andrii Verevskyi

Chairman of the Board of Directors

Anastasiia Usachova

Director, Chief Financial Officer

Consolidated Statement of Cash Flows

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

	Notes	As of 30 June 2021	As of 30 June 2020
Operating activities:			
Profit before income tax		674,841	144,825
Adjustments for:			
Amortization and depreciation		116,486	105,742
Finance costs, net	30	141,759	147,220
Change in loss allowance for expected credit losses on trade and other receivables	29	4,689	2,367
Other accruals		1,762	3,824
Gain on disposal of property, plant and equipment	31	(2,628)	(969)
Net foreign exchange loss/(gain)		3,483	(2,564)
Write-offs and impairment loss	16, 17, 31	3,286	658
Net change in fair value of biological assets and agricultural produce	12	(132,631)	20,979
Share of income of joint ventures		—	(6,305)
(Gain)/Loss on sales of subsidiaries and joint ventures	7, 31	(1,891)	36,634
Net gain arising on financial assets classified as at fair value through profit or loss		(20,575)	(28,280)
Other gain		(2,323)	(1,957)
Operating profit before working capital changes		786,258	422,174
Changes in working capital:			
Change in trade receivable and other financial assets		(241,282)	(36,988)
Change in prepayments and other current assets		(13,538)	(32,219)
Change in restricted cash balance		1,819	(1,771)
Change in taxes recoverable and prepaid		(52,961)	(19,130)
Change in biological assets		71,909	113,403
Change in inventories		(93,218)	(15,070)
Change in trade accounts payable		64,468	(51,120)
Change in advances from customers and other current liabilities		81,969	32,797
Cash generated from operations		605,424	412,076
Interest paid		(133,442)	(139,500)
Interest received		5,950	4,940
Income tax paid		(18,090)	(8,160)
Net cash generated by operating activities		459,842	269,356
Investing activities:			
Purchase of property, plant and equipment		(178,296)	(215,651)
Proceeds from disposal of property, plant and equipment		5,855	5,533
Payment for lease agreements		(2,157)	(4,462)
Purchase of intangible and other non-current assets		(3,306)	(3,738)
Acquisition of subsidiaries, net of cash acquired	7, 19	(46,898)	(28,564)
Disposal of subsidiaries	7	2,505	8,966
Disposal of joint ventures		—	65,313
Amount advanced for subsidiaries		4,289	3,131
Amount advanced to related parties		(7,184)	(21,984)
Proceeds from return of loans by related parties		20,321	2,375
Payment to acquire financial assets		(272)	—
Loans for stock options execution		—	(13,610)
Net cash used in investing activities		(205,143)	(202,691)
Financing activities:			
Proceeds from borrowings		296,125	512,991
Repayment of borrowings		(257,392)	(536,913)
Payment of dividends	2	(35,293)	(21,008)
Financing for farmers		(1,053)	(1,028)
Repayment of lease liabilities		(32,712)	(37,709)
Proceeds from share capital increase		—	13,555
Issued capital		—	55
Repurchase of share options		(11,484)	—
Proceeds from bonds issued		299,286	297,660
Transactions costs related to corporates bonds issue		(2,428)	(1,895)
Repayment of corporate bonds		(286,890)	—
Premium for early repayment of bonds		(16,108)	—
Net cash (used in)/generated by financing activities		(47,949)	225,708
Effects of exchange rate changes on the balance of cash held in foreign currencies		(104)	(1,586)
Net increase in cash and cash equivalents		206,646	290,787
Cash and cash equivalents, at the beginning of the year	8	367,204	76,417
Cash and cash equivalents, at the end of the year	8	573,850	367,204

For non-cash financing activities please see Note 8.

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

Anastasiia Usachova
 Director, Chief Financial Officer

Notes to the Consolidated Statements

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

1. Corporate Information

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

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

The Group's principal business activity is the production and subsequent export of sunflower oil and meal in bulk, the production and sale of bottled sunflower oil, the wholesale trade of grain (mainly corn, soybean, wheat and barley), farming, and the provision of logistics and transshipment services. The majority of the Group's manufacturing facilities is primarily based in Ukraine. As of 30 June 2021, the Group employed 11,256 people (11,928 people as of 30 June 2020).

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

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

As of 30 June, the primary Subsidiaries of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest and voting rights as of	
			30 June 2021	30 June 2020
Inerco Trade S.A.	Trading in sunflower oil, meal and grain.	Switzerland	100.0%	100.0%
Restomon Ltd		British Virgin Islands	100.0%	100.0%
Kernel-Trade LLC		Ukraine	100.0%	100.0%
Avere Commodities SA		Switzerland	60.0% ¹	72.5%
Poltava OEP PJSC	Oilseed crushing plants. Production of sunflower oil and meal.	Ukraine	99.7%	99.7%
Bandurka OEP LLC		Ukraine	100.0%	100.0%
Vovchansk OEP PJSC		Ukraine	99.4%	99.4%
Prykolotnoe OEP LLC		Ukraine	100.0%	100.0%
Kropyvnytskyi OEP PJSC		Ukraine	99.2%	99.2%
BSI LLC		Ukraine	100.0%	100.0%
Prydniprovskyi OEP LLC		Ukraine	100.0%	100.0%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services.	Cyprus	100.0%	100.0%
Poltava HPP PJSC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94.1%	94.0%
Kononivsky Elevator LLC		Ukraine	100.0%	100.0%
Agro Logistics Ukraine LLC		Ukraine	100.0%	100.0%
Bilovodskyi KHP PJSC		Ukraine	91.12%	91.12%
Hliborob LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, soybean, sunflower seed, rapeseed, forage, pea and barley.	Ukraine	100.0%	100.0%
Prydniprovskyi Kray ALLC		Ukraine	100.0%	100.0%
Enselco Agro LLC		Ukraine	100.0%	100.0%
Druzhba-Nova ALLC		Ukraine	100.0%	100.0%
Druzhba 6 PE		Ukraine	100.0%	100.0%
AF Semerenky LLC		Ukraine	100.0%	100.0%
Hovtva ALLC		Ukraine	100.0%	100.0%

These consolidated financial statements were authorized for release by the board of directors of Kernel Holding S.A. on 1 October 2021.

¹ For details please see Note 33

Notes to the Consolidated Statements continued

for the year ended 30 June 2020 (in thousands of US dollars, unless otherwise stated)

2. Change in Issued Capital

Since 15 June 2005, the parent company of the Group is Kernel Holding S.A. (Luxembourg). The issued capital of the Holding as of 30 June 2021, consisted of 84,031,230 ordinary electronic shares without indication of the nominal value (30 June 2020: 84,031,230). Ordinary shares have equal voting rights and rights to receive dividends.

The shares were distributed as follows:

	As of 30 June 2021		As of 30 June 2020	
Equity holders	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Namsen Limited Liability Company registered under the legislation of Cyprus (hereinafter the 'Major Equity Holder')	32,903,278	39.16%	32,903,278	39.16%
Free float	51,127,952	60.84%	51,127,952	60.84%
Total	84,031,230	100.00%	84,031,230	100.00%

As of 30 June 2021 and 2020, 100% of the beneficial interest in the Major Equity Holder was held by Andrii Mykhailovych Verevskiy (hereinafter the 'Beneficial Owner').

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

On 10 December 2020, the annual general meeting of shareholders approved an annual dividend of USD 0.42 per share, which were paid in full in the amount of USD 35,293 thousand on 14 January 2021.

On 10 December 2019, the annual general meeting of shareholders approved an annual dividend of USD 0.25 per share, which were paid in full in the amount of USD 21,008 thousand on 30 April 2020.

During the year ended 30 June 2021, the Group decided to settle the fully vested equity-settled share-based payments in cash at a price below the fair value of the phantom share options repurchased, measured at this date. As a result of share-options repurchase, equity-settled employee benefits reserve and retained earnings decreased by USD 2,774 thousand and USD 8,710 thousand, respectively.

As of and during the year ended 30 June 2021, the fair value of the share-based options granted to the management was USD 1,850 thousand and no expenses were recognized, since all the existing options have been already vested (as of and during the year ended 30 June 2020: USD 4,624 thousand the fair value of the share-based options and USD 567 thousand expenses were recognized as a part of payroll and payroll related expenses).

Luxembourg companies are required to allocate to a legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the subscribed issued capital. This reserve, in the amount of USD 222 thousand as of 30 June 2021 (30 June 2020: USD 216 thousand), may not be distributed as dividends.

3. Summary of Significant Accounting Policies

Basis of Preparation and Accounting

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment for oilseeds processing segment, assets held for sale, biological assets, agricultural produce and certain financial assets and liabilities - measured at fair value. The consolidated financial statements have been prepared on a going concern basis.

The Group's Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's Subsidiaries' accounts under local accounting regulations, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Adoption of New and Revised Standards

The Group has adopted all new and revised IFRS standards that became effective for annual periods beginning on or after 1 July 2020, the material changes are as follows:

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that affirms, information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Amendments to IFRS 3 Definition of a Business

The amendments in the definition of business clarify that to be considered a business an acquired set of activities and assets must include, at minimum, an input and substantive process that contribute to the ability to create outputs. IFRS 3 removes the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

These amendments did not have a material impact on the consolidated financial position or performance of the Group in the Group's consolidated financial statements.

Standards and Interpretations Issued but not Effective

At the date of authorization of these consolidated financial statements, the following standards, and interpretations, as well as amendments to the standards had been issued but were not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendment to IFRS 16: Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Annual Improvements to IFRS Standards 2018–2020 (IFRS 1, IFRS 9, IFRS 16, IAS 41)	1 January 2022
Amendment to IAS 37: Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Amendment to IAS 16: Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendment to IFRS 3: Reference to the Conceptual Framework	1 January 2022
IFRS 17 Insurance contracts	1 January 2023
IFRS 1, IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendment to IAS 8: Definition of Accounting Estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023
Amendment to IAS 1: Classification of Liabilities as Current or Non-current — Deferral of Effective Date	1 January 2023

For other standards and interpretations, management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

Functional and Presentation Currency

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

Foreign Currencies

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless the exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in Consolidated Statement of Profit or Loss and Other Comprehensive Income accumulated in 'Translation reserve'.

The exchange rates during the period of the financial statements were as follows:

Currency	Closing rate as of 30 June 2021	Average rate for the year ended 30 June 2021	Closing rate as of 30 June 2020	Average rate for the year ended 30 June 2020
USD/UAH	27.1763	27.8571	26.6922	25.3688
USD/EUR	0.8413	0.8386	0.8913	0.9046
USD/PLN	3.8035	3.7798	3.9806	3.9428

The average exchange rates for each period are calculated as the arithmetic mean of the exchange rates for all trading days during this period. The sources of exchange rates are the official rates set by the National Bank of Ukraine for USD/UAH and by the National Bank of Poland for USD/EUR and USD/PLN.

All foreign exchange gain or loss that occurs on revaluation of monetary balances, presented in foreign currencies, is allocated as a separate line in the Consolidated Statement of Profit or Loss.

Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Holding (Subsidiaries) as of 30 June 2021.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its Subsidiaries. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements;
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a Subsidiary begins when the Company obtains control over the Subsidiary and ceases when the Company loses control of the Subsidiary. Specifically, income and expenses of a Subsidiary acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the date the Company gains control until the date when the Company ceases to control the over Subsidiary.

All inter-company transactions and balances between the Group's enterprises are eliminated for the consolidation purpose. Unrealized gains and losses resulting from inter-company transactions are also eliminated, except for unrealized losses that cannot be recovered.

Non-controlling interests in Subsidiaries are identified separately from the Group's equity therein. Non-controlling interests as of the reporting date represent the non-controlling equity holders' portion of the fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date and the non-controlling equity holders' portion of movements in equity since the date of acquisition. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. The total comprehensive income of Subsidiaries is attributed to the equity holders of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and equity interests issued by the Group in exchange for control of the acquire. Acquisition costs are expensed when incurred and included in general and administrative expenses.

At the acquisition date, identifiable assets acquired, and liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- Assets (or those held for disposal by the Group) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

For each business combination, the Group measures the non-controlling interests in the acquire either at fair value or at a proportionate share of the acquirer's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during a measurement period of 12 months after the acquisition date.

Changes in the Group's ownership interests in Subsidiaries that do not result in the Group losing control over the Subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect changes in their relative interests in Subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the equity holders of the Holding.

Goodwill

Goodwill arising from a business combination is recognized as an asset at the date that control is acquired (acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. The cash generated units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the entity.

Non-current assets held for sale and Discontinued Operations

In compliance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable within one year, and the asset or disposal group is available for immediate sale in its present condition. Non-current assets are measured at the lower of the previous carrying amount or the fair value less costs to sell.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control, and there is sufficient evidence that the Group remains committed to its plan to sell the asset. In such circumstances, the asset is measured at its fair value less costs to sell at each reporting date. Any impairment loss arising subsequent to reclassification as held for sale is recognized in the Consolidated Statement of Profit or Loss. Non-current assets and liabilities of a disposal group classified as held for sale are presented separately from the other assets and liabilities in the balance sheet.

Non-current assets are not depreciated or amortised while they are classified as held for sale.

If criteria for classification of the asset as held for sale are no longer met at the reporting date, the Group ceases to classify the asset as held for sale.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a Subsidiary acquired exclusively with a view to resale.

The result from discontinued operations is presented in the Consolidated Statement of Profit or Loss as a separate item after the profit from continuing operations. If the criteria for classification of the disposal group held for sale are met after the reporting date, the disposal group is not presented as held for sale in those consolidated financial statements when issued. However, when those criteria are met after the reporting date but before the authorization of the consolidated financial statements for issue, the Group discloses the relevant information in the notes to the consolidated financial statements.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Biological Assets and Agricultural Produce

The Group classifies crops in fields and cattle as biological assets.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognized in the Consolidated Statement of Profit or Loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell estimated at the point of harvest. A gain or loss arising from the initial recognition of agricultural produce at fair value less costs to sell is included in the Consolidated Statement of Profit or Loss.

Biological assets for which quoted market prices are not available and for which alternative estimates of fair value are considered to be clearly unreliable are measured using the present value of expected net cash flows from the sale of an asset discounted at a current market-determined rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

Cost of agricultural preparation of fields before seeding is recorded as work-in-progress in inventories. After seeding, the cost of field preparation is recognized as biological assets held at fair value less costs to sell.

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets. All of the Group's biological assets except non-current cattle were classified as current, as their average useful life is less than one year.

Property, Plant, and Equipment

Buildings, constructions, production machinery and equipment (Oilseed Processing segment) are accounted for at revalued amounts, being the fair value, which is determined using external professional expert evaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to other comprehensive income and accumulated in revaluation reserve in equity. However, such an increase is recognized in the Consolidated Statement of Profit or Loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in the Consolidated Statement of Profit or Loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the Consolidated Statement of Profit or Loss. However, such a decrease is debited directly to the Other Comprehensive Income or Loss to the extent of any credit balance existing in the revaluation surplus with respect to that asset.

Depreciation on revalued assets is charged to the Consolidated Statement of Profit or Loss. On the subsequent sale or retirement of revalued assets, the revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized. Property, plant and equipment are depreciated over the estimated useful economic lives of assets under the straight-line method.

Useful lives of property, plant, and equipment are as follows:

Buildings and constructions	20 - 50 years
Production machinery and equipment	10 - 20 years
Agricultural equipment and vehicles	3 - 10 years
Other fixed assets	5 - 20 years
Construction in progress (CIP) and uninstalled equipment	not depreciated

Except for land, building and constructions and production machinery and equipment of Oilseed Processing segment, all other property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Land is carried at cost less accumulated impairment losses and is not depreciated.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of assets or increase their revenue-generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are presented the Consolidated Statement of Profit or Loss as incurred.

Construction in progress consists of costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overhead incurred during construction. Depreciation of these assets commences when the assets are put into operation.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Consolidated Statement of Profit or Loss.

Leases

The Group assesses whether a contract is, or contains, a lease at the inception of the contract. The Group recognizes right-of-use assets and

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

corresponding lease liabilities with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less).

For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate. Incremental borrowing rate is determined as reference interest rates which were derived from the yields of corporate bonds in the currency similar to the lease contracts, for a period up to 10 years.

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

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The effective interest method is a method of calculating the amortized cost of a lease liability and of allocating interest income over the relevant period. For lease liability the effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the lease liability, to the gross carrying amount of the lease liability on initial recognition.

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

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, any lease incentives received and any initial direct costs. Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease.

The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets and lease liabilities are presented as a separate line in the consolidated statement of financial position.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated depreciation and accumulated impairment losses. Amortization is primarily recognized within "Cost of Sales" on a straight-line basis over their estimated useful lives. The amortization method and estimated useful life are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately shall not be amortized and are carried at cost less accumulated impairment loss.

Trademarks

The 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' are separately acquired trademarks that have indefinite useful lives and are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

Land Lease Rights

Land lease rights acquired in a business combination are recognized separately from goodwill at their fair value at the acquisition date (which is subsequently regarded as their cost).

Amortization of land lease rights is calculated on a straight-line basis during the term of a lease contract. For land lease rights acquired in business combination, the amortization period varies from 1 to 22 years.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in the Consolidated Statement of Profit or Loss when the asset is derecognized.

Impairment of tangible and intangible assets, except Goodwill

At each reporting date, the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the Consolidated Statement of Profit or Loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial Instruments

Financial asset and financial liability are recognized in the Group's Consolidated Statement of Financial Position when, and only when, the Group entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents include cash on hand, cash with banks, and deposits with original maturities of three months or less.

Financial assets are classified as either to the following categories financial assets at amortized cost, at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL). The classification depends on the nature and purpose of the financial assets or financial liabilities and is determined at the time of initial recognition.

The Group does not have financial instruments carried at FVTOCI. The Group measures derivative instruments and investments made in equity instruments at FVTPL, all other financial instruments are measured at amortized cost.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables and trade payables that do not have a significant financing component which are measured at transaction price. All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets. All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Amortized cost and effective interest method

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The effective interest method calculates the amortized cost of a debt instrument and allocates interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss. The effect of initial recognition of financial assets and liabilities obtained/incurred at terms below the market is recognized net of the tax effect as an income or expense, except for financial assets and liabilities with shareholders or entities under common control, whereby the effect is recognized through equity.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

- nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and all the risks and rewards to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in the Consolidated Statement of Profit or Loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in the Consolidated Statement of Profit or Loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (ECL) on a financial asset, other than those at FVTPL, at the end of each reporting period. The amount of ECL and other current assets is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group applies a simplified approach permitted by IFRS to measuring ECL which uses a lifetime expected loss allowance for trade receivables and other current financial assets. The ECL on trade receivables and other current assets is estimated using a provision matrix, based on historical credit loss experience and credit rating of customers, adjusted on observable and reasonable information.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

- (1) the carrying amount of the liability before the modification; and
- (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

Commodity derivatives

The Group enters into variety of derivative financial instruments including futures, options and physical contracts to buy or sell commodities, which do not meet the own use exemption. These derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in the profit or loss within Cost of sales or Revenue (for settled forward sales contracts) unless the derivative is designated and effective hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Fair values are determined using quoted market prices, broker quotations or using models and other valuation techniques.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

Other financial assets include margin accounts that are represented by variation margin and initial margin held in respect of open exchange-traded futures and forwards contracts. Margin accounts are measured at amortized cost.

For the financial assets and liabilities subject to enforceable master netting or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis (Note 36). In the absence of such an election, financial assets and liabilities may be settled on a gross basis, however, each party to the master netting or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. Per the terms of each agreement, an event of default includes failure by a party to make payment when due, failure by a party to perform any obligation required by the agreement (other than payment) if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party or bankruptcy.

Derivatives and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument. Derivatives expected to be settled within a year after the end of the reporting period are classified as current liabilities or current assets

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The Group utilizes derivatives to hedge market risk exposures related to commodity price movements. Those derivatives qualifying and designated as cash flow hedge of the exposure to variability in cash flows that is attributable to a risk or a highly probable forecast transaction. The gains and losses, the effective portion of changes in the fair value of derivatives is recognized in the cash flow hedging reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge and recycled to profit or loss as the hedged transaction occurs. Amounts deferred in equity are transferred to the statement of profit or loss and classified as income or expense in the same periods during which the cash flows, such as hedged highly probable sales, affect the statement of profit or loss. Derivatives that do not qualify for hedge accounting have a gain or loss recognized in the income statement at the time of the transaction.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and is included in the Cost of sales line.

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

The risk management objective is to hedge commodity price risk exposure arising from the changes in sunflower oil market price. In order to comply with its risk management strategy, the Group enters into sunflower oil commodity sales agreements with counterparties matching the highly probable forecasted sale quantity per time bucket in the end destination to hedge the identified commodity price exposure for its future sales at end destination. There is an economic relationship between the hedged items and the hedging instruments as the designated hedged items and hedging instruments' quantities and timing of the cash flows is matching and there is high correlation in movement of prices for hedged item and hedging instrument. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Taxes Recoverable and Prepaid

Taxes recoverable and prepaid are stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts.

Employee Benefits

Certain entities within the Group participate in a mandatory government defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period.

The liability recognized in the Consolidated Statement of Financial Position with respect to the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date, less adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid.

Equity-settled Transactions

Equity-settled share-based payments with employees are measured by reference to the fair value at the grant date and are recognized as an expense over the vesting period, which ends on the date the relevant employees become fully entitled to the award.

Fair value is calculated using the Black-Scholes model. No expense is recognized for awards that do not ultimately vest.

At each reporting date before vesting, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognized in the Consolidated Statement of Profit or Loss, with a corresponding entry in equity.

Treasury shares

Own equity instruments, those instruments ('treasury shares') shall be deducted from equity. No gain or loss shall be recognized in profit or loss on the purchase, sale, issue, or cancellation of the Group's own equity instruments. These treasury shares may be acquired and held by the entity or by other members of the Group. Any difference between the carrying amount and the consideration, if reissued, will be recognized in the share premium reserve.

Provisions

A provision is recognized in the Consolidated Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation amount can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Revenue recognition

Revenue is derived principally from the sale of goods and finished products, farming and rendering services. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The point of revenue recognition for sale commodity goods is dependent upon contract sales terms (Incoterms). When goods are sold on a Cost and freight (CFR) or Cost, insurance, and freight (CIF) basis, the Group is responsible for providing services carriage and freight to the customer. The Group revenue recognizes as a separate performance obligation and allocate part of the transaction price to a carriage and freight services incorporated in some contracts that the Group undertakes to perform. The Group allocates the transaction price based on the relative stand-alone selling prices of the commodities and supporting services. The revenue from these carriage and freight services is recognized over time.

A receivable is recognized by the Group when the control over goods is transferred to the wholesaler as this represents the point of time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. Timing of billing is generally close to the timing of performance obligation satisfaction, respectively, amount of contract assets and contract liabilities is not material. When the Group obtains a contract from a customer, the Group enters into a contract with one of those service providers, directing the service provider to render freight and other services for the customer. The Group is obliged to pay the service provider even if the customer fails to pay. Also, the Group is responsible for inventory risk during the freight service provision.

Rendering of Services

Revenue is recognized over time for services provided by the Group. The main type of services provided by the Group are transshipment services by terminals and crop cleaning, drying and storage services by the Group's silos. Revenue from transshipment services is recognized using input methods based on a time-and-materials basis as the services are provided. Revenue from grain cleaning, drying and storage services is recognized on an accrual basis, based on the fees for the specific service, volumes of crops under service and days of storage.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowing spending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the Consolidated Statement of Profit or Loss in the period in which they are incurred. The interest expense component of finance lease payments is recognized in the Consolidated Statement of Profit or Loss using the effective interest rate method.

Taxation

Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently enacted in the legal jurisdictions where the operating entities are located. Income tax expense represents the sum of the tax currently payable and deferred tax expense.

Current and deferred tax for the year

Current and deferred tax are recognized in the Consolidated Statement of Profit or Loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

The current income tax charge is the amount expected to be paid to, or recovered from, taxation authorities with respect to taxable profit or losses for the current or previous periods. It is calculated using tax rates that have been enacted or substantially enacted by the reporting date in the countries where the Holding and its Subsidiaries operate and generate taxable income. Taxable profit differs from 'profit before tax' because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible taxes other than income tax are recorded within operating expenses. Some of the Group's companies that are involved in agricultural production are exempt from income taxes and pay the Unified Agricultural Tax instead.

Deferred tax

Deferred income tax is recognized on temporary differences arising between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the temporary differences will reverse, or the tax loss carried forward will be utilized. Deferred tax assets for deductible temporary differences and tax losses carried forward are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities for taxable temporary differences associated with investments in Subsidiaries and joint ventures are recognized, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax assets and liabilities are offset when:

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

- The Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Group has the intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 30 June 2020 and for the year then ended to conform to the current year's presentation.

Certain corrections and reclassifications have been made to the consolidated financial statements as of 30 June 2020 and for the year then ended in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 30 June 2021 and for the better understanding of users of the financial and non-financial assets and liabilities in the consolidated statement of financial position. As a result of identified corrections and reclassifications, the Group made changes to the presentation of consolidated statement of financial position as of 30 June 2020 by presenting separately Non-current financial assets in the amount of USD 58,002 thousand that was previously presented as Other non-current assets, by presenting other financial assets in the amount of USD 32,803 thousand as Other financial assets that was previously presented as Prepayments to suppliers and other current assets and presenting other financial liabilities in the amount of USD 102,495 thousand as Other financial liabilities that was previously presented as Advances from customers and other current liabilities.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The application of IFRS requires the use of reasonable judgments, assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The estimates are based on the information available as of the reporting date. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue Recognition

In the normal course of business, the Group engages in sale and purchase transactions for the purpose of exchanging grain in various locations to fulfill the Group's production and trading requirements. In accordance with the Group's accounting policy, revenue is not recognized with respect to the exchange transactions involving goods of a similar nature and value. The Group's management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, management considers whether the underlying commodity is of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying commodity indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transactions involving goods of a similar nature amounted to USD 40,010 thousand and USD 80,870 thousand for the years ended 30 June 2021 and 2020, respectively.

Revaluation of Property, Plant and Equipment

As described in Note 3, the Group applies the revaluation model to the measurement of buildings and constructions and production machinery and equipment (Oilseed Processing segment). To value of property, plant, and equipment the Group uses replacement cost adjusted on the physical depreciation of assets and market comparable approach.

The Group fulfil a review of the fair value on a recurring basis of these assets to determine whether the carrying amount differs significantly from fair value. Key assumptions used in assessing the fair value of property, plant and equipment using the replacement cost and market comparable methods were as follows:

- present condition of particular assets based on examination of valuation experts and physical wear-and-tear;
- changes in prices of equipment, construction materials and services from the date of their acquisition/construction to the date of valuation represented by inflation rates;
- external prices for production machinery and equipment; and
- other external and internal factors that might have effect on fair value of property, plant and equipment under review.

Unobservable input of physical depreciation of assets is used to measure fair value to the extent that relevant observable inputs are not available. Based on the management assessment, index of physical depreciation has not changed materially from the date of last revaluation when it was in the range of 0-82%.

A discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate is prepared to determine economical obsolescence.

Fair value measurements are mostly categorized within level 3 of the fair value hierarchy.

Based on the results of this review, the Group concluded that the carrying amount of buildings, constructions, production machinery and equipment (Oilseed Processing segment) does not significantly differ from the fair value as of 30 June 2021.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimating uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment Testing of Property, Plant and Equipment

Management reviews the carrying amounts of assets to determine whether there is any indication that those assets are impaired.

In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit.

The assessment of whether there are indicators of a potential impairment are based on various assumptions including market conditions, asset utilization and the ability to utilize the asset for alternative purposes. If an indication of impairment exists, the Group estimates the recoverable value (greater of fair value less cost to sell and value in use) and compares it to the carrying value, and records impairment to the extent the carrying value is greater than the recoverable amount.

The value in use is based on estimated future cash flows that are discounted to their present value. Estimated future cash flows require management to make a number of assumptions including customer demand and industry capacity, future growth rates and the appropriate discount rate. Any change in these estimates may result in impairment in future periods.

As of 30 June 2021, no indicators of property, plant and equipment impairment have been identified, except for the property plant equipment of Prykolotnoe OEP LLC in the amount of USD 8,462 thousand belonging to Oilseed Processing segment (Note 14).

Useful Lives of Property, Plant and Equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, which are based on management's business plans and operational estimates.

The factors that could affect the estimation of the life of a non-current asset and its residual value include the following:

- Changes in technology;
- Changes in maintenance technology;
- Changes in regulations and legislation; and
- Unforeseen operational issues.

Any of the above could affect the prospective depreciation of property, plant and equipment and their carrying and residual values. The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Any change in the estimated useful life or residual value is recorded on a prospective basis from the date of the change.

Impairment Testing of Goodwill and Intangible Assets with Indefinite Useful Lives

Determining whether goodwill is impaired requires an estimation of the value in use or fair value less costs to sell of the cash-generating units to which goodwill has been allocated. The calculation of value in use requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate their present value.

As of 30 June 2021, the carrying amount of goodwill and intangible assets with indefinite useful lives amounted to USD 134,643 thousand (30 June 2020: USD 135,930 thousand). As of 30 June 2021, USD 1,275 thousand reduction of impairment loss from previous years for intangible assets with indefinite useful lives was recognized as well as goodwill impairment loss in the amount of USD 2,147 thousand (Notes 14, 16, 17) (30 June 2020: USD 658 thousand of impairment loss and nil accordingly). Details of the management assumptions used to assess the recoverable amount of cash-generating units for which goodwill and intangible assets with indefinite useful lives have been allocated to are provided in Note 16 and Note 17.

Provision for ECL of trade and other receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and other receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating). The amount of ECL is sensitive to changes in circumstances and of forecasts economic conditions. The Group uses reasonable and supportable forward-looking information for the forecast of economic conditions when measuring ECL. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Fair Value of Biological Assets and Agricultural Produce

Biological assets are recorded at fair value less costs to sell. The fair value of growing crops is determined using a discounted cash flow model based on the expected crops' yield by sowing area size, the market price for respective crops, and after allowing for harvesting costs, contributory asset charges for the land and sowing areas and other costs yet to be incurred in getting the harvest to maturity.

The Group estimates the fair values of biological assets and agricultural produce based on the following key assumptions:

- Expected crop yields (for crops in fields);
- Expected future inflows from livestock;

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

- Average weight and quality of animals;
- Productive life of one milk cow;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and
- Discount rate.

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results (Note 12).

Fair value measurements

Derivative instruments are carried at fair value for which the Group evaluates the quality and reliability of the assumptions and data used to measure fair value in the three hierarchy levels, Level 1, 2 and 3, as prescribed by IFRS 13 Fair Value Measurement. Fair values are determined in the following ways: externally verified via comparison to quoted market prices in active markets (Level 1); by using models with externally verifiable inputs (Level 2); or by using alternative procedures such as comparison to comparable instruments and/or using models with unobservable market inputs requiring Group to make market-based assumptions (Level 3). Level 3 inputs therefore include the highest level of estimation uncertainty.

5. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting as provided to the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The management and members of the board of directors of the Group are identified as chief operating decision makers.

Segments in the consolidated financial statements are defined in accordance with the type of activity, products sold or services provided.

The Group is presenting its segment results within three business segments: Oilseed Processing, Infrastructure and Trading, and Farming.

In Oilseed Processing segment, the Group combines oilseed origination, edible oil production and sales of bottled sunflower oil. Sunflower oil in bulk is mostly sold further to the Infrastructure and Trading segment for the global marketing.

In Infrastructure and Trading segment, the Group combines results of grain trading, silo services and export terminals operations. These parts of the business form an integrated supply chain which is managed jointly. Under current framework, the management considers export terminals and grain storage facilities as production assets which serve grain merchandizing business and consequently uses a combined throughput margin to evaluate performance of Infrastructure and Trading business. In FY2021, 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 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 and bulk sunflower oil.
Infrastructure and Trading	Sourcing and merchandising of wholesale edible oils, grain, provision of silo services, grain handling and trans-shipment 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, bonds, 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, bonds, 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

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

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

6. Key Data by Operating Segment

Key data by operating segment for the year ended 30 June 2021:

	Oilseed Processing	Infrastructure and Trading	Farming	Other ¹	Reconciliation	Continuing operations
Revenue (external)	782,940	4,837,315	26,899	—	—	5,647,154
Intersegment sales	963,998	72,156	630,233	—	(1,666,387)	—
Total revenue	1,746,938	4,909,471	657,132	—	(1,666,387)	5,647,154
Net change in fair value of biological assets and agricultural produce	—	—	132,631	—	—	132,631
Other operating income, net	2,516	88,281	6,996	(2,464)	—	95,329
Profit/(Loss) from operating activities	32,320	470,215	395,686	(86,040)	—	812,181
Finance costs, net						(141,759)
Foreign exchange loss, net						(6,306)
Other income, net						10,725
Income tax expenses						(32,252)
Profit for the period from continuing operations						642,589
Total assets	1,329,914	1,569,620	1,003,146	93,899	—	3,996,579
Capital expenditures	79,836	47,380	121,567	2,654	—	251,437
Amortization and depreciation	23,424	25,961	65,039	2,062	—	116,486
Liabilities	37,782	356,907	369,731	1,149,451	—	1,913,871

Key data by operating segment for the year ended 30 June 2020:

	Oilseed Processing	Infrastructure and Trading	Farming	Other ¹	Reconciliation	Continuing operations
Revenue (external)	712,194	3,364,970	29,616	—	—	4,106,780
Intersegment sales	834,813	61,319	574,413	—	(1,470,545)	—
Total revenue	1,547,007	3,426,289	604,029	—	(1,470,545)	4,106,780
Net change in fair value of biological assets and agricultural produce	—	—	(20,979)	—	—	(20,979)
Other operating income, net	5,820	(10,250)	8,087	3,360	—	7,017
Profit/(Loss) from operating activities	134,102	193,014	71,168	(61,008)	—	337,276
Finance costs, net						(147,220)
Foreign exchange loss, net						(1,012)
Other expenses, net						(50,524)
Share of gain of joint ventures						6,305
Income tax expenses						(22,075)
Profit for the period from continuing operations						122,750
Total assets	1,230,621	982,516	854,729	96,837	—	3,164,703
Capital expenditures	153,948	81,500	124,848	3,734	—	364,030
Amortization and depreciation	17,662	22,787	63,079	2,214	—	105,742
Liabilities	84,854	143,762	354,919	1,087,045	—	1,670,580

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

	For the year ended 30 June 2021				For the year ended 30 June 2020			
	Oilseed Processing	Infrastructure and Trading	Farming	Continuing operations	Oilseed Processing	Infrastructure and Trading	Farming	Continuing operations
Revenue from sales of commodities	735,771	4,644,111	26,899	5,406,781	667,276	3,229,420	29,616	3,926,312
Freight and other services	47,169	193,204	—	240,373	44,918	135,550	—	180,468
Total external revenue from contracts with customers	782,940	4,837,315	26,899	5,647,154	712,194	3,364,970	29,616	4,106,780

During the year ended 30 June 2021, revenues of approximately USD 474,069 thousand (2020: USD 335,007 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 97.0% of total external sales (2020: 96.9%).

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

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

For the year ended 30 June 2021, revenue from the Group's top five customers accounted for approximately 28.1% of total revenue (for the year ended 30 June 2020, revenue from the top five customers accounted for 30.2% of total revenue).

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

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

	As of and for the year ended 30 June 2021		As of and for the year ended 30 June 2020	
	Revenue from external customers	Non-current assets	Revenue from external customers	Non-current assets
Ukraine	2,691,459	1,647,512	2,234,045	1,562,212
Europe	2,203,906	3,012	1,656,333	3,439
North America	747,598	471	216,402	501
Other locations	4,191	440	—	380
Total	5,647,154	1,651,435	4,106,780	1,566,532

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.

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

7. Acquisition and Disposal of Subsidiaries

No entities were acquired during the year ended 30 June 2021.

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

The Group does not disclose the amount of revenue and net profit contributed by Prydniprovskiy OEP LLC since the acquisition date to the Group revenue and net profit as it is impracticable to determine the mentioned amounts due to the full integration of the acquired and existing businesses under one entity. The Group does not disclose the revenue and net profit of the acquired oilseed crushing plant as if it has been acquired at the beginning of the reporting period as it is impracticable due to the fact that no IFRS financial information is available for the acquired plant as from the beginning of the reporting period and up to the date of acquisition.

During the year ended 30 June 2021, as a result of the optimization process of the logistic assets, the Group disposed of four grain elevators located in Kharkiv, Chernihiv and Mykolayiv regions, one of which was previously classified as assets held for sale. The net assets of the disposed entities as of the date of disposal were equal to USD 1,100 thousand (including USD 351 thousand classified as assets held for sale) and the cash consideration received was USD 2,991 thousand (out of which USD 2,505 thousand was received during the reporting period). Gain on disposal comprised to USD 1,891 thousand.

During the year ended 30 June 2020, according to management's plan, the Group disposed one of its export terminals, previously classified as assets held for sale, located in Mykolaiv region. The net assets as of the date of disposal amounted to USD 1,073 thousand. The cash consideration received was USD 3,918 thousand.

During the year, ended 30 June 2020, as a result of business optimization and optimization of its logistic assets, the Group disposed of five silos, located in Kirovohrad, Poltava and Mykolaiv regions, one holding company, located in Poltava region, one farming entity with about 3,000 ha of leasehold farmland located in Odesa region and trading companies located in the Russian Federation (which have been inactive for the last periods). The net assets of the disposed entities as of the date of disposal were equal to USD 4,944 thousand and the cash consideration receivable was USD 11,839 thousand.

During the year ended 30 June 2020, the Company disposed of 50% interest in a joint venture, a deep-water grain export terminal in Taman port (the Russian Federation). Fair value of investment, which was accounted for using the equity method, as of the date of disposal was equal to USD 60,187 thousand. Accumulated foreign exchange differences previously recognized in other comprehensive income in the amount of USD 54,500 thousand of loss, as of the date of the disposal was reclassified to profit or loss. As a result, loss on disposal of Taman comprised to USD 46,374 thousand and recognized within the line "Other income/(expenses), net". The cash consideration received was USD 68,313 thousand.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

8. Cash and Cash Equivalents

The balances of cash and cash equivalents were as follows:

	As of 30 June 2021	As of 30 June 2020
Cash in banks in USD	554,493	340,737
Cash in banks in UAH	2,821	18,140
Cash in banks in other currencies	16,717	10,235
Cash on hand	9	5
Total	574,040	369,117
Less restricted and blocked cash on security bank accounts	(90)	(1,909)
Less bank overdrafts (Note 21)	(100)	(4)
Cash for the purposes of cash flow statement	573,850	367,204

In accordance with the international rating agency of Fitch, credit ratings of the banks with which the Group had the accounts opened as of 30 June were as follows:

	As of 30 June 2021	As of 30 June 2020
International bank with F1 rating	388,361	181,667
Banks with lower medium grade	75,323	116,938
International bank with F1+ rating	51,796	53,490
International bank with F2 rating	1,599	379
Banks without international ratings	56,961	16,643
Total	574,040	369,117

The reconciliation in the table below presents changes in the Group's liabilities arising from financing activities by incorporating cash flows and non-cash changes over the reporting period.

Reconciliation of liabilities arising from financing activities:

	Bank borrowings, (Notes 21, 22)	Finance lease obliga- tions	Lease liabili- ties (Note 23)	Bonds is- sued (Note 24)	Total
As of 30 June 2019	247,073	7,714	—	496,051	750,838
Impact of adoption of IFRS 16	—	(7,714)	291,515	—	283,801
As of 1 July 2019	247,073	—	291,515	496,051	1,034,639
Cash flow from proceeds/ (repayments)	(23,922)	—	(37,709)	297,660	236,029
Transactions costs related to corporates bonds issue paid	—	—	—	(1,895)	(1,895)
Non-cash movements					
Additions and change of terms of lease liabilities	—	—	84,016	—	84,016
Disposals of lease liabilities	—	—	(12,859)	—	(12,859)
Non-cash settlement of lease liabilities	—	—	(6,402)	—	(6,402)
Amortization of one-off and transaction cost	3,712	—	—	1,961	5,673
Foreign exchange movements	2,296	—	483	—	2,779
Other changes	(6,719)	—	(9,044)	—	(15,763)
As of 30 June 2020	222,440	—	310,000	793,777	1,326,217
Cash flow from proceeds/ (repayments)	38,733	—	(32,712)	12,396	18,417
Transactions costs related to corporates bonds issue paid	—	—	—	(2,428)	(2,428)
Non-cash movements					
Additions and change of terms of lease liabilities	—	—	70,618	—	70,618
Disposals of lease liabilities	—	—	(11,293)	—	(11,293)
Non-cash settlement of lease liabilities	—	—	(7,790)	—	(7,790)
Amortization of one-off and transaction cost	—	—	—	2,692	2,692
Foreign exchange movements	2,369	—	315	—	2,684
Other changes	(1,663)	—	(4,646)	—	(6,309)
As of 30 June 2021	261,879	—	324,492	806,437	1,392,808

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

9. Trade Accounts Receivable, net

The balances of trade accounts receivable, net were as follows:

	As of 30 June 2021	As of 30 June 2020
Trade accounts receivable	386,618	222,767
Allowance for expected credit losses	(5,494)	(7,488)
Total	381,124	215,279

For the period ended 30 June 2021, the average credit period on sales of goods was 20 days (for the period ended 30 June 2020: 20 days). No interest is charged on the outstanding balances of trade accounts receivable.

The Group measures the loss allowance for trade account receivables at an amount equal to lifetime ECL. The expected credit loss on trade receivables is estimated using a provision matrix by reference to past default experience of the debtor and credit rating, adjusted for an assessment of current and forward-looking information based on general economic conditions affecting the ability of the customers to settle the receivables. Trade receivables are collectively assessed, except for certain receivables that have differing credit risk characteristics. There has been no change in the estimation techniques during the current reporting period.

The Group has recognized a loss allowance of 100 per cent against all receivables over 90 days past due, which were not secured, because historical experience has indicated that these receivables are generally not recoverable.

On this basis, the loss allowance as at 30 June was determined for trade accounts receivables as follows:

	As at 30 June 2021				As at 30 June 2020			
	Current	Less than 90 days past due	More than 90 days past due	Total	Current	Less than 90 days past due	More than 90 days past due	Total
Expected loss rate ¹	0.05%	0.6%	94.4%		0.3%	2.9%	98.6%	
Gross carrying amount – trade accounts receivables	324,568	56,776	5,274	386,618	192,716	23,678	6,373	222,767
Loss allowance	(157)	(358)	(4,979)	(5,494)	(529)	(677)	(6,282)	(7,488)

The movement in allowance for credit loss relating to trade accounts receivables is presented below:

	Trade accounts receivables		
	Collectively assessed	Individually assessed	Total
Opening loss allowance as of 30 June 2019	4,707	1,766	6,473
Increase in loss allowance recognized in profit or loss during the year	—	1,482	1,482
Trade receivables written off during the year as uncollectible	(455)	—	(455)
Unused amount reversed	(12)	—	(12)
Opening loss allowance as of 30 June 2020	4,240	3,248	7,488
Decrease in loss allowance recognized in profit or loss during the year	(127)	(737)	(864)
Trade receivables written off during the year as uncollectible	—	(1,122)	(1,122)
Unused amount reversed	—	(8)	(8)
Closing loss allowance as of 30 June 2021	4,113	1,381	5,494

10. Taxes Recoverable and Prepaid, net

The balances of taxes recoverable and prepaid, net were as follows:

	As of 30 June 2021	As of 30 June 2020
VAT ('value added tax') recoverable and prepaid	185,592	132,492
Other taxes recoverable and prepaid	374	256
Total	185,966	132,748

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances will be recovered in full within 12 months after the reporting date through cash collection or set-off with respective VAT liabilities. For the year ended 30 June 2021, the amount of VAT refunded by the government in cash was USD 373,160 thousand (30 June 2020: USD 392,243 thousand).

¹ Differences in expected loss rate are possible due to rounding
The accompanying notes are an integral part of these financial statements.
www.kernel.ua

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

11. Inventory

The balances of inventories were as follows:

	As of 30 June 2021	As of 30 June 2020
Finished products	173,003	94,744
Raw materials	68,829	148,517
Goods for resale	64,733	35,575
Products of agriculture	7,647	4,268
Fuel	3,700	6,383
Work in progress	2,448	2,547
Packaging materials	1,631	1,429
Other inventories	10,036	9,939
Total	332,027	303,402

As of 30 June 2021, raw materials mostly consisted of sunflower seed stock in the amount of USD 42,513 thousand (30 June 2020: USD 121,402 thousand).

As of 30 June 2021, finished products mostly consisted of sunflower oil in bulk in the amount of USD 129,562 thousand (30 June 2020: USD 78,893 thousand).

The cost of inventories recognized as an expense through Cost of sales (Note 27) includes USD 34,048 thousand (2020: USD 750 thousand) in relation to the write-downs of inventory to net realizable value.

As of 30 June 2021, inventories with a carrying amount of USD 92,382 thousand (30 June 2020: USD 118,657 thousand) have been pledged as security for short-term borrowings (Note 21).

12. Biological Assets

The balances of biological assets were as follows:

	As of 30 June 2021	As of 30 June 2020
Non-current assets		
Non-current cattle	7,225	6,786
Total	7,225	6,786
Current assets		
Crops in fields	375,095	250,672
Current cattle	1,549	1,512
Total	376,644	252,184

As of 30 June 2021, non-current cattle were represented mostly by 5,002 heads of milk cows of USD 7,220 thousand (30 June 2020: 4,835 heads of USD 6,781 thousand), and the remaining amount was composed of horses. As of 30 June 2021, current cattle were represented mostly by 4,256 heads of calves in the amount of USD 1,522 thousand (30 June 2020: 4,316 heads of calves in the amount of USD 1,495 thousand), and the remaining amount was composed of bees. The change in the balances of livestock is represented by an increase in heads of milk cows within regular transfer from young calves to mature herd and the variation in prices and exchange rates between reporting dates.

For the year ended 30 June 2021, the net gain arising from changes in the fair value of biological assets in the amount of USD 132,631 thousand (2020: loss of USD 20,979 thousand) includes a USD 1,445 thousand loss on changes in current and non-current cattle's fair value (2020: loss of USD 97 thousand).

The balances of crops in fields were as follows:

	As of 30 June 2021		As of 30 June 2020	
	Hectares	Value	Hectares	Value
Corn	254,068	187,323	256,317	114,872
Sunflower seed	154,003	120,988	147,989	94,457
Wheat	64,655	48,104	73,113	30,544
Rapeseed	8,885	14,306	9,011	8,520
Soybean	4,533	3,602	3,607	1,916
Other	1,590	772	1,736	363
Total	487,734	375,095	491,773	250,672

The following table represents the changes in the carrying amounts of crops in fields during the years ended 30 June 2021 and 2020:

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

	Capitalized expendi- tures	Effect of biological transfor- mation	Fair value of biological assets
As of 30 June 2019	252,923	54,192	307,115
Expenditures capitalized in biological assets (harvest 2019)	137,361	—	137,361
Decrease due to harvest (harvest 2019)	(390,284)	(54,192)	(444,476)
Decrease resulting from disposal of Subsidiaries	(1,232)	140	(1,092)
Expenditures capitalized in biological assets (harvest 2020)	222,334	—	222,334
Gain arising from changes in fair value of biological assets (sowing under harvest 2020)	—	42,512	42,512
Exchange difference	(10,967)	(2,115)	(13,082)
As of 30 June 2020	210,135	40,537	250,672
Expenditures capitalized in biological assets (harvest 2020)	108,099	—	108,099
Decrease due to harvest (harvest 2020)	(318,234)	(40,537)	(358,771)
Expenditures capitalized in biological assets (harvest 2021)	200,330	—	200,330
Gain arising from changes in fair value of biological assets (sowing under harvest 2021)	—	165,525	165,525
Exchange difference	5,094	4,146	9,240
As of 30 June 2021	205,424	169,671	375,095

Farming costs such as expenses for seeds, fertilizers, plant protecting means, energy and fuel, costs for growing and harvesting, silos services, rent, payroll and other are expensed as incurred and further are capitalized as part of biological assets based on sowing areas and types of costs allocated to particular crops.

The fair value of agricultural produce was estimated based on market prices as at the date of harvest and is within level 2 of fair value hierarchy. Crops in fields and non-current cattle of the Group are measured using discounted cash flow technique and are within the level 3 of the fair value hierarchy. Current cattle are measured based on market prices of livestock of similar age, breed and genetic merit, which is within level 2 of the fair value hierarchy.

In the table below biological assets are classified into the three levels prescribed under the accounting standards:

		As of 30 June 2021					As of 30 June 2020				
	Measure	Quantity	Level 1	Level 2	Level 3	Total	Quantity	Level 1	Level 2	Level 3	Total
Livestock											
Mature - Milk cows	Heads	5,002	—	—	7,220	7,220	4,835	—	—	6,781	6,781
Immature - Milk cows	Heads	2,167	—	866	—	866	2,190	—	865	—	865
Immature - Calves	Heads	2,089	—	656	—	656	2,126	—	630	—	630
Bees hives	Heads	952	—	27	—	27	623	—	17	—	17
Horses	Heads	8	—	5	—	5	11	—	5	—	5
Crops in fields	Hectares	487,734	—	—	375,095	375,095	491,773	—	—	250,672	250,672
Total			—	1,554	382,315	383,869		—	1,517	257,453	258,970

There were no changes in valuation technique since previous year. There were no transfers between any levels during the year.

Description	Fair value as of 30 June 2021	Valuation tech- niques	Unobservable Inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in field	375,095	Discounted cash flows	Crops yield Discount rate	2.21 – 6.80 (5.20) tons per hectare 16.47% (in UAH, short- term)	The higher the crop yield, the higher the fair value The higher the discount rate, the lower the fair value
Milk cows	7,220	Discounted cash flows	Milk yield – liter per cow Weight of 1 calf Average yield of calves from 100 cows per year Discount rate, %	17.63 – 23.05 (20.34) liters per cow per day 29 – 32 (31) kg 66 – 74 (70) calves 12.40% (in UAH, long- term)	The higher the milk yield, the higher the fair value The higher the weight, the higher the fair value The higher the yield, the higher the fair value The higher the discount rate, the lower the fair value

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

If the above unobservable inputs to the valuation model were 5 per cent higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 27,736 thousand and USD 28,054 thousand, respectively.

Description	Fair value as of 30 June 2020	Valuation techniques	Unobservable Inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in field	250,672	Discounted cash flows	Crops yield Discount rate	2.33 – 7.67 (5.70) tons per hectare 12.95% (in UAH, short-term)	The higher the crop yield, the higher the fair value The higher the discount rate, the lower the fair value
Milk cows	6,781	Discounted cash flows	Milk yield – liter per cow Weight of 1 calf Average yield of calves from 100 cows per year Discount rate, %	17.82 – 22.61 (20.22) liters per cow per day 29 – 32 (31) kg 55 – 77 (66) calves 12.20% (in UAH, long-term)	The higher the milk yield, the higher the fair value The higher the weight, the higher the fair value The higher the yield, the higher the fair value The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 5 per cent higher/lower while all other variables were held constant, the carrying amount of the current and non-current biological assets would increase/decrease by USD 22,247 thousand and USD 22,334 thousand, respectively.

13. Other financial assets

The balances of other financial assets were as follows:

	As of 30 June 2021	As of 30 June 2020
Derivative financial instruments	130,480	45,353
Margin account with brokers	119,376	51,362
Short-term bank deposits	3,680	—
Other financial assets	40,620	44,780
Total	294,156	141,495

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

14. Property, Plant and Equipment, net

The following table represents movements in property, plant and equipment for the year ended 30 June 2021:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Total
Net Book Value as at 30 June 2020	517,624	321,662	120,858	24,224	984,368
Land	967	380	70	1,089	2,506
Buildings and Constructions	227,099	98,486	18,677	18,379	362,641
Production machinery and equipment	99,118	43,612	12,675	1,759	157,164
Agricultural equipment and vehicles	4,209	82,273	57,139	1,097	144,718
Other fixed assets	3,353	3,920	7,773	901	15,947
CIP and uninstalled equipment	182,878	92,991	24,524	999	301,392
Additions	79,049	46,953	47,667	930	174,599
CIP and uninstalled equipment	79,049	46,953	47,667	930	174,599
Reclassification	(10)	179	(214)	45	—
Buildings and Constructions	(29)	2,042	(406)	1	1,608
Production machinery and equipment	587	86	(8,152)	(27)	(7,506)
Agricultural equipment and vehicles	9	59	11,913	49	12,030
Other fixed assets	(577)	(2,008)	(3,569)	22	(6,132)
Transfers	—	—	—	—	—
Land	—	65	9	—	74
Buildings and Constructions	3,059	63,291	3,116	884	70,350
Production machinery and equipment	2,341	52,210	429	408	55,388
Agricultural equipment and vehicles	1,288	2,981	21,323	307	25,899
Other fixed assets	981	1,205	2,536	207	4,929
CIP and uninstalled equipment	(7,669)	(119,752)	(27,413)	(1,806)	(156,640)
Disposals (at NBV)	(386)	(416)	(2,273)	(126)	(3,201)
Buildings and Constructions	(49)	254	(716)	—	(511)
Production machinery and equipment	(200)	49	(38)	(3)	(192)
Agricultural equipment and vehicles	(35)	(24)	(1,309)	—	(1,368)
Other fixed assets	(12)	(3)	(72)	(84)	(171)
CIP and uninstalled equipment	(90)	(692)	(138)	(39)	(959)
Disposal of Subsidiaries (at NBV)	—	(780)	—	—	(780)
Buildings and Constructions	—	(593)	—	—	(593)
Production machinery and equipment	—	(143)	—	—	(143)
Other fixed assets	—	(44)	—	—	(44)
Depreciation expense	(22,971)	(25,167)	(26,032)	(1,786)	(75,956)
Buildings and constructions	(9,772)	(6,182)	(1,792)	(524)	(18,270)
Production machinery and equipment	(10,998)	(6,809)	(2,166)	(592)	(20,565)
Agricultural equipment and vehicles	(1,001)	(11,060)	(19,518)	(327)	(31,906)
Other fixed assets	(1,200)	(1,116)	(2,556)	(343)	(5,215)
Impairment loss	(8,462)	—	—	—	(8,462)
Buildings and constructions	(5,250)	—	—	—	(5,250)
Production machinery and equipment	(3,212)	—	—	—	(3,212)
Translation difference	(69)	(2,841)	(1,813)	(640)	(5,363)
Land	—	(5)	(1)	(41)	(47)
Buildings and Constructions	—	(1,149)	(331)	(623)	(2,103)
Production machinery and equipment	—	(637)	(635)	(6)	(1,278)
Agricultural equipment and vehicles	(67)	(46)	(424)	(7)	(544)
Other fixed assets	(1)	(150)	(276)	1	(426)
CIP and uninstalled equipment	(1)	(854)	(146)	36	(965)
Net Book Value as at 30 June 2021	564,775	339,590	138,193	22,647	1,065,205
Land	967	440	78	1,048	2,533
Buildings and Constructions	215,058	156,149	18,548	18,117	407,872
Production machinery and equipment	87,636	88,368	2,113	1,539	179,656
Agricultural equipment and vehicles	4,403	74,183	69,124	1,119	148,829
Other fixed assets	2,544	1,804	3,836	704	8,888
CIP and uninstalled equipment	254,167	18,646	44,494	120	317,427

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The following table represents movements in property, plant and equipment for the year ended 30 June 2020:

	Oilseed Processing	Infrastructure and Trading	Farming	Other	Total
Net Book Value as at 30 June 2019	352,672	220,924	167,383	23,707	764,686
Land	852	377	74	1,110	2,413
Buildings and Constructions	207,882	69,295	17,604	19,391	314,172
Production machinery and equipment	87,437	32,844	34,650	20	154,951
Agricultural equipment and vehicles	4,584	55,117	74,816	801	135,318
Other fixed assets	4,049	2,232	8,826	2,375	17,482
CIP and uninstalled equipment	47,868	61,059	31,413	10	140,350
Additions	153,525	78,076	49,934	2,482	284,017
CIP and uninstalled equipment	153,525	78,076	49,934	2,482	284,017
Reclassification	(301)	54,012	(53,845)	134	—
Land	—	—	(4)	—	(4)
Buildings and Constructions	370	137	(479)	(213)	(185)
Production machinery and equipment	(226)	270	(24,226)	1,652	(22,530)
Agricultural equipment and vehicles	52	26,662	(1,866)	(36)	24,812
Other fixed assets	(497)	644	(971)	(1,269)	(2,093)
CIP and uninstalled equipment	—	26,299	(26,299)	—	—
Additions from acquisition of subsidiaries	29,988	—	—	—	29,988
Buildings and Constructions	18,958	—	—	—	18,958
Production machinery and equipment	11,009	—	—	—	11,009
Agricultural equipment and vehicles	21	—	—	—	21
Transfers	—	—	—	—	—
Land	115	—	14	—	129
Buildings and Constructions	7,147	39,606	4,642	136	51,531
Production machinery and equipment	9,322	16,104	6,452	395	32,273
Agricultural equipment and vehicles	753	12,143	16,306	586	29,788
Other fixed assets	860	2,143	2,939	271	6,213
CIP and uninstalled equipment	(18,197)	(69,996)	(30,353)	(1,388)	(119,934)
Transfers to Right-of-use assets	—	—	(9,167)	—	(9,167)
Agricultural equipment and vehicles	—	—	(9,167)	—	(9,167)
Disposals (at NBV)	(770)	(3,974)	(2,273)	(181)	(7,198)
Buildings and Constructions	(407)	(2,842)	(919)	(102)	(4,270)
Production machinery and equipment	(160)	(453)	(172)	(3)	(788)
Agricultural equipment and vehicles	(44)	(11)	(861)	(19)	(935)
Other fixed assets	(10)	(54)	(230)	(25)	(319)
CIP and uninstalled equipment	(149)	(614)	(91)	(32)	(886)
Depreciation expense	(17,241)	(22,126)	(30,994)	(1,494)	(71,855)
Buildings and constructions	(6,851)	(5,329)	(1,746)	(511)	(14,437)
Production machinery and equipment	(8,264)	(4,371)	(5,917)	(295)	(18,847)
Agricultural equipment and vehicles	(1,079)	(11,557)	(20,590)	(234)	(33,460)
Other fixed assets	(1,047)	(869)	(2,741)	(454)	(5,111)
Translation difference	(249)	(5,250)	(180)	(424)	(6,103)
Land	—	3	(14)	(21)	(32)
Buildings and Constructions	—	(2,381)	(425)	(322)	(3,128)
Production machinery and equipment	—	(782)	1,888	(10)	1,096
Agricultural equipment and vehicles	(78)	(81)	(1,499)	(1)	(1,659)
Other fixed assets	(2)	(176)	(50)	3	(225)
CIP and uninstalled equipment	(169)	(1,833)	(80)	(73)	(2,155)
Net Book Value as at 30 June 2020	517,624	321,662	120,858	24,224	984,368
Land	967	380	70	1,089	2,506
Buildings and Constructions	227,099	98,486	18,677	18,379	362,641
Production machinery and equipment	99,118	43,612	12,675	1,759	157,164
Agricultural equipment and vehicles	4,209	82,273	57,139	1,097	144,718
Other fixed assets	3,353	3,920	7,773	901	15,947
CIP and uninstalled equipment	182,878	92,991	24,524	999	301,392

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Total cost of property, plant and equipment and total accumulated depreciation as of 30 June 2021 and 2020 were as follows:

	Cost as of 30 June 2021	Accumulated de- preciation as of 30 June 2021	Cost as of 30 June 2020	Accumulated depreciation as of 30 June 2020
Land	2,533	—	2,506	—
Buildings and constructions	464,711	(56,839)	427,651	(65,010)
Production machinery and equipment	243,855	(64,199)	237,867	(80,703)
Agricultural equipment and vehicles	307,768	(158,939)	335,255	(190,537)
Other fixed assets	25,022	(16,134)	37,228	(21,281)
CIP and uninstalled equipment	317,427	—	301,392	—
Total	1,361,316	(296,111)	1,341,899	(357,531)

Had the Group's buildings and constructions and production machinery and equipment (Oilseed Processing segment) been measured on a historical cost basis, their carrying amount would have been as follows:

	As of 30 June 2021	As of 30 June 2020
Buildings and constructions	196,047	202,980
Production machinery and equipment	72,237	79,464
Total	268,284	282,444

During the year ended 30 June 2021, the Group has made reclassification between groups of property, plant and equipment. Most reclassifications were made within a segment for more consistent presentation as a result of adoption of the unique property, plant and equipment classification module.

During the year ended 30 June 2020, the Group has made reclassification between groups of property, plant equipment. Agricultural equipment and vehicles mostly consisted of railway cars was reallocated from the Farming segment to the Infrastructure and Trading segment in the amount USD 25,174 thousand since the Group increased share of commodities purchased from third parties in total quantity of grain delivered to ports using own railway cars. Construction in progress and uninstalled equipment consisted mainly of silos were reallocated from the Farming segment to the Infrastructure and Trading segment in the amount USD 26,299 thousand since silos are going to be used not only for the Farming segment, but also for Infrastructure and Trading sourcing. Production machinery and equipment in the amount of USD 25,065 thousand was reallocated to agricultural equipment and vehicles for more consistent presentation.

For the year ended 30 June 2021, interest was capitalized in the amount of USD 5,103 thousand (2020: USD 7,653 thousand). For the year ended 30 June 2021, there were no borrowing costs eligible for capitalization apart from project specific borrowings. For the year ended 30 June 2020, apart from project specific borrowings, the rate used to determine the amount of borrowing costs eligible for capitalization was 3.4%.

As of 30 June 2021, prepayments for property, plant and equipment were in the amount USD 31,237 thousand (30 June 2020: USD 32,189 thousand).

As of 30 June 2021, property, plant and equipment with a carrying amount of USD 316,867 thousand (30 June 2020: USD 254,939 thousand) were pledged by the Group as collateral against short-term and long-term bank borrowings (Notes 21, 22).

As of 30 June 2021, property, plant and equipment, which was previously 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 (30 June 2020: USD 28,462 thousand), was released from pledge as a result of full repayment for the acquisition during the year ended 30 June 2021.

For the year ended 30 June 2021, prepayments for business acquisitions, which as of 30 June 2021 amounted to USD 4,321 thousand and included in the 'Non-current assets' line, were settled by acquiring assets, which were recognized as purchase of property, plant and equipment rather than business acquisition.

The intensified sunflower seeds competition and higher commodity market prices negatively affected crushing margins. As a result, the Management decided to write off the goodwill attributable to the Prykolotnoe OEP LLC amounting to USD 2,147 thousand. The property plant equipment was also written down by USD 8,462 thousand reflected in Oilseed Processing segment, of which USD 2,414 thousand included into profit or loss in the Other income/(expenses), net and USD 6,048 thousand debited to Revaluation reserve in equity.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

15. Right-of-use assets

The following table represents movements in right-of-use assets for the year ended 30 June 2021:

	Land	Agricultural equipment and vehicles	Buildings	Total
Cost as of 30 June 2020	368,869	10,672	7,777	387,318
Additions and modifications	70,056	3,424	24	73,504
Disposals	(17,305)	(152)	—	(17,457)
Translation difference	(5,343)	(2)	(7)	(5,352)
Cost as of 30 June 2021	416,277	13,942	7,794	438,013
Accumulated depreciation as of 30 June 2020	(34,420)	(4,973)	(629)	(40,022)
Depreciation	(36,913)	(2,732)	(506)	(40,151)
Disposals	6,024	152	—	6,176
Translation difference	678	1	4	683
Accumulated depreciation as of 30 June 2021	(64,631)	(7,552)	(1,131)	(73,314)
Net book value as of 30 June 2021	351,646	6,390	6,663	364,699

The following table represents movements in right-of-use assets for the year ended 30 June 2020:

	Land	Agricultural equipment and vehicles	Buildings	Total
As of 30 June 2019	—	—	—	—
Impact of adoption of IFRS 16	318,876	9,167	5,530	333,573
Cost as of 1 July 2019	318,876	9,167	5,530	333,573
Additions and modifications	73,953	1,625	2,362	77,940
Disposals	(15,876)	—	—	(15,876)
Translation difference	(8,084)	(120)	(115)	(8,319)
Cost as of 30 June 2020	368,869	10,672	7,777	387,318
Accumulated depreciation as of 1 July 2019	—	—	—	—
Depreciation	(37,609)	(4,973)	(629)	(43,211)
Disposals	1,502	—	—	1,502
Translation difference	1,687	—	—	1,687
Accumulated depreciation as of 30 June 2020	(34,420)	(4,973)	(629)	(40,022)
Net book value as of 30 June 2020	334,449	5,699	7,148	347,296

16. Intangible Assets, net

The following table represents movements in intangible assets for the year ended 30 June 2021:

	Trademarks	Land lease rights	Other intan- gible assets	Total
Cost as of 1 July 2020	22,036	130,186	8,293	160,515
Additions	—	—	3,334	3,334
Disposals	—	—	(568)	(568)
Other movements	—	(2,204)	2,204	—
Exchange difference	—	(2,258)	(4)	(2,262)
Cost as of 30 June 2021	22,036	125,724	13,259	161,019
Accumulated amortization and impairment loss as of 1 July 2020	(9,593)	(78,717)	(4,120)	(92,430)
Amortization charge	—	(8,802)	(637)	(9,439)
Disposals	—	—	540	540
Reduction of loss on impairment recognized in the Statement of Profit or Loss	1,275	—	—	1,275
Exchange difference	—	1,153	26	1,179
Accumulated amortization and impairment loss as of 30 June 2021	(8,318)	(86,366)	(4,191)	(98,875)
Net book value as of 30 June 2021	13,718	39,358	9,068	62,144

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The following table represents movements in intangible assets for the year ended 30 June 2020:

	Trademarks	Land lease rights	Other intan- gible assets	Total
Cost as of 1 July 2019	22,036	169,633	8,157	199,826
Additions	—	—	2,073	2,073
Disposals	—	(548)	(1,162)	(1,710)
Transfers to the Right-of-use assets	—	(37,006)	—	(37,006)
Exchange difference	—	(1,893)	(775)	(2,668)
Cost as of 30 June 2020	22,036	130,186	8,293	160,515
Accumulated amortization and impairment loss as of 1 July 2019	(8,935)	(71,897)	(4,052)	(84,884)
Amortization charge	—	(9,846)	(965)	(10,811)
Disposals	—	196	760	956
Transfers to the Right-of-use assets	—	985	—	985
Impairment loss recognized in the Statement of Profit or Loss	(658)	—	—	(658)
Exchange difference	—	1,845	137	1,982
Accumulated amortization and impairment loss as of 30 June 2020	(9,593)	(78,717)	(4,120)	(92,430)
Net book value as of 30 June 2020	12,443	51,469	4,173	68,085

Included in the intangible assets of Subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with net book values of USD 4,567 thousand, USD 5,929 thousand, USD 3,043 thousand and USD 179 thousand, respectively, in 2021 (USD 4,457 thousand, USD 5,122 thousand, USD 2,685 thousand and USD 179 thousand, respectively, in 2020). These trademarks are used by the Group for the sale of bottled sunflower oil mostly in the Ukrainian market.

In management's view, there is no foreseeable limit to the period over which the trademarks are expected to generate net cash inflows for the Group.

The Group believes that, as a result of further promotion of the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks, the market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them for an indefinite period of time.

Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually on 30 June and whenever there is an indication that the trademarks may be impaired.

The impairment testing of the value of trademarks as of 30 June 2021 was performed by an independent appraiser. The recoverable amount of trademarks was based on the fair value less costs to sell method using the royalty approach of valuation and is classified within level 3 of the fair value hierarchy. This calculation uses cash flow projections based on financial budgets approved by management and covering a five-year period. The total amount of the trademarks was allocated to the Oilseed Processing segment (as one cash-generating unit).

Key assumptions used for the calculation were as follows:

- The royalty rate used was determined at the weighted average market level of 5.00%;
- Growth rates are based on the expected market growth rate for sunflower oil consumption. As of 30 June 2021, management believed that the market for bottled oil was saturated and for a period of five years no cumulative growth is expected; and
- As bottled oil is predominantly sold within Ukraine, the discount rate used was based on the weighted average cost of capital rate of 14.31% for UAH denominated cash flow projections.

As a result of testing performed as of 30 June 2021, recoverable amounts of the trademarks 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' were USD 4,852 thousand, USD 6,667 thousand, USD 3,043 thousand and USD 278 thousand, respectively (30 June 2020: USD 4,457 thousand, USD 5,158 thousand, USD 2,685 thousand and USD 238 thousand, respectively).

As a result of testing performed, impairment loss for the trademarks 'Schedry Dar', 'Stozhar' and 'Zolota' recognized in prior periods was partly reversed in the amount of USD 110 thousand, USD 808 thousand and USD 357 thousand, respectively, as of 30 June 2021 (30 June 2020: impairment loss for the trademarks 'Schedry Dar', 'Zolota' in the amount of USD 110 thousand and USD 548 thousand, respectively). Reversal was recognized as a reduction of loss on impairment of intangible assets within Other expenses, net (Note 31). The recovery in value was caused, first of all, by the price increase during the period.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

17. Goodwill

The following table represents movements in goodwill for the year:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Cost at beginning of the year	134,324	118,572
Acquisitions of Subsidiaries (Note 7)	—	16,221
Exchange differences	(415)	(469)
Cost at the end of the year	133,909	134,324
Accumulated impairment losses at the beginning of the year	(10,837)	(10,837)
Impairment losses recognized in the year	(2,147)	—
Accumulated impairment losses at the end of the year	(12,984)	(10,837)
Balance at the end of the year	120,925	123,487

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

Segment	Cash-generating unit	Goodwill carrying value	
		As of 30 June 2021	As of 30 June 2020
Oilseed Processing	BSI LLC	35,331	35,331
	Kropyvnytskyi OEP PJSC (former Kirovogradoliya PJSC)	31,334	31,334
	Prydniprovskiy OEP LLC (incl. Ellada)	29,446	29,446
	Prykolotnoe OEP LLC	—	2,147
	Volchansk OEP LLC	1,906	1,906
Infrastructure and Trading	Transbulkterminal LLC	10,328	10,515
	RTK-Ukraine	3,877	3,948
Farming	Druzhba-Nova Group and other agricultural farms	8,703	8,860
Total		120,925	123,487

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of Oilseed Processing and Infrastructure and Trading CGUs were determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering a five-year period, which includes such factors as handled volumes, gross margins, long-term growth rate, annual capital expenditure.

The discount rate reflects the specific risk relating to the segment and country in which operates. The discount rate was determined by the weighted average cost of capital based on observable inputs from external sources of information. The discount rate nominated in USD used as of 30 June 2021 was 7.6% (30 June 2020: 7.4%). Cash flows beyond that five-year period have been extrapolated using a steady 2% per annum growth rate. That corresponds to the long-term average growth rate of the industry. As of 30 June 2021, the assumptions for the gross margin are based on average prices of sunflower seeds and oil and equal to the margin amount from 78 to 100 USD per one metric ton of oil (2020: gross margin 79 to 100 USD per one metric ton of oil). Management believes that no reasonably possible changes in any of the above key assumptions would cause the recoverable amount drop below the carrying value of CGU.

Excess of recoverable amount over carrying amount of individual CGUs summarized below:

Segment	Cash-generating unit	Excess of recoverable amount	
		As of 30 June 2021	As of 30 June 2020
Oilseed Processing	BSI LLC	160,105	143,462
	Kropyvnytskyi OEP PJSC (former Kirovogradoliya PJSC)	109,936	105,224
	Prydniprovskiy OEP LLC (incl. Ellada)	313,042	277,900
	Volchansk OEP LLC	78,132	66,162
Infrastructure and Trading	Transbulkterminal LLC	187,658	371,018
	RTK-Ukraine	75,030	87,618
Farming	Druzhba-Nova Group and other agricultural farms	61,937	62,596

The recoverable amount of Druzhba-Nova Group and other agricultural farms have been determined based on fair value less cost to sell estimates. The valuation method is based on the market approach and observable market prices, adjusted for the age and liquidity of the assets, which is within level 2 of the fair value hierarchy.

The recoverable amount of RTK CGU was determined based on a value in use calculation, which uses cash flow projections based on the most recent financial budgets approved by the management and covering railcars useful life period and a discount rate of 7.6% per annum and is classified within Level 3 of fair value hierarchy.

Management believes that no reasonably possible change in the key assumptions would cause the carrying amount of Transbulkterminal LLC, RTK, Oilseed Processing CGUs, Druzhba-Nova Group and other agricultural farms to exceed its recoverable amount.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

As of 30 June 2021 and 2020, no impairment of goodwill was identified except for the impairment of goodwill allocated to Prykolotnoe OEP LLC relating to the Oilseed Processing segment that was recognized as of 31 December 2020 in the amount of USD 2,147 thousand (within Other expenses, net).

18. Non-current Financial Assets

The balances of non-current financial assets were as follows:

	As of 30 June 2021	As of 30 June 2020
Loans provided to related parties (Note 32)	37,684	32,528
Investments in financial asset	7,513	7,513
Loans to farmers	616	12,657
Other non-current assets	509	5,304
Total	46,322	58,002

19. Advances from Customers and Other Current Liabilities

The balances of advances from customers and other current liabilities were as follows:

	As of 30 June 2021	As of 30 June 2020
Accrued payroll, payroll related taxes and bonuses	88,393	29,302
Taxes payable and provision for tax liabilities	52,049	16,439
Advances from customers	29,206	10,454
Provision for unused vacations and other provisions	8,239	7,567
Other current liabilities	9,160	4,277
Total	187,047	68,039

20. Other Financial Liabilities

The balances of other financial liabilities were as follows:

	As of 30 June 2021	As of 30 June 2020
Derivative financial instruments	93,758	36,282
Payable for legal claims (Note 34)	36,217	34,047
Accounts payable for property, plant and equipment	13,199	22,076
Settlements for acquired Subsidiaries	—	42,892
Other current liabilities	1,942	3,480
Total	145,116	138,777

As of 30 June 2021, settlements for acquired Subsidiaries, which was connected with the acquisition of 560,000 tons oilseed crushing plant located in Kirovograd region, completed as of 30 June 2016, was repaid in full.

21. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2021	As of 30 June 2020
Bank credit lines	12,424	43,166
Interest accrued on long-term borrowings	1,070	931
Interest accrued on short-term borrowings	294	480
Bank overdrafts (Note 8)	100	4
Total	13,888	44,581

The balances of short-term borrowings as of 30 June 2021 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.45%	USD	July 2021	6,329
Ukrainian subsidiary of European bank	6.50%	UAH	July 2021	5,887
Ukrainian subsidiary of European bank	Libor+4.50%	USD	August 2021	308
Total bank credit lines				12,524
Interest accrued on long-term loans				1,070
Interest accrued on short-term loans				294
Total				13,888

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor+2.25%	USD	January 2021	14,578
European bank	Libor+2.00%	USD	October 2020	11,715
European bank	Libor+1.90%	USD	February 2021	8,786
European bank	Libor+2.50%	USD	July 2020	6,884
European bank	Libor+2.45%	USD	October 2020	1,207
Total bank credit lines				43,170
Interest accrued on long-term loans				931
Interest accrued on short-term loans				480
Total				44,581

As of 30 June 2021, undrawn short-term bank credit lines amounted to USD 804,575 thousand (as of 30 June 2020: USD 831,204 thousand).

Short-term borrowings from banks were secured as follows:

	As of 30 June 2021	As of 30 June 2020
Assets pledged		
Inventory (Note 11)	92,382	118,657
Future sales receipts	106,691	46,005
Property, plant and equipment (Note 14)	—	722
Total	199,073	165,384

22. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2021	As of 30 June 2020
Long-term bank borrowings	249,455	179,274
Current portion of long-term borrowings	(21,715)	(6,871)
Total	227,740	172,403

The balances of long-term borrowings as of 30 June 2021 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	46,970
European bank	Libor+4.50%	USD	May 2027	46,080
European bank	Libor+2.80%	USD	October 2029	20,000
European bank	Libor+2.77%	USD	December 2030	19,000
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	11,772
European bank	Libor+2.84%	USD	September 2029	8,093
European bank	Libor+1.00%	USD	May 2027	7,680
Total				249,455

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

As of 30 June 2021, undrawn long-term borrowings amounted to USD 50,907 thousand (as of 30 June 2020: USD 128,267 thousand).

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

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

	As of 30 June 2021	As of 30 June 2020
Assets pledged		
Property, plant and equipment (Note 14)	316,867	254,217
Total	316,867	254,217

23. Lease liabilities

The following is the maturity analysis of lease payments under the lease agreements as of 30 June:

Maturity	As of 30 June 2021	As of 30 June 2020
Payable within one year	38,652	48,496
Payable in the second to fifth years	282,430	273,467
Payable after five years	442,828	449,176
Total	763,910	771,139

less

Future finance charges	(439,418)	(461,139)
------------------------	-----------	-----------

Present value of lease obligations	324,492	310,000
---	----------------	----------------

less

Current portion	(37,338)	(44,872)
-----------------	----------	----------

Lease obligations, long-term portion	287,154	265,128
---	----------------	----------------

24. Bonds issued

The balances of bonds issued were as follows:

	Maturity	As of 30 June 2021	As of 30 June 2020
US 300,000 thousand 6.75% coupon bonds	October 2027	296,991	—
US 300,000 thousand 6.50% coupon bonds	October 2024	296,951	296,229
US 500,000 thousand 8.75% coupon bonds	January 2022	212,495	497,548
Total		806,437	793,777

In October 2020, the Group issued USD 300,000 thousand bonds priced at par, that will mature on 27 October 2027. The bonds bear interest from 27 April 2021 at the rate of 6.75% per annum payable semi-annually in arrears.

The bonds are rated BB- by Fitch, and B+ by S&P, two and one notches above Ukrainian sovereign, respectively.

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.

The Group initiated a tender offer for the coupon bonds 2022, with its core objective to keep both transactions as debt-neutral for the Group. 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.

As a result of partial early redemption of the coupon bonds with maturity January 2022, the Group repaid premium in the amount of USD 16,108 thousand and interest amounting to USD 6,207 thousand, both of which were recognized within Finance costs, net.

As of 30 June 2021, bonds with maturity date in January 2022 and carrying value USD 212,495 thousand, were reclassified to current liabilities.

25. Income Tax

The company is subject to corporate income tax in Luxembourg with a tax rate equal to 24.94% as of 30 June 2021 and 2020. The corporate income tax rate in Ukraine, where the main operations of the Group are located, was 18% as of 30 June 2021 and 2020. The majority of the Group's operating entities are located in Ukraine, therefore effective tax rate reconciliations is completed based on Ukrainian statutory tax rates.

The majority of the Group's companies that are involved in agricultural production pay the Unified Agricultural Tax (UAT) in accordance with the Tax Code of Ukraine. The UAT replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty and Trade Patent. The UAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. The UAT does not constitute an income tax and, as such, is recognized in the Consolidated Statement of Profit or Loss in cost of sales.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The components of income tax expense were as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Current income tax charge	(41,105)	(28,491)
Deferred tax benefit relating to origination and reversal of temporary differences	8,853	6,416
Total income tax expenses recognized in the reporting period	(32,252)	(22,075)

The income tax expense is reconciled to the profit before income tax per Consolidated Statement of Profit or Loss as follows:

	As of 30 June 2021	As of 30 June 2020
Profit before income tax	674,841	144,825
Tax expense at Ukrainian statutory tax rate of 18%	(121,471)	(26,069)
Effect of income that is exempt from taxation (farming)	85,600	16,685
Effect of different tax rates of Subsidiaries operating in other jurisdictions	21,710	2,478
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	740	(6,434)
Other expenditures not allowable for income tax purposes and non-taxable income, net	(18,831)	(8,735)
Income tax expenses	(32,252)	(22,075)

For the year ended 30 June 2021, USD 547 thousand income tax benefit were recognized in other comprehensive income (for the year ended 30 June 2020: USD 785 thousand income tax benefit).

The primary components of the deferred tax assets and deferred tax liabilities were as follows:

	As of 30 June 2021	As of 30 June 2020
Tax losses carried forward	11,810	5,428
Valuation of property, plant and equipment	13,166	9,307
Others	760	1,501
Deferred tax assets	25,736	16,236
Valuation of property, plant and equipment	(28,445)	(28,704)
Valuation of intangible assets	(1,827)	(1,875)
Others	(1,172)	(954)
Deferred tax liabilities	(31,444)	(31,533)
Net deferred tax liabilities	(5,708)	(15,297)

As of 30 June 2021, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realize the benefits of deferred tax assets of USD 11,810 thousand (2020: USD 5,428 thousand) recognized with respect to tax losses carried forward by the subsidiaries. The amount of future taxable income required to be generated by the Subsidiaries to utilize the tax benefits associated with the tax loss carried forward is approximately USD 65,611 thousand (2020: USD 30,156 thousand). However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised.

Tax losses incurred by subsidiaries registered in Ukraine can be brought forward for a reasonable period of time.

As of 30 June 2021, unrecognized deferred tax assets arising from tax losses carried forward by the Group's subsidiaries amounted to USD 5,694 thousand (30 June 2020: USD 6,434 thousand).

The Group does not recognize a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries as it is able to control the timing of the reversal of such temporary differences and it is probable that they will not reverse in the foreseeable future.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is an analysis of the deferred tax balances (after offset) as they are presented in the Consolidated Statement of Financial Position:

	As of 30 June 2021	As of 30 June 2020
Deferred tax assets	15,098	9,152
Deferred tax liabilities	(20,806)	(24,449)
Net deferred tax liabilities	(5,708)	(15,297)

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

26. Revenue

The Group's revenue was as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Revenue from edible oils sold in bulk, meal and cake	2,757,347	2,209,232
Revenue from agriculture commodities merchandizing	2,672,636	1,724,811
Revenue from bottled sunflower oil	172,495	132,973
Revenue from farming	26,899	29,616
Revenue from transshipment services	14,087	5,099
Revenue from grain silo services	3,690	5,049
Total	5,647,154	4,106,780

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.

The transaction price allocated to unsatisfied performance obligations as of 30 June 2021 is USD 7,607 thousand (30 June 2020: USD 1,164 thousand). This amount represents revenue from carriage, freight and insurance services under CIF/CFR Incoterms contracts which are to be executed in July 2021, when the goods are delivered to the point of destination and under which the Group has already recognized revenue from sale of goods at a point in time as of 30 June 2021.

Revenue for the year ended 30 June 2021, was increased by USD 93,174 thousand (2020: USD 23,149 thousand increase) for mark-to-market movements on the remeasurement of realized physical forward sales contracts. This result is attributed to revenue from edible oils sold in bulk, meal and cake in the amount of USD 80,411 thousand and revenue from agriculture commodities merchandizing in the amount USD 12,763 thousand (2020: USD 16,436 thousand and USD 6,713 thousand, respectively).

27. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Cost of goods for resale and raw materials used	4,297,693	3,005,176
Shipping and handling costs	365,389	363,175
Amortization and depreciation	111,419	100,636
Payroll and payroll related costs	74,384	84,889
Rental payments	10,656	53,060
Other operating costs	17,286	21,686
Total	4,876,827	3,628,622

For the year ended 30 June 2021, result on operations with commodity futures, options and unrealized forwards, included within Cost of goods for resale and raw materials used line, decreased Cost of sales for the amount of USD 281,799 thousand (2020: USD 79,166 thousand decrease).

Starting from the year ended 30 June 2021, brokerage services were presented within Cost of sales (cost of goods for resale and raw materials used line), comparative information was changed accordingly (Note 29).

28. Other Operating Income, net

Other operating income, net was as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Contracts wash-out (price difference settlement)	77,063	(15,796)
Stock-take	9,894	8,850
Demurrage, dispatch fees and other fines	2,464	205
VAT benefits and other government grants	403	1,255
Transshipment quota entitlement	—	6,773
(Loss)/Gain on sale of hard currency	(1,076)	234
Other operating income	6,581	5,496
Total	95,329	7,017

The Group enters wash-out contracts in order to reduce administrative time and cost, these contracts can be offset based on a mutual agreement with the same partners who sold or purchased commodities.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

29. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Payroll and payroll related costs	140,070	78,634
Audit, legal and other professional fees	9,874	11,197
Repairs and material costs	7,372	8,358
Amortization and depreciation	5,012	4,728
Bad debts expenses	4,689	2,367
Business trip expenses	3,875	4,681
Bank services	2,577	4,664
Taxes other than income tax	2,399	2,501
Communication expenses	1,663	1,760
Insurance	1,333	1,299
Expense relating to leases of low-value assets	1,219	2,484
Other expenses	6,023	4,247
Total	186,106	126,920

For the year ended 30 June 2021, an increase in payroll and payroll related costs was explained by growth in bonus amounts, which relates to the annual performance of the Group.

Starting from the year ended 30 June 2021, brokerage services in the amount of USD 8,547 thousand were excluded from General and administrative expenses (audit, legal and other professional fees line) as the Group recognizes result on operations with commodity futures and options within Cost of sales. Presentation of general and administrative expenses for the year ended 30 June 2020 was changed accordingly, as a result it decreased by the amount of USD 4,810 thousand.

Audit, legal and other professional fees for the year ended 30 June 2021 include the auditor's remuneration in the amount of USD 717 thousand and consultancy and assurance fees in the amount of USD 294 thousand for the respective period (for the year ended 30 June 2020: USD 739 thousand and USD 249 thousand, respectively).

30. Finance Costs, net

Finance costs, net were as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Interest on corporate bonds (Note 24)	78,126	57,496
Interest on lease liabilities	44,803	53,951
Interest expense on bank loans	16,548	21,878
Other finance costs, net	2,282	13,895
Total	141,759	147,220

31. Other Income/(Expenses), net

Other income/(expenses), net was as follows:

	For the year ended 30 June 2021	For the year ended 30 June 2020
Gain/(Loss) on derivatives sales, net	15,939	(2,351)
Gain on disposal of property, plant and equipment	2,628	969
Gain/(Loss) on disposal of Subsidiaries and Joint Ventures (Note 7)	1,891	(36,634)
Impairment of intangible assets and goodwill, net (Notes 16, 17)	(872)	(658)
Fines and penalties (Note 34)	(1,959)	(2,114)
Impairment of property, plant and equipment (Note 14)	(2,414)	—
Charity	(3,923)	(7,714)
Other expenses, net	(565)	(2,022)
Total	10,725	(50,524)

32. Transactions with Related Parties

Related parties are the Beneficial Owner and companies under control of the Beneficial Owner, the Group's key management personnel, entities under Key Management control and other related parties - companies with indirect relations (which controlled by related parties of the Group) and entities with a significant influence by other employees (excluding Beneficial Owner and Key Management).

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The Group had the following balances outstanding with related parties from sales or purchases of goods and services:

Related party	Statement of Financial Position line	Related party balances as of 30 June 2021	Related party balances as of 30 June 2020
Entities under Beneficial Owner control	Other financial assets	12,037	19,922
	Non-current financial assets	11,460	10,960
	Trade accounts payable	9,644	—
	Advances from customers and other current liabilities	998	—
Key management	Advances from customers and other current liabilities	27,383	7,245
	Non-current financial assets	189	—
	Other financial assets	120	433
Entities under Key Management control	Non-current financial assets	19,704	19,834
	Other financial assets	769	—
	Advances from customers and other current liabilities	273	368
	Prepayments to suppliers, net	243	244
	Trade accounts payable	170	138
Other related parties	Non-current financial assets	6,331	1,734
	Other financial assets	3,277	1,767
	Advances from customers and other current liabilities	1,090	1,093
	Trade accounts receivable, net	762	586
	Trade accounts payable	297	34

Transactions with related parties are performed on terms equivalent to those that prevail in arm's length transactions. The amount of outstanding balances is unsecured and will be settled in cash. There have been no guarantees provided or received for any related party receivables or payables. Loans provided at rates comparable to the average commercial rate of interest.

No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Transactions with related parties were as follows:

Related party	Statement of Profit and Loss line	Related party balances for the year ended 30 June 2021	Related party balances for the year ended 30 June 2020
Entities under Beneficial Owner control	Revenue	1,838	—
	Cost of sales	(28,458)	—
	Financial costs, net	1,074	923
	General and administrative expenses	—	(1,484)
	Other income/(expenses), net	59	—
Key management	General and administrative expenses	(29,423)	(9,433)
Entities under Key Management control	Financial costs, net	706	(1,421)
	General and administrative expenses	(54)	(60)
Other related parties	Revenue	137	402
	Cost of sales	(402)	(1,913)
	Financial costs, net	529	133
	General and administrative expenses	(704)	(502)
	Other income/(expenses), net	499	714

The Group key management personnel are the members of the Board of Directors and management team. The remuneration of Directors and other members of key management personnel recognized in the consolidated statement of profit and loss and other comprehensive income including salaries and other current employee benefits amounted to USD 29,834 thousand (30 June 2020: USD 9,334 thousand). Members of the Board of Directors and management team are not granted any pensions, retirement, or other long-term benefits by the Group. Detailed remuneration of Directors is set out in the Corporate governance report on page 92.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

33. Non-Controlling Interest

Subsidiaries with effective interest ownership less than 100% that have material non-controlling interest (NCI) are presented in the table below:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest and voting rights as of	
			30 June 2021	30 June 2020
Avere Commodities S.A.	Trading in edible oils, meal and grain. Derivatives trading	Switzerland	60.0%	72.5%
Avere Commodities Corp.		The USA	60.0%	72.5%
Avere Commodities Shanghai		China	60.0%	72.5%
Avere Commodities Int.		Cayman Islands	60.0%	72.5%
Avere Commodities Asia		Singapore	60.0%	72.5%

The information below is the summarized data of each of the Group's subsidiary that has material non-controlling interests. The disclosure below is prepared on a consolidated basis for Avere Commodities S.A. and its 100%-owned subsidiaries before inter-company eliminations with the rest Group's companies.

Summarized statement of financial position	30 June 2021	30 June 2020
Current assets	677,815	286,088
Non-current assets	3,858	4,711
Total assets	681,673	290,799
Current liabilities	343,404	247,901
Non-current liabilities	3,763	54,042
Total liabilities	347,167	301,943
Net assets	334,506	(11,144)
Equity attributable to owners of the Company	201,440	(8,079)
Non-controlling interests	133,066	(3,065)

Summarized statement of profit or loss and other comprehensive income	For the year ended 30 June 2021	For the year ended 30 June 2020
Revenue	2,955,695	1,872,735
Profit for the period	342,289	16,608
Profit attributable to owners of the Company	210,795	11,955
Profit attributable to the non-controlling interests	131,494	4,653
Other comprehensive income/(expenses)	3,361	(6,068)
Total comprehensive income for the period	345,650	10,540
Total comprehensive income attributable to owners of the Company	212,812	7,555
Total comprehensive income attributable to the non-controlling interests	132,838	2,985

There were no dividends paid to NCI during the twelve months ended 30 June 2021 and 2020.

Summarized statement of cash flows	For the year ended 30 June 2021	For the year ended 30 June 2020
Cash inflows from operating activities	201,469	27,397
Cash outflows from investing activities	—	(44)
Cash outflows from financing activities	(100,378)	(7,358)
Net increase in cash and cash equivalents	101,091	19,995

On 4 September 2020, the Group disposed 12.5% of the issued shares of Avere Commodities S.A. for immaterial amount decreasing its share from 72.5% to 60%. The Group recognised an increase in non-controlling interest of USD 3,293 thousand and a decrease in equity attributable to owners of the parent of USD 3,293 thousand.

During the year ended 30 June 2020, the Group acquired 12.5% of the issued shares of Avere Commodities S.A. for immaterial amount increasing its share from 60% to 72.5%. The Group recognised an increase in non-controlling interest of USD 2,631 thousand and a decrease in equity attributable to owners of the parent of USD 2,631 thousand.

34. Commitments and Contingencies

Operating Environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. During the year ended 30 June 2021, the Ukrainian economy has quite a stable real GDP with 0.3% decline (2020: real GDP growth of around 2%), annual inflation comprised of 9.5% (2020: 2.4%), with devaluation of the national currency (by around 9.8% to USD and 18.5% to EUR comparing to previous year averages).

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

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

To further facilitate business activities in Ukraine, the National Bank of Ukraine (the "NBU") in 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends 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. The discount rate was further decreased during 2020, with 6.0% valid from 12 June 2020 till 5 March 2021. Since 5 March 2021 it is started increasing to current 8.5% from 10 September 2021.

The degree of macroeconomic uncertainty in Ukraine in 2020 still remains high due to a significant amount of public debt scheduled for repayment in 2021, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets. 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").

Fitch's current rating of Ukraine's Long-Term Foreign- revised from stable to positive in August 2021, while Ukraine's Local-Currency Issuer Default Ratings was stated as "B" with stable outlook since April 2020.

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 (the "WHO") 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 a 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 Company 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 Company's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

Retirement and Other Benefit Obligations

Employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 30 June 2021 were USD 20,901 thousand (2020: USD 21,124 thousand).

The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance some post-retirement benefits of its former employees. The only obligation of the Group with respect to this pension plan is to make the specified contributions. As of 30 June 2021 and 2020, the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Capital Commitments

As of 30 June 2021, the Group had commitments under contracts with a group of suppliers for a total amount of USD 50,062 thousand, mostly for the construction of an oilseed crushing plant (30 June 2020: USD 61,488 thousand, mostly for the construction of an oilseed crushing plant and port terminal).

Contractual Commitments on Sales

As of 30 June 2021, the Group had entered into commercial contracts for the export of 3,296,959 tons of grain, 198,077 tons of sunflower oil and 305,642 tons of sunflower meal and other related products, corresponding to an amount of USD 784,281 thousand, USD 220,702 thousand and USD 112,012 thousand, respectively, in contract prices as of the reporting date.

As of 30 June 2020, the Group had entered into commercial contracts for the export of 761,000 tons of grain, 307,902 tons of sunflower oil and 416,036 tons of sunflower meal and other related products, corresponding to an amount of USD 146,112 thousand, USD 233,685 thousand and USD 84,371 thousand, respectively, in contract prices as of the reporting date.

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 June 2021, the consideration paid for Stiomi Holding by the Group comprised USD 33,472 thousand. A final payment was due and payable only after fulfilment of certain conditions to the satisfaction of the Group and subject to rights of set-off in respect of claims against the sellers. The Group submitted several claims to the sellers (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 USD 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 USD 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 Group. In Luxembourg, the Stiomi Sellers have initiated attachment proceedings to put in place conservatory measures against Kernel's bank

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

accounts. Furthermore, former counsel to the Stiomi Sellers has also obtained an attachment order against the Group, which prevents the Group from paying any amounts to the Stiomi Sellers until the attachment order is lifted. Finally, a third party brought claims in Swiss courts asserting that one of the Stiomi Seller's claims has been assigned to them, which the Stiomi 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 Stiomi Sellers, pending the resolution of these issues.

As of 30 June 2018, the Group recognised a provision regarding the arbitral and the related proceedings. The provision represents the directors' best estimate of the maximum future outflow that will be required in respect of the award. The carrying amount of the payables for legal claims was USD 36,217 thousand as of 30 June 2021 (2020: USD 34,047 thousand), and related expenses in the amount of USD 2,170 thousand were recognised within the year ended 30 June 2021 (2020: USD 2,175 thousand) and included within the line "Other expenses, net".

On 16 December 2020, the Stadnyk Parties (the Stiomi Sellers) filed a bankruptcy petition against Kernel. The judgment was rendered on 15 January 2021 in favor of Kernel as the Luxembourg court agreed that the conditions of bankruptcy were not fulfilled in the case at hand.

After 30 June 2021, the debt collection office informed Inerco Trade SA that certain intra-group loans due to Kernel Holding S.A. were attached. Accordingly, since the date of this notification receipt, these intragroup balances have remained non-movable.

Subsidiary of the Group is currently involved in several legal proceedings related to their investment in LLC Agrodom. In one of the proceedings the court of first instance ruled in favor of the subsidiary, while Appeal court rejected on the appeal and one is currently being considered by the court, and the Group expects decision on the dispute by the end of December 2021. Management assessed risks related to these cases as remote and not material for the consolidated financial statements.

As of 30 June 2021, 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 101,601 thousand (30 June 2020: USD 24,812 thousand), from which USD 87,687 thousand related to VAT recoverability (as of 30 June 2020: USD 18,240 thousand), USD 13,578 thousand related to corporate income tax (as of 30 June 2020: USD 4,847 thousand) and USD 328 thousand related to other tax issues (as of 30 June 2020: USD 1,724 thousand).

As of 30 June 2021, companies of the Group had ongoing litigations with the tax authorities concerning tax issues for USD 21,702 thousand (30 June 2020: USD 24,144 thousand), included in the abovementioned amount. Out of this amount, USD 4,507 thousand relates to cases where court hearings took place and where the court in either the first or second instance has already ruled in favor of the Group (30 June 2020: USD 1,924 thousand). Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and no respective provision is required in the Group's financial statements as of the reporting date.

Ukraine's tax environment is characterized by complexity in tax administration, arbitrary interpretation by tax authorities of tax laws and regulations that 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 penalty interest.

Key aspects of the Ukrainian tax system are the following:

- Ukraine operates a classic corporate income tax system, under which taxable profit of companies (i.e. financial profit adjusted by tax differences) is subject to 18% corporate income tax ("CIT").
- Transfer pricing rules apply to transactions with related non-residents and "low-tax" non-residents (i.e. non-residents, taxed domestically at a significantly lower corporate income tax rate than the Ukrainian tax rate of 18%), subject to a company's minimum income threshold of UAH 150 million and turnover threshold with each separate non-resident of UAH 10 million.
- Domestic supply of goods and services, as well as the import of goods and certain services, are subject to value-added tax at the standard rate of 20%. Reduced tax rate of 0% applies to the export of goods from Ukraine. Starting from March 2021, also 14% tax rate applies to the domestic supply and import of certain agricultural commodities.
- Payment of passive income (i.e. interest, royalties, dividends etc.) to non-residents is subject to withholding tax at a standard 15% rate unless double tax treaties or the Tax Code of Ukraine provide another tax rate.
- Agricultural producers of raw materials are allowed to apply a simplified tax system, given that at least 75% of their income is attributable to sales of agricultural raw materials produced by such company. Under the simplified tax system, companies are subject to a fixed tax, which depends on the type, location and monetary value of farmland used by such companies.

By the end of 2019, Multilateral Instrument Convention ("MLI Convention") (Base erosion and profit shifting ("BEPS") Action plan step 15) entered into force in Ukraine, which allows Ukraine to amend its double tax treaties with other countries, which have also ratified MLI Convention. On 1 January 2021, the amendments to certain Ukrainian double tax treaties (namely, ones with Cyprus, Latvia, Saudi Arabia, Russia) entered in force. Ukraine may also amend more treaties in the future.

Additionally, Ukraine ratified the Protocol amending its double tax treaty with Switzerland. The Protocol entered into force on 16 October 2020 and among other changes modified withholding tax rates for payments of royalties, dividends and interest income.

In May 2020, the new anti-BEPS Law entered into force, which significantly changed the Ukrainian Tax Code, introducing a significant portion of BEPS Action plan steps (3, 4, 6, 7, 8, 13 and 14) to the local tax legislation. Among other changes, the new Law has introduced:

- Controlled foreign companies ("CFC") regulations, which allow taxing undistributed profits of CFCs at the level of the Ukrainian tax resident – owner (controlling shareholder) of the CFC. An income of CFC would be taxable unless an exemption is applicable. If a controlling shareholder (resident of Ukraine) meets the minimum control threshold, income would be attributed to that shareholder (based on the proportion of

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

ownership), included to the annual income of a controlling shareholder and reported within an annual tax return. An 18% tax applies to the undistributed income of a CFC. Distributed income of a CFC could be subject to an 18% or 9% rate depending on the period of distribution. A 9% rate applies if CFC's income is distributed to the resident controlling shareholder as dividends before filing the CFC report in Ukraine or by the end of the second calendar year that follows the reporting year. An 18% rate applies if the distribution is made at a later date. The first reporting period for CFC is the year 2022.

- Principal purpose test, alongside with beneficial ownership regulation for double tax treaties' application purposes. If the tax authority identifies that the main purpose of a transaction is obtaining a double tax treaty benefits, they may disallow the application of a reduced WHT rate. Beneficial ownership criteria were elaborated and now include the following:

- recipient of income should be entitled to receive such income;
- recipient of income should have unrestricted right to dispose of the earned income;
- recipient of income is not an agent, nominee or an intermediary with respect to such income (namely, the recipient of income exercises separate functions, carries commercial risks, has sufficient economic substance (employees, bank account, office, postal address, telephone line, fax, etc.)).

Moreover, a "look-through approach" for beneficial ownership purposes was introduced, according to which if the immediate recipient of Ukraine source income is not the beneficial owner of the income, the tax treaty with the jurisdiction of the beneficial owner may apply in Ukraine.

- Mutual agreement procedure, which allows resolving tax disputes under double tax treaties in case either resident or non-resident of Ukraine believes actions or decisions of the tax authorities (both Ukrainian and foreign) have resulted or will result in taxation incompliant with the relevant tax treaty.
- New thin capitalization rules, which apply to transactions with both related and unrelated parties starting from 1 January 2021. Under the new rules, if the debt-to-equity ratio of 3.5 is exceeded, only a portion of a company's interest expense, which is equal to 30% of its EBITDA, would be tax-deductible. The residual amount of interest expenses may be carried forward to future periods, subject to 5% annual disallowance.
- Three-tiered transfer pricing reporting, which added requirements for multinational enterprises to prepare a master file and a country-by-country report ("CbCR"), subject to the revenue threshold of EUR 50 million for master file and EUR 750 million for CbCR. The first reporting year is expected to be 2021.
- New upward adjustment (an increase of taxable base) by 30% of sales of goods and services to "low-tax" non-residents (i.e. non-residents, taxed domestically at a significantly lower corporate income tax rate than the Ukrainian tax rate of 18%).
- Abolition of the temporary VAT exemption of soybean and rapeseed export transactions (i.e. traders of these crops are eligible for 0% VAT export rate application, which gives them the opportunity to recover VAT credit accumulated from the purchase of these goods).
- Business purpose test, which foresees any expenses incurred during 2020 within the transactions with non-residents (regardless of their type) are restricted from tax-deduction if they do not result in economic benefits. Since the business purpose in its wide definition could be applied by tax authorities to all transactions with non-residents (sale and purchase) and considering the common for agrarian industry and the Group arrangement of forward contracts on sale of agricultural commodities, their potential sale with a negative margin may lead to additional tax implications for the Group. However, due to the moratorium on full-scope tax audits in Ukraine, which covered the period until 31 December 2020, the approach of the tax authorities to the treatment of the business purpose definition remains unclear. Starting from 2021, the business purpose test is applicable only to transactions subject to transfer pricing compliance. Starting from 2022, it will also apply to transactions with "low-tax" non-residents, as well as to royalty payments to non-residents of Ukraine.
- Constructive dividends concept, effective from 2021, which considers a number of transactions as dividends distribution for tax purposes. Such transactions include any monetary/non-monetary payments to shareholders related to the distribution of net profit, transfer pricing adjustments, any other payment to non-resident shareholder related to shareholder capital reductions, share buy-backs, shareholder's exit or any other similar transaction between the legal entity and its shareholder resulting in reduction of retained earnings.

Also, starting from March 2021, a 14% VAT rate entered into force, applicable to transactions of import and supply of certain agricultural commodities within the customs territory of Ukraine.

In addition to the above, the Law on the market of agricultural land entered into force on 1 July 2021. The Law introduced changes to the Land Code of Ukraine aimed at the abolition of the moratorium for sale of land. Due to a set of restrictions provided by the Law, only private individuals are able to purchase and sell land until 2024. However, starting from 2024, the companies will be allowed to purchase farmland from individuals, subject to the provisions and/or restrictions of the Land Code of Ukraine, as well as other branch laws in certain cases.

35. Financial risk management

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing return to shareholders through a combination of debt and equity capital. Management reviews the capital structure on an annual basis. As part of this review, management considers the cost of capital and risks associated with each class of capital. Based on recommendations from management, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group monitors capital based on the carrying amount of borrowings less cash and cash equivalents as presented in the statement of financial position

The Board of Directors proposed at the extraordinary General Meeting of Shareholders to increase the distribution of profits among shareholders by acquiring own shares for the maximum number of shares of 19,200,000 for a total remuneration not exceeding USD 250 million. This proposal was authorized and will be implemented during a period of two years ending on the second anniversary of the date of the resolution of the extraordinary general meeting of shareholders.

The Group is not subject to any externally imposed capital requirements.

Gearing Ratio

Management reviews the capital structure of the Group, taking into consideration the seasonality of the activity of the Group. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Following its listing on the WSE, the Group's

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

management considers that the gearing ratio should not exceed 150%.

	As of 30 June 2021	As of 30 June 2020
Equity ¹	1,946,150	1,492,667
Debt liabilities ² (Notes 21, 22, 23, 24)	1,409,625	1,349,577
Net debt	835,585	980,460
Less cash and cash equivalents (Note 8)	(574,040)	(369,117)
Net debt liabilities to capital	43%	66%

Financial risk

The Group is exposed to financial risk in the result of normal course of business and include following risks:

- Credit risk
- Liquidity risk
- Market risk

Risk management policies have been established to identify, assess and analyze the risks faced by the Group, to manage and continuously improve an effective risk management and monitoring system, spreading the culture of decision-making in terms of risks, their valuation and likelihood of occurrence. The Group coordinates roles and participants through training, management standards and procedures

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty may not be able to meet its contractual obligations within their agreed payment terms.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which the major customers operate, has less of an influence on credit risk. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets except of loans to farmers.

The management of the Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes assessment of the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales limits are established for each customer, which represent the maximum open amount without requiring approval from the management of the Group. These limits are reviewed annually. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk in international markets, the Group presents title documents via banking channels and uses payment instruments such as letters of credit, insurance arrangements and bank guarantees. The Group holds collaterals against loans provided to farmers in the form of future harvest and immovable property in the quantity that covers loans provided according to market price. The Group's applied policy about expected credit losses which is disclosed in the Note 9 for all trade receivables. Other financial assets at amortized cost include loans to related parties, key management personnel and other receivables have a low credit risk.

The Group's most significant customer is an international customer, who accounted for USD 88,428 thousand out of total trade accounts receivable as of 30 June 2021 (30 June 2020: one international customer accounted for USD 24,003 thousand).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate cash and cash equivalents, as well as availability of funding through the adequacy of the banking facilities by continuously monitoring forecasted and actual cash flows and by matching the maturity profiles of financial assets and liabilities. Management diversifies funding sources to ensure that sufficient liquidity is maintained to meet liquidity requirements

As of 30 June 2021, the carrying amount of the Group's maximum exposure to financial obligations (including lease liabilities) was USD 1,706,018 thousand (30 June 2020: USD 1,578,092 thousand).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods as of 30 June 2021 and 2020. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

¹ Equity includes issued capital, share-premium reserve, additional paid-in capital, revaluation reserve, equity-settled employee benefits reserve, retained earnings, other reserve and translation reserve attributable to Kernel Holding S.A. shareholders.

² Debt includes short-term and long-term borrowings, obligations under finance leases, bonds issued and accrued interest.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1–2 years	2–5 years	More than 5 years
30 June 2021						
Trade accounts payable	150,061	(150,061)	(150,061)	—	—	—
Short-term borrowings (Note 21)	13,888	(13,903)	(13,903)	—	—	—
Long-term borrowings (Note 22)	249,455	(281,555)	(29,745)	(36,747)	(113,242)	(101,821)
Bonds issued (Note 24)	821,790	(1,031,632)	(271,507)	(39,750)	(390,000)	(330,375)
Other financial liabilities	51,358	(51,358)	(51,358)	—	—	—
Other non-current liabilities	1,216	(1,216)	—	(608)	(608)	—
Total	1,287,768	(1,529,725)	(516,574)	(77,105)	(503,850)	(432,196)
30 June 2020						
Trade accounts payable	87,508	(87,508)	(87,508)	—	—	—
Short-term borrowings (Note 21)	44,581	(45,033)	(45,033)	—	—	—
Long-term borrowings (Note 22)	179,274	(207,344)	(13,101)	(27,599)	(82,851)	(83,793)
Bonds issued (Note 24)	815,722	(975,250)	(63,250)	(563,250)	(348,750)	—
Other financial liabilities	102,495	(108,710)	(108,710)	—	—	—
Other non-current liabilities	2,230	(2,230)	—	(1,002)	(1,228)	—
Total	1,231,810	(1,426,075)	(317,602)	(591,851)	(432,829)	(83,793)

Financial liabilities, which were not included above, are derivative financial instruments.

The concentration of liquidity risk is limited due to different repayment terms of financial liabilities and sources of borrowing facilities.

Market Risk

The Group's activities expose it primarily to the market risks of changes in foreign currency exchange rates, interest rates and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency Risk

The functional currency of the majority of the Group's 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.

Currency risk is a risk of financial impact due to exchange rate fluctuations related to transactions and balances in currency other than functional currency. The Group enters into such transactions denominated in other currencies, which include capital expenditures, operating expenses, certain sales of goods and recognized assets and liabilities denominated in a currency that is not the functional currency of entity. Exposure of currency risk are managed by utilizing currency forward contracts and fulfill comparative analysis between subsidiaries.

Management of the Group optimizes the influence of currency risk in Ukrainian hryvnia through export sales expressed in USD and EUR: out of total sales amounting to USD 5,647,154 thousand, sales in USD comprised USD 5,165,772 thousand and in EUR comprised USD 305,648 thousand for the year ended 30 June 2021. Export sales represented 97% of the total sales volume

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily in USD. This provides the Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

The table below covers UAH and USD denominated assets and liabilities carried by Subsidiaries having balances in currencies other than functional currencies.

The Group's exposure to foreign currency risk as of 30 June 2021 and 2020 was as follows:

	30 June 2021		30 June 2020	
	UAH	USD	UAH	USD
Cash and cash equivalents	1,395	5,333	16,142	9,026
Trade accounts receivable, net	22,407	4,948	9,042	—
Other financial assets	6,757	—	534	1,666
Trade accounts payable	(28,006)	—	(25,234)	(4)
Other financial liabilities	(38)	(214)	(43,768)	(1,923)
Current portion of lease liabilities (Note 23)	(302)	(1,070)	(252)	(1,070)
Other non-current liabilities	—	(458)	(615)	(680)
Short-term borrowings from Ukrainian subsidiary of European bank (Note 21)	(5,915)	—	—	—
Long-term borrowings European Bank (Note 22)	—	(87,230)	—	(90,233)
Lease liabilities (Note 23)	(1,959)	(803)	(1,725)	(1,871)
Net exposure	(5,661)	(79,494)	(45,876)	(85,089)

The following table details the Group's sensitivity to a 10 % change of the UAH against the USD would prompt a fluctuation in the equity and profit and loss account by the amounts shown below. This sensitivity analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis includes only outstanding monetary items denominated in currency other than functional currency.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

A strengthening/ depreciation of the Ukrainian hryvnia against US dollar at 30 June would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss before income tax by the amounts shown below:

	30 June 2021		30 June 2020	
	Strengthening	Depreciation	Strengthening	Depreciation
UAH (10% movement)	6,661	(8,267)	3,180	(4,899)

During the year ended 30 June 2021, the Ukrainian hryvnia held out quite steadily against US dollar. Foreign exchange gains and losses reflected the Ukrainian hryvnia fluctuation against the US dollar for the years ended 30 June 2021 and 2020. The Group recognized a net foreign exchange loss in the amount of USD 6,306 thousand for the year ended 30 June 2021 and USD 1,012 thousand loss for the year ended 30 June 2020. In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year. Foreign exchange loss mostly consisted of loss incurred from operations resulted from normal operating activity during the year ended 30 June 2021.

The concentration of currency risk is limited due to not significant net open position of balances in foreign currencies.

Interest Rate Risk

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk.

The interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount as of 30 June 2021	Carrying amount as of 30 June 2020
Fixed rate instruments	1,149,104	1,120,491
Variable rate instruments	260,521	229,086
Total	1,409,625	1,349,577

The Group does not use any derivatives to manage interest rate risk exposure. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings.

The sensitivity analysis below has been determined based on exposure to interest rates for financial liabilities at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100-basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis points higher/lower, and all other variables were held constant, the Group's profit for the year (before income tax) ended 30 June 2021 would decrease/increase by USD 2,605 thousand (2020: decrease/increase by USD 2,291 thousand). This was mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Commodity price risk

The Group exposes price volatility of the sunflower oil, agricultural products produced and agricultural commodities. The Group manages a significant part of this exposure through derivative transaction to limit this risk. The Group hedges commodity price risk exposure arising from the changes in sunflower oil market price using forward contracts. The Group also enters into the other forward contracts in relation to mitigate risk for the next 12 month that do not satisfies the requirements for the hedge accounting. They are subject to the management risk policy and accounted as held for trading, with gain and loss recognized in profit or loss.

As of year ended 30 June 2021, accumulated loss resulted from change in fair value of hedging instruments under cash flow hedge accounting was USD 1,736 thousand. The Other reserve includes cash flow hedge reserve representing the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges, which is attributable to the shareholders of the Group. The remaining part of cash flow hedge reserve is included in non-controlling interests. There were derivative financial instruments outstanding as at 30 June 2021 relating to 26,000 tons of sunflower oil designated as hedging instruments. The fair value of expired commodity price contract is recorded in Cost of sales when the hedged item is recorded in Revenue.

The Group's risk management strategies are aligned with the requirements of IFRS 9 and are thus the designated derivatives are treated as cash flow hedges under IFRS:

	Year ended 30 June 2021	Year ended 30 June 2020
Cash flow hedge reserve at the beginning of the period	(5,644)	—
Gain/(loss) arising on changes in fair value of hedging instruments during the period	55,713	(7,042)
Gain arising on hedges ineffective-ness	220	4,760
Loss reclassified to profit or loss – hedged item has affected profit or loss	(52,353)	(9,815)
Gain reclassified to profit or loss – forecast transaction no longer expected to occur	328	6,453
Cash flow hedge reserve at the end of the period	(1,736)	(5,644)

The Group measures and limit price risk using a Value at Risk measure for physical marketing exposures and related derivatives instruments.

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

Value at Risk (VaR) is a statistical estimate of the potential loss in value of positions due to adverse market movements. The Avere companies use VaR approach based on a one day time horizon with 95 percent confidence level utilizing a Log-Normal assumption of Returns. Parameters are estimated using an Exponentially Weighted Moving Average over a 75 days period with a weight of 0.94. Market risk VaR was USD 5,538 thousand as of 30 June 2021 (30 June 2020: USD 6,338 thousand).

The Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include the following:

- VaR model does not capture the liquidity of different risk positions and therefore does not estimate potential losses if the company liquidates large positions over a short period of time.
- VaR is based on historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.

36. Financial Instruments

The following tables give information on the carrying and fair values of the financial instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

As at 30 June 2021 and 2020, the financial assets and liabilities are presented by class in the tables below at their carrying values:

	As at 30 June 2021			As at 30 June 2020		
	Amortized cost	FVTPL ¹	Total	Amortized cost	FVTPL ²	Total
Assets						
Cash and cash equivalents (Note 8)	574,040	—	574,040	369,117	—	369,117
Trade accounts receivable, net (Note 9)	381,124	—	381,124	215,279	—	215,279
Other financial assets	163,676	130,480	294,156	96,142	45,353	141,495
Non-current financial assets	38,809	7,513	46,322	50,489	7,513	58,002
Liabilities						
Trade accounts payable	150,061	—	150,061	87,508	—	87,508
Borrowings (Notes 21, 22)	263,343	—	263,343	223,855	—	223,855
Lease liabilities (Note 23)	324,492	—	324,492	310,000	—	310,000
Bonds issued and interest accrued (Note 24)	821,790	—	821,790	815,722	—	815,722
Other financial liabilities	51,358	93,758	145,116	102,495	36,282	138,777
Other non-current liabilities	1,216	—	1,216	2,230	—	2,230

As of 30 June 2021, other financial assets include collaterals for derivatives in the amount of USD 72,995 thousand (30 June 2020: USD 19,022 thousand). The cash collateral does not meet the offsetting criteria in IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and in accordance with associated collateral arrangements.

The derivative asset and liability meet the offsetting criteria per IAS 32. Consequently, the gross derivative liability is set off against the gross derivative asset, on a net basis in the consolidated statement of financial position only if there is a legally enforceable right to set off the recognized amounts and intention either to settle on a net basis, or to realize the asset and settle the liabilities simultaneously.

The financial assets and liabilities, which meet the criteria of offsetting as at 30 June 2021 were as follows:

	As of 30 June 2021					
	Amounts set off in the statement of financial position			Amounts not set off in the statement of financial position		Total as presented in the consolidated statements of financial position
	Gross amount of financial assets	Gross amount of financial liabilities	Net amount	Margin account with brokers	Not under master netting agreements	
Derivative assets	97,470	(35,576)	61,894	—	68,586	130,480
Derivative liabilities	—	(913)	(913)	—	(92,845)	(93,758)
Margin account with brokers	—	—	—	119,376	—	119,376
Payable to brokers	—	—	—	(1,131)	—	(1,131)
Total	97,470	(36,489)	60,981	118,245	(24,259)	154,967

¹ FVTPL – Fair value through profit and loss.

² FVTPL – Fair value through profit and loss.

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

The financial assets and liabilities, which meet the criteria of offsetting as at 30 June 2020 were as follows:

	As of 30 June 2020					
	Amounts set off in the statement of financial position			Amounts not set off in the statement of financial position		Total as presented in the consolidated statements of financial position
	Gross amount of financial assets	Gross amount of financial liabilities	Net amount	Margin account with brokers	Not under master netting agreements	
Derivative assets	147,348	(133,174)	14,174	—	31,179	45,353
Derivative liabilities	4,048	(11,893)	(7,845)	—	(28,437)	(36,282)
Margin account with brokers	—	—	—	51,362	—	51,362
Payable to brokers	—	—	—	(490)	—	(490)
Total	151,396	(145,067)	6,329	50,872	2,742	59,943

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

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

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

Financial liabilities ¹	As of 30 June 2021		As of 30 June 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (Note 22)	249,455	252,000	179,274	180,284
Bonds issued (Note 24)	821,790	869,180	815,722	816,230

For the year ended 30 June 2021, 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 2.81% (2020: 3.39%) that is within level 2 of the fair value hierarchy.

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

The following table below represents the fair values of the derivative financial instruments including trade related financial and physical forward purchase as at 30 June 2021 and 2020.

	As at 30 June 2021			As at 30 June 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Other financial assets						
Forwards	—	63,257	63,257	—	31,180	31,180
Futures/ Options	61,901	—	61,901	14,173	—	14,173
Derivatives held for hedging	—	5,322	5,322	—	—	—
Total	61,901	68,579	130,480	14,173	31,180	45,353
Other financial liabilities						
Forwards	—	92,592	92,592	—	22,303	22,303
Futures/ Options	913	—	913	8,335	—	8,335
Derivatives held for hedging	—	253	253	—	5,644	5,644
Total	913	92,845	93,758	8,335	27,947	36,282

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.

¹ Including accrued interests

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

Notes to the Consolidated Statements continued

for the year ended 30 June 2021 (in thousands of US dollars, unless otherwise stated)

For the year ended 30 June 2021, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

For the year ended 30 June 2021, the fair value of other non-current assets recognized at FVTPL was estimated by market comparable approach that is within level 2 in the fair value hierarchy.

As of 30 June 2021, fair value of other non-current assets and liabilities does not differ materially from it carrying amount and are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk. For the year ended 30 June 2021, the fair value of other non-current assets recognized at amortized cost was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 5-10% that is within level 3 in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

There were no transfers between levels of fair value hierarchy.

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

37. Earnings per Share

Basic earnings per share from continuing and discontinued operations are computed by dividing net income from continuing and discontinued operations available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (as of 30 June 2021 and 2020, 84,031,230 shares and weighted average number of ordinary shares in the number of 84,031,230 and 82,983,367 shares for the periods then ended, respectively), excluding any dilutive effects of stock options. Diluted earnings per share are computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such an exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share, an average number of 84,031,230 ordinary shares is taken into account (30 June 2020: 83,328,986).

As of 30 June 2021 and 2020, total of 1,200,000 and 3,000,000 options, respectively, granted under the management incentive scheme were excluded from the weighted-average number of ordinary shares calculation for the purpose of diluted earnings per share as antidilutive.

Impact from adoption of new standards on both basic and diluted earnings per share was not material.

38. Subsequent Events

On 30 August 2021, the Extraordinary General Meeting of Shareholders was held. According to one of the resolutions a new long-term management incentive plan in a form of share put option agreements was approved. Among the other resolutions, Board of directors was granted authorization to purchase in the name and on behalf of the Company a maximum of 19,200,000 shares of the Company for a total maximum consideration equivalent to USD 250 million during a period of two years starting from the date of this general meeting of shareholders. Following the resolution, as a result of tender announced on 20 September 2021, the Company informed about purchase of 3,227,000 shares for a total amount of PLN 193,620,000 (PLN 60 per one share). The purchased shares will have no dividend and voting rights.

On 1 October 2021, the Company through its 100%-owned Subsidiary acquired from two partners employed by Avere Commodities SA an additional stake in Avere Commodities SA, representing 25% of the paid-in capital of Avere Commodities SA.

Corporate information

Headquarters

3 Tarasa Shevchenka Lane,
Kyiv, Ukraine, 01001
Tel.: +38044 4618801
Fax: +38044 4618864

Registered office

Kernel Holding S.A.
9, rue de Bitbourg
L-1273 Luxembourg

Registered number

B109173

Auditors

Deloitte Audit S.a.r.l.,
560, rue du Neudorf,
L-2220 Luxembourg

Investor relations

Mr. Yuriy Kovalchuk,
Corporate Investment Director
Mr. Michael Iavorskyi, IR Manager
ir@kernel.ua

3 Tarasa Shevchenka Lane,
Kyiv, Ukraine, 01001
Tel.: +38044 4618801, ext. 72-75

Kernel Holding S.A. Investor Calendar

Q1 FY2022 Operations Update	22 October 2021
Q1 FY2022 Financial Report	26 November 2021
Annual general shareholders' meeting	10 December 2021
Q2 FY2022 Operations Update	21 January 2022
H1 FY2022 Financial Report	28 February 2022
Q3 FY2022 Operations Update	22 April 2022
Q3 FY2022 Financial Report	27 May 2022
Q4 FY2022 Operations Update	22 July 2022
FY2022 Financial Report	3 October 2022

Stock information

Exchange.	Warsaw Stock Exchange
Stock quote currency	PLN
Shares issued as of 30 June 2021	84,031,230
Bloomberg	KER PW
Reuters ticker	KERN.WA
ISIN code	LU0327357389

Cautionary statement

Certain statements in this document are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in this document regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. You should not place undue reliance on forward-looking statements, which speak only as of the date of this announcement. Except as required by law, the Company is under no obligation to update or keep current the forward-looking statements contained in this document or to correct any inaccuracies which may become apparent in such forward-looking statements.

This document does not constitute or form part of any offer or invitation to sell or purchase, or any solicitation of any offer to sell or purchase any shares or securities. It is not intended to form the basis upon which any investment decision or any decision to purchase any interest in Kernel Holding S.A. is made. Information in this document relating to the price at which investments have been bought or sold in the past or the yield on investments cannot be relied upon as a guide to future performance.