

## **Andrey Verevskyy, Chairman of the Board**

The financial year 2008 was a year of outstanding achievements for Kernel. Not only did the Company show very strong increases in both revenue and income, but it has also laid the foundations for further growth in each of its divisions. We believe our present development program will make us the leading agribusiness and edible oil company in Ukraine, and also provide us a strong base to look at opportunities abroad.

In July 2007, following the conclusion of production and marketing agreements for bottled oil under the trademarks “Chumak Zolota” and “Chumak Domashnya”, we became the number 1 producer and marketer of bottled oil in Ukraine.

In November 2007, the Company was successfully listed on the Warsaw Stock Exchange and raised net US\$152 million of new equity. This event marked the beginning of a new chapter in the corporate life of the Company, not only because of new business opportunities offered by a strong capital base, but also because of higher standards in corporate governance, transparency and accountability required from a public company.

In January 2008 Kernel took the strategic decision to develop large scale farming operations well in excess of plans originally stated at IPO. To this effect, a further US\$82 million of net additional equity was raised from the market through a successful secondary offering of shares. As a result, Kernel has significantly expanded its farming operations and already controls and farms in excess of 78,000 ha of prime agricultural land in Ukraine.

Finally, in June 2008, Kernel secured control of a world class grain transshipment terminal in Illichevsk, the second largest deep water port on the Ukrainian Black Sea. Together with our extensive network of inland grain silos, we have created a unique commodity pipeline for grain produced and exported from Ukraine.

Both the developments in our upstream operations and our down stream control of logistics from producer to customer strengthen our capacity to increase and improve the Group’s margins, diversify our business portfolio within the agribusiness sphere and, as a result, provide for sustainable results.

Total revenue increased from US\$350 million as of 30 June 2007 to US\$663 million as of 30 June 2008, a 89% year-on-year increase. Operating profit has increased from US\$38.6 million as of 30 June 2007 to US\$111.6 million as of 30 June 2008, a 189% year-on-year increase. Finally, net income has increased from US\$18.6 million as of 30 June 2007 to US\$82.2 million as of 30 June 2008, a 342% year-on-year increase.

## **Market Environment affecting FY2008**

In financial year 2008, we took advantage of buoyant market conditions in both our grain and oil businesses. The significant price increases in the first 3 quarters of our financial year helped improve our margins and earnings in absolute terms.

In addition to international market conditions, high expectations for the 2008 grain harvest enabled the government of Ukraine to fully lift the grain export ban imposed in the fall of 2007. Even though export volumes were not significant, we took advantage of the important spreads between the domestic and international markets to achieve high margins in our grain activity.

The strong increases in vegetable oil prices on the international and domestic markets led the Government of Ukraine to seek measures in the spring of 2008 to contain the increase in the price of oil in Ukraine, in particular by imposing oil export restrictions. However, the restrictions proved difficult to manage and ineffective, and were fully removed in May 2008. Our export sales of vegetable oil went unaffected by these temporary events.

In June 2008 the contaminated oil issue was also solved. The EU and Ukraine reached a global agreement for the import of vegetable oil produced in Ukraine and, in particular, agreed on quality control procedures to insure that such contamination will not happen in the future. We have resumed supplying sunflower oil to the EU without any restrictions and believe that this issue has been finally solved.

## **FY2009 markets expectations and company performance.**

International grain markets have come off their highs experienced in the first half of 2008. This of course will affect our grain sourcing and merchandizing activity as well as our farming in FY2009. However, if prices reached on the international market have come down substantially, prices at which we source grain have also decreased, such downward movement being amplified by a bumper harvest and general harvest pressure in Ukraine. Our forecast on margins generated in the grain business remain therefore unchanged. Volumewise, we benefit from the very

substantial increase over FY2008 in the volume of grain exported from Ukraine in FY2009. Based on the large 2008 harvest, we have revised our initial plans for the grain division and now plan to export 1.6 million tons of grain over the season.

The bumper harvest is also expected to have a significant positive impact on income generated by our silo network. As a result of the lack of adequate grain storage capacity, fees for silo services have increased substantially and volumes of grain stored in our silos are significantly higher than in the previous season. We would therefore expect income generated by our silo network to exceed our initial target.

The decrease in grain prices will negatively impact the farming activity of the Group and decrease operational profit initially expected from farming. Low margins in the farming business will on the other hand help the Group acquire prime farming enterprises in the best possible locations and at significantly lower prices than originally planned.

In oil, our largest business, prices on the international market have also significantly corrected, decreasing some 50% from their highs. While oil prices have fallen significantly, the price for sunflower seed in Ukraine has fallen even further, in particular dragged down by a sizable harvest forecasted in the 5 to 6 million ton range. As a result, the spread between prices of oil and feedstock has remained at planned levels. Also, thanks to capacity expansion, the Company will increase bulk oil export from 171,000t in FY2008 to 279,000t in FY2009, up 63% y-o-y. Altogether, with price pressure on the feedstock and the planned export volume increase, our outlook on operating income derived from bulk oil remains unchanged.

If bulk oil prices suffered a sharp drop over 2008, bottle oil prices have decreased by a modest 10% since reaching peak prices in spring, providing for margins significantly higher than planned. While we do expect the price of bottle oil to decrease further, this process will happen, we believe, over a number of months. Our bottle oil activity should therefore provide the Company with a natural hedge against the volatility experienced in the commodity markets, and we would expect this business to significantly outperform our initial plan for the year.

Our logistics division, centered on the Illichevsk grain handling and transshipment terminal recently purchased by the Company, is expected to capitalize on the significant grain export volumes generated by the large 2008 harvest in Ukraine. Grain throughput through Transbulkterminal is forecasted in excess of 3 million tons over the season, with EBITDA contribution over USD 20 million.

In conclusion, we expect continued benefits and synergies from our diversified portfolio of activities focused on agribusiness and edible oil and, while the farming sector will come under pressure in this financial year, we should see the other businesses of the Group performing to our satisfaction. In consideration of this outlook, our guidance for the next financial year remains unchanged, with revenues of \$1100 million, EBITDA of \$185 million and Net profit of \$115 million.

### **Major Company developments**

Our planned expansion in crushing capacity is continuing apace. Construction works are progressing at our new multi-seed crushing plant located in the north of Nikolaev oblast, with commissioning expected in the fall of 2009. Necessary contracts have been concluded with equipment suppliers to increase the capacity and improve crushing efficiency of our existing crushing plant in Poltava. With sunflower seed crushing capacity in excess of 1.4 million tons/year by FY 2010, both developments in existing and new capacity will make Kernel the leader in the crushing industry in Ukraine.

In terms of new businesses, a major development is the acquisition of the grain handling and transshipment terminal in Illichevsk on the Black Sea. Not only is this new business expected to contribute significantly as an independent profit center, but also the terminal is expected to help the grain division achieve significantly higher export volumes. The territory of the terminal and its location will also provide the Company with an ideal expansion platform for the development of its future oil tank base, thereby achieving a fully integrated chain in the production and export of vegetable oil.

A further important Company development is the emphasis Kernel has put on large scale farming. Following the share capital increase effected early April, a number of farming enterprises have been acquired by the Company, thereby bringing prime farm land under control and management of the Company to 78 thousand ha as of June 2008. As previously mentioned, the Company will take advantage of the decrease in grain prices and the expected effect on farmers results, to carefully seek the best opportunities for the development of its existing land clusters.

Despite temporary volatility, Kernel will pursue its strategy to expand its farming business, capitalizing on low acquisition prices we believe can be achieved in the present environment. Kernel therefore expects to increase its landbank to 100,000 ha (up 28% y-o-y) in FY09 and increase by a further 150,000ha in FY10.



In conclusion, the Company is following the course, which was mapped out in the fall of 2007. Kernel remains confident about the long-term outlook for the global edible oil and grain markets and believes it has built a vantage position to further expand its businesses and become the leading company in Ukraine in all its business segments. We also strongly believe that the supply base and logistics network developed in Ukraine provides the Company with a strong platform to seek downstream opportunities in other markets and expand abroad.

## DIRECTORS REPORT

The Directors present their report to shareholders for the financial year ended 30 June 2008.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

We are an integrated bottled oil and agribusiness Group operating from the farm down to the final consumer. We own and operate oilseed crushing, oil refining and bottling facilities, an extensive network of grain silos in Ukraine as well as a grain handling and transshipment terminal in the port of Illichevsk, on the Ukrainian Black Sea. We market and deliver to our clients products created through the processing of oilseeds, whether in bulk or bottled under our own brand names, and also a wide range of agricultural commodities grown in Ukraine.

In the financial year to June 30, 2008, we had total net sales of US\$663 million (up 89% y-o-y), EBIT of US\$112 (up 189% y-o-y) million and net income of US\$82 million (up 342% y-o-y).

We believe we are:

- the largest producer and marketer of bottled oil in Ukraine with an estimated domestic market share of 35%
- the second largest oilseed crusher in Ukraine with 17% of sunflower seed crushing capacity in Ukraine
- the second largest exporter of bulk sunflower oil with 12% of Ukrainian exports
- a leading grain exporter with 9% share of Ukrainian grain export
- the largest private grain silo network in Ukraine, with aggregate storage capacity of 1.7 million tons
- the second largest owner and operator of grain handling and port transshipment facilities in Ukraine.

Finally, we have developed a land bank totalling 78 thousand ha (up 162% y-o-y) of prime agricultural land, on which we grow various crops marketed or processed by our Group.

## KEY PRODUCTS

We conduct our operations in four divisions:

- oil (which includes sunflower oil in bulk, refined oil in bulk and bottled oil)
- grain (grain trading, primarily export and grain silo services included)
- farming
- port (grain handling and transshipment services).

### *Oil Division*

As of 30 June 2008, we owned and operated three oilseed crushing plants with a total processing capacity of 730,000 tons of sunflower seeds per year. We own and operate two oil refining and bottling facilities installed next to the Group's crushing operations with refining capacity of 173,000 t/year oil and capable of producing up to 140,000 tons of bottled oil per year, sold essentially under our Group 3 key retail brand names: Chumak Zolota, Stozhar and Shedry Dar. Our production for the reporting period was as follow:

	<b>12 months ended 30.06.2007</b>	<b>12 months ended 30.06.2008</b>
Crushing of sunflower seeds, tons	573 600	675 157
Oil refined volume, tons	105 092	119 778
Bottled oil produced, tons	66 959	95 072

The Oil segment accounted for 65% of FY2008 revenues (total \$472m, c. 30% bottled oil, c.70% bulk oil).

We source feedstock from third party farmers through 13 regional purchasing offices and through our silo network and also from our own farming operations. Our suppliers are essentially the numerous farmers and regional traders active throughout the sunflower seed and grain belt of Ukraine. While we endeavour to maintain close and on-going commercial relationships with most of our suppliers, no one supplier accounts for more than a few percent of our raw material purchases and the loss of a supplier has no material effect on our activities.

### ***Grain Division***

We own and operate 25 grain silos representing a total grain storage capacity of 1.7 million tons and two trucking companies providing logistic support to our grain and oil activities.

We exported 317,000 t of grain in FY2008. This relatively low volume is largely due to the grain export ban imposed by the government of Ukraine in the fall of 2007 and is not representative, we believe, of the grain export potential of the Group, closer to 2 million of grains, particularly in view of the significant leverage provided by the port terminal. The Grain segment accounted for 32% of the total revenues of the Group (\$237m including intra-segment sales). Largest grain export destinations are the EU, Northern Africa and the Middle East.

**Our customers for products in bulk** are primarily international trading houses or wholesalers and processors in importing countries. Our customers include international trading houses and processors of agricultural commodities such as Glencore of Switzerland, Nidera in the Netherlands, Alfred C. Teopfer in Germany, Bunge in the USA. We sell bulk oil to refiners and bottlers producing for their home markets, such as SOS Cuetara and Migasa in Spain, Diem SA in Greece. We also sell increasing cargo to producers of bio-fuels such as Saipol in France. We sell protein meal to feed compounders such as Agro Supply A/S and DLA Agro in Denmark, Ravagricola in Italy. We sell bulk grain or oilseed cargo to wholesalers and processors in destination countries such as Shovre Bar, Zenziper and Shintraco in Israel, Tagol in Spain, Soya Hellas S.A. and Agroiinvest S.A. in Greece.

**Our customers for our bottled oil products** are retailers with a nationwide network of supermarkets in Ukraine and regional distributors with a strong and established presence in a specific region or large urban area of the country. The retail chains which we supply include retailers such as Fozzy Group, Metro Cash and Carry, ATB Market, Intermarket, Furshet. Distributors include companies such as Foodservice in the Donetsk and Lugansk regions, LAN Ukraine and Alt-Agro in Kiev, Guerres in the Odessa region, Ukr-Trade in the Kharkov region. As the markets change and develop, no one of our customers consistently and regularly accounts for a significant portion of our sales from one year to the next.

### ***Farming Division***

We harvested 68,000 t grain and oil crops for FY2008 (net amount). This division provided 3% of the Group's revenues in FY 2008 (\$20m, included intra-segment sales). Land leased and farmed is located in the highly fertile black earth belt of central and southern Ukraine. Our farming operations are concentrated in the oblasts of Cherkassy (19%), Kirovograd (19%), Poltava (40%), Kharkov (19%) and Odessa (3%).

In calendar year 2008, we expect to harvest 255,000 t of grain and oilseeds. Our standard crop mix includes wheat, barley, sunflower, soy beans, corn and peas. Management expects a blended average yield of c.3 t / ha for the 2008 harvest over a total planted acreage of 85,000 ha at the time of harvest.

85% of Kernel farm produce is sold at market prices to Kernel's Oil and Grain divisions.

### ***Port Division***

The Group acquired in June 2008 a grain transshipment complex located in the Commercial Sea Port of Illichevsk, on the Black Sea, Ukraine. The terminal is fully consolidated as of 30 June 2008.

The terminal offers 2 deepwater berths with 11.5m draught allowing simultaneous loading of 2 Panamax vessels. With 200,000 t storage capacity and an estimated maximum yearly throughput capacity of 4.5 million t, the Terminal offers an ideal gateway for 20% of the grain exported from Ukraine, and is an optimal transit terminal for Kazakh and Russian grain exports.

We believe this acquisition will enable the Group to create the largest integrated grain supply chain in Ukraine, from farm gate to ship to final delivery in consumer countries.

While the grain terminal did not impact Group P/L in FY 2008, we expect revenue contribution c.US\$40million and EBITDA contribution c. US\$20 million for FY 2009.

## DISCUSSION OF FINANCIAL RESULT

### ***Revenue***

Total revenue increased from US\$350 million as of 30 June 2007 to US\$663 million as of 30 June 2008, a 89% year-on-year increase. The increase reflects the capacity increasing and growth in production, a buoyant market in vegetable oil with prices increasing steadily throughout the season, as well as an increase of bottled oil sales following the agreements for bottled oil with the company “Chumak”.

Our bulk sunflower oil sales have been relatively stable over last two financial years and generated respectively 46% and 49% of our total net sales in FY 2007 and FY 2008. Grain sales decreased from 34% of net sales in FY 2007 to 26% in FY 2008, due primarily to the grain export ban imposed by the government during the last reporting period.

Revenues from our bottled oil sales increased from US\$57 million (16% of net sales) in the financial year 2007 to US\$147 million (22% of net sales) for the financial year to 30 June 2008, a 158% year-on-year increase, with 35% of such increase resulting from the agreements concluded in June 2007 for production and marketing of oil under the trademarks “Chumak Zolota” and “Chumak Domashnya”.

### ***Cost of goods sold***

#### **Cost of raw materials**

Cost of raw materials is the main cost of sales item for our oil and grain divisions and our bottled oil division. Raw materials have increased from US\$243 million for the year ended 30 June 2007 to US\$473 million for the year ended 30 June 2008, equivalent to 69.4% and 71% of sales respectively.

#### **Payroll and related charges**

Payroll and related charges have increased from US\$13.6million to US\$16.4 million, a 21% year-on-year increase. In relative terms, payroll decreased from 5% of cost of sales in 2007 to 3% of cost of sales in 2008.

#### **Depreciation**

Depreciation expenses remain less than 2% of sales for the year ended 30 June 2007 and 2008.

### ***Gross profit***

Gross profit increased from US\$83 million as of 30 June 2007 to US\$159 million as of 30 June 2008, a 92% year-on-year increase. The overall increase reflects volume increase following full integration of the acquisition of our competitor Evrotek in 2006, as well as the relative tightness of oil and grain supply on the international markets and price improving, with gross margins of 23.7% and 23.9% of sales for the year ended 30 June 2007 and 2008 respectively.

### ***Operating expenses***

#### **Distribution costs**

Distribution costs increased from US\$39 million in the financial year ended 30 June 2007 to US\$52 million in the financial year ended 30 June 2008. The 35% year-on-year increase is due to the increase in tonnage of bottled oil handled by our company, development of C&F sales and, to a lesser extent, to the increase in transport costs on our domestic and international markets over the reporting period.

#### **General and administrative expenses**

General and administrative expenses have increased from US\$ 13.3 million as of 30 June 2007 to US\$ 19.6 million as of 30 June 2008, a 47% year-on-year increase. In relation to sales, however, general and administrative expenses have decreased from 3.8% to 2.9% of sales for the year ended 30 June 2007 and 2008 respectively.

### ***Operating profit***

Income from operations has increased from US\$38,6 million as of 30 June 2007 to US\$111,6 million as of 30 June 2008, a 189% year-on-year increase. The bigger increase in operating result than in gross profit reflects primarily the economies of scale and low operating leverage of the Group.

### ***Finance costs***

Finance costs have increased from US\$18.9 million as of 30 June 2007 to US\$28.1 million as of 30 June 2008, a 49% year-on-year increase. In relation to sales, finance costs have decreased from 5.4% to 4.2% of sales for the year ended 30 June 2007 and 2008 respectively. The decrease reflects primarily additional equity the Group raised in November 2007 and April 2008.



### *Net income*

Net income has increased from US\$18.6 million as of 30 June 2007 to US\$82.2 million as of 30 June 2008. As for increase in operating income, the increase in net income reflects economies of scale, relatively low operating leverage and improving the financial leverage of the Group.

### *Cash flow*

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit, and issuance of domestic bonds. Our bank credit lines are provided largely by international banking institutions, some of which operate in Ukraine through their domestic subsidiaries. Our bonds are purchased by international and domestic investors alike. Banks and bond investors provide financing to our Group either in US\$ or in Hryvnia. While the beneficiaries of the financing will be our various operating subsidiaries responsible for international or Ukraine domestic sales, all our credit facilities are under the management and control of our centralized financial department operating out of Kiev. For information on material loan facilities extended to our Group Subsidiaries see notes 16, 17 and 31.

In the financial year to June 30, 2008, with sales growing by 89%, our working capital requirements increased by US\$249 million, financed primarily through bank loans and bonds.

The strong development of our businesses, commodity price increases and the lifting of the grain export ban in April 2008 all led in financial year 2008 to sizable increases in inventories of readily marketable inventories, essentially sunflower seed ready for processing, sunflower oil resulting from the seed crushing process and grains. Significant growth of commodity prices led to a high level of inventories as of 30 June 2008 and negatively impacted our performance ratios and cash flow from operations, which, we believe, will improve in the financial year 2009.

With our high cash levels and the strong liquidity of our agricultural commodities inventory, coupled to our “balanced book” trading policy, we believe our working capital levels satisfy our present business needs.

Cash used in investing activities was US\$170 million for the year ending 30 June 2008, primarily reflecting the acquisition of the grain port terminal in Illichevsk, expansion of our farming activity, increase of production capacity of the Volchansk crushing plant, investments in a new green field plant and modernization of our grain silos.

## **RISK FACTORS AND RISK MANAGEMENT POLICIES**

We see the following industry-specific risks which can influence the financial results of the company.

- **Poor harvest.** Unexpected weather conditions can adversely affect harvests and the supply of raw materials, leading to a possible margin squeeze and decrease in capacity utilisation or government regulatory measures.
- **Bio-fuels industry slowdown.** A slowdown in the bio-fuels industry could reduce demand for rapeseed and corn, which could reduce demand for other vegetable oils such as sunflower oil. This, in turn, may negatively affect the company’s earnings.
- **Export limitations and restrictions.** The recent bout of high inflation and rising soft commodity prices prompted the Ukrainian government to introduce temporary export quotas on socially important food products such as sunflower oil. While the export quotas were rapidly and fully lifted, such measures can negatively impact the volumes of oil Kernel is able to export. However, we would note that under such a scenario, the company is likely to earn higher processing margins, compensating for a decrease in volumes.
- **Increased competition from current and new players.** As the Ukrainian agricultural sector develops and crop production increases, crushers see opportunities to expand business. We therefore do not exclude an increase in the overall crushing capacity of the country and, consequently, increased competition in this field of business.
- **Quality requirements and regulations in food, grain, oil and protein meal.** There was a recent scare in some European markets due to contamination of Ukrainian sunflower oil. While the contaminated oil issue led to a temporary freeze in EU imports of vegetable oil produced in Ukraine, authorities of both the Ukraine and the EU have since agreed on strict quality control procedures enabling normal trade in vegetable oil to resume without any restrictions.

The Group’s risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Full overview of the Group’s exposure to credit, liquidity and market risks are set in note 31 to the consolidated financial statement.



## MANAGEMENT REMUNERATION

Management remuneration details for FY 2008 are disclosed in note 33 to the annual reports.

## RELATED PARTY TRANSACTIONS

Information in respect of related party transactions is disclosed in note 29 to the consolidated report. The most significant transaction the Group executed with related parties in FY 2008 was related to the port terminal acquisition and farming entities acquisitions. These transactions were effected at cost with no profit at the related party level.

## USE OF PROCEEDS

In FY08 the Company raised US\$245 million in gross proceeds from the issue of New Shares in the IPO and in the Secondary Offering. The Company received net proceeds in the amount of US\$234 million, after deducting commissions, costs and expenses associated with the Offering in the amount of \$11million.. Proceeds of both offerings are used primarily for the following on-going developments:

- greenfield construction of a multiseed crushing plant with 510,000 tons/year crushing capacity in Ukraine
- acquisition of port grain storage and trans-shipment facilities in Illichevsk, Ukraine
- program for capacity increase at our existing crushing plants, to be implemented over the period 2008-2010
- increase of our farm land bank in Ukraine
- repayment of a bridge financing facility for the acquisition of “Chumak Zolota” and “Chumak Domashnya” bottled oil brands in July 2007
- increase in working capital needs following capacity expansion.

## CHANGES IN MANAGEMENT

The following individuals were appointed Board Directors in September and October 2007:

Name	Position/Function	Appointment date	Term of office
Andrey Verevskyy	Chairman of the Board of Directors	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Patrick Conrad	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Victoriia Lukyanenko	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Anastasiia Usachova	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Andrzej Danilczuk	Non-executive director	October 12, 2007	until the end of the annual General Meeting of Shareholders of 2008
Ton Schurink	Non-executive director	October 12, 2007	until the end of the annual General Meeting of Shareholders of 2008

No changes to the Board of Directors have occurred in the course of the reporting period.





## MANAGEMENT STATEMENT

This statement is provided to confirm that LLP BAKER TILLY UKRAINE and Réviseur d'Entreprises Jean Bernard Zeimet have been appointed in accordance with the applicable laws and performed the audit of the consolidated financial statements of Kernel Holding S.A. for the year ended 30 June 2008, and that the entities and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with International Standards on Auditing.

On behalf of the Management

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Conrad Patrick  
Director

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Usachova Anastasiia  
Director

Kyiv, Ukraine  
October 10, 2008

# **Kernel Holding S.A. and Subsidiaries**

**Consolidated Financial Statements**

**For the year ended 30 June 2008**

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## **INDEPENDENT AUDITOR'S REPORT**

**To the board of Directors of**

**KERNEL HOLDING S.A.  
65, Boulevard Grande-Duchesse Charlotte  
L-1331 Luxembourg**

### **Report on the consolidated financial statements**

We have audited consolidated financial statements of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group"), which comprise the consolidated balance sheet as at June 30, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year that ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



an independent member of  
**BAKER TILLY  
INTERNATIONAL**

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") as of June 30, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Managing Partner

"BAKER TILLY UKRAINE" LLP

10 October 2008

Kiev, Ukraine

Registration # 1008

Réviseur d'Entreprises  
67, Rue Michel Welter  
L-2730 Luxembourg



A handwritten signature in black ink, appearing to be "A. Pochkun".

Alexander Pochkun

Jean Bernard Zeimet

A handwritten signature in blue ink, appearing to be "Jean Bernard Zeimet".

## MANAGEMENT REPRESENTATION LETTER

LLP BAKER TILLY UKRAINE

Independent member of Baker Tilly International

Fizkultury 28, Kyiv,

Ukraine, 01033

This representation letter is provided in connection with your audit of the reporting package ("financial statements") of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") as of 30 June 2008 for the purpose of expressing an opinion as to whether the reporting package gives a true and fair view of the financial position and results of operations in accordance with the group accounting principles which are internationally accepted accounting principles.

We confirm, to the best of our knowledge and belief, the following representations:

1. We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the group accounting principles including the appropriate disclosures of all information required by statute.
2. There have been no irregularities involving management or employees who have significant role in the system of internal control, or that could have a material effect on the financial statements.
3. We have made available to you all books of account and supporting documentation and all minutes of meetings of stockholders and Board of Directors.
4. The financial statements are free of material errors and commissions.
5. The Group has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There have been no communications concerning non-compliance with requirements of regulatory authorities with respect to financial matters.
6. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:
  - a. Balances and transactions with related parties.
  - b. Losses arising from sale and purchase commitments (not executed contracts at year end)
  - c. Agreements to buy back assets previously sold.
  - d. Assets pledged as collateral.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
8. We have identified all excess or obsolete stocks, and no stocks are stated at an amount in excess of net realizable value.
9. The Group has original title to all assets and there are no liens, or encumbrances on the company's assets (except those, if any, that are disclosed in the notes to the financial statements).
10. We have recorded or disclosed all liabilities, both actual and contingent. Guarantees given to third parties and/or related companies or persons are disclosed in the notes to the financial statements.
11. There have been no events subsequent to the balance sheet date which require adjustment of or disclosure in the financial statements and related notes.
12. No claims in connection with litigation have been or are expected to be received. Claims whose financial impact is known are accrued for in the financial statements, or, if outcome of any pending or expected lawsuit is unsecured, are disclosed in the notes to the financial statements.
13. We have properly recorded or disclosed in the financial statements the capital stock repurchase options and agreements and capital stock reserved for options, warrants, conversions and other requirements.
14. The Group has no plan to downsize its operations.

On behalf of the Management

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Verevskiy Andrey  
Chairman of the Board

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Usachova Anastasiia  
CFO

Kyiv, Ukraine  
October 10, 2008



**SELECTED FINANCIAL DATA AS OF 30 JUNE 2008**
*(in thousands unless otherwise stated)*

	thousand USD		thousand zloty		thousand EUR	
<b>SELECTED FINANCIAL DATA for the year ended 30 June 2008</b>	<b>2 008</b>	<b>2 007</b>	<b>2 008</b>	<b>2 007</b>	<b>2 008</b>	<b>2 007</b>
I. Revenue	663 140	350 379	1 632 695	1 040 410	452 523	268 580
II. Operating profit/(loss)	111 577	38 634	274 710	114 719	76 139	29 615
III. Profit/(loss) before income tax	91 221	16 692	224 592	49 565	62 249	12 795
IV. Net profit/(loss)	82 203	18 596	202 389	55 219	56 095	14 255
V. Net cash flow from operating activity	(125 619)	11 594	(309 283)	34 427	(85 722)	8 887
VI. Net cash flow from investment activity	(170 114)	(57 246)	(418 832)	(169 985)	(116 085)	(43 881)
VII. Net cash flow from financial activity	329 794	64 421	811 975	191 291	225 049	49 381
VIII. Total net cash flow	34 061	18 769	83 860	55 733	23 242	14 387
IX. Total assets	755 608	275 080	1 601 436	769 921	477 442	204 451
X. Current liabilities	185 121	59 179	392 346	165 636	116 971	43 985
XI. Non-current liabilities	130 070	130 608	275 670	365 559	82 187	97 073
XII. Subordinated loan	-	7 532	-	21 081	-	5 598
XIII. Share capital	1 815	1 232	3 847	3 448	1 147	916
XIV. Total equity	440 417	77 761	933 420	217 645	278 284	57 795
XV. Weighted average number of shares	40 074 247	8 808	40 074 247	8 808	40 074 247	8 808
XVI. Profit/(loss) per ordinary share (in USD/zloty/EUR)	2,08	2 218,32	5,11	6 587,06	1,42	1 700,44
XVII. Diluted number of shares	40 196 769	8 808	40 196 769	8 808	40 196 769	8 808
XVIII. Diluted profit/(loss) per ordinary share (in USD/zloty/EUR)	2,07	2 218,32	5,10	2 218,32	1,41	2 218,32
XIX. Book value per share (in USD/zloty/EUR)	9,90	7 335,38	20,99	20 530,99	6,26	5 451,96
XX. Diluted book value per share (in USD/zloty/EUR)	9,87	7 335,38	20,92	20 530,99	6,24	5 451,96

On behalf of the Board

 Andrey Verevskiy  
 Chairman of the Board

 Anastasiia Usachova  
 CFO

The notes on pages 7 to 51 form an integral part of these consolidated financial statements

**CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2008**
*(in US dollars and in thousands unless otherwise stated)*

	Notes	30 June 2008	30 June 2007
<b>ASSETS</b>			
<i>CURRENT ASSETS:</i>			
Cash	5	88 530	25 253
Trade accounts receivable, net	6, 29	48 720	9 828
Prepayments to suppliers and other current assets, net	7, 29	29 736	8 567
Taxes recoverable and prepaid, net	8	23 219	22 485
Inventory	9	144 707	40 163
Biological assets	10	42 421	9 672
<b>Total current assets</b>		<b>377 333</b>	<b>115 968</b>
<i>NON-CURRENT ASSETS:</i>			
Property, plant and equipment, net	11	231 624	127 865
Intangible assets, net	12	58 081	16 821
Goodwill	13	45 319	11 491
Other non-current assets	14, 29	43 251	2 935
<b>Total non-current assets</b>		<b>378 275</b>	<b>159 112</b>
<b>TOTAL ASSETS</b>		<b>755 608</b>	<b>275 080</b>
<b>LIABILITIES AND EQUITY</b>			
<i>CURRENT LIABILITIES:</i>			
Trade accounts payable	29	5 545	5 809
Advances from customers and other current liabilities	15, 29	21 879	8 935
Short-term borrowings	16	120 087	37 417
Short-term corporate bonds	19	30 984	-
Current portion of long-term borrowings	17	6 626	7 018
<b>Total current liabilities</b>		<b>185 121</b>	<b>59 179</b>
<i>NON-CURRENT LIABILITIES:</i>			
Long-term borrowings	17	91 148	99 239
Obligations under finance lease	18	6 907	3 185
Long-term corporate bonds	19	-	9 937
Deferred tax liabilities	20	31 786	18 247
Other non-current liabilities		229	-
<b>Total non-current liabilities</b>		<b>130 070</b>	<b>130 608</b>
<i>SUBORDINATED LOAN</i>	29		7 532
<i>COMMITMENTS AND CONTINGENCIES</i>			
<i>EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A. SHAREHOLDERS</i>			
Share capital		1 815	1 232
Share premium reserve		236 637	2 608
Additional paid-in capital		39 944	39 944
Translation reserve		14 358	-
Retained earnings		104 053	20 826
<b>Total equity attributable to Kernel Holding S.A. shareholders</b>		<b>396 807</b>	<b>64 610</b>
<b>MINORITY INTEREST</b>		<b>43 610</b>	<b>13 151</b>
<b>Total equity</b>		<b>440 417</b>	<b>77 761</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>755 608</b>	<b>275 080</b>
Book value		396 807	64 610
Weighted average number of shares	34	40 074 247	8 808
<b>Book value per one share (in USD)</b>		<b>9,90</b>	<b>7 335,38</b>
Diluted number of shares	34	40 196 769	8 808
<b>Diluted book value per share (in USD)</b>		<b>9,87</b>	<b>7 335,38</b>
On behalf of the Board			
Andrey Verevskiy _____		Anastasiia Usachova _____	
Chairman of the Board		CFO	

The notes on pages 7 to 51 form an integral part of these consolidated financial statements

**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**
*(in US dollars and in thousands unless otherwise stated)*

	Notes	Year ended 30 June 2008	Year ended 30 June 2007
REVENUE	21, 29	663 140	350 379
COST OF SALES	22	(504 546)	(267 352)
<b>GROSS PROFIT</b>		<b>158 594</b>	<b>83 027</b>
OTHER OPERATIONAL INCOME	10, 23	24 951	7 865
OPERATING EXPENSES:			
Distribution costs	24, 29	(52 406)	(38 963)
General and administrative expenses	25, 29	(19 562)	(13 295)
<b>TOTAL OPERATING EXPENSES</b>		<b>(71 968)</b>	<b>(52 258)</b>
<b>OPERATING PROFIT</b>		<b>111 577</b>	<b>38 634</b>
Finance costs, net	26,29	(28 115)	(18 863)
Foreign exchange (loss)/gain, net		3 128	(768)
Other (expenses)/income, net	27,29	4 631	(2 311)
<b>PROFIT/ (LOSS) BEFORE INCOME TAX</b>		<b>91 221</b>	<b>16 692</b>
INCOME TAX	20	(9 018)	1 904
<b>NET PROFIT</b>		<b>82 203</b>	<b>18 596</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
<b>Shareholders of Kernel Holding S.A.</b>		<b>83 227</b>	<b>19 539</b>
<b>Minority interest</b>		<b>(1 024)</b>	<b>(943)</b>
Weighted average number of shares	34	40 074 247	8 808
<b>Profit/(loss) per ordinary share (in USD)</b>		<b>2,08</b>	<b>2 218,32</b>
Diluted number of shares	34	40 196 769	8 808
<b>Diluted profit/(loss) per ordinary share (in USD)</b>		<b>2,07</b>	<b>2 218,32</b>

On behalf of the Board

 Andrey Verevskiy \_\_\_\_\_  
 Chairman of the Board

 Anastasiia Usachova \_\_\_\_\_  
 CFO

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 30 JUNE 2008**
*(in US dollars and in thousands unless otherwise stated)*

	Share capital	Share premium reserve	Additional paid-in capital	Translation reserve	Retained earnings	Total equity attributable to Kernel Holding S.A. shareholders	Minority interest	Total equity
<b>Balance at 30 June 2006</b>	<b>964</b>	-	<b>39 425</b>	-	<b>1 287</b>	<b>41 676</b>	<b>5 880</b>	<b>47 556</b>
Effect of changes on minority interest	-	-	(613)	-	-	(613)	613	-
Disposal of Subsidiaries	-	-	-	-	-	-	(527)	( 527)
Acquisition of Subsidiaries	-	-	-	-	-	-	8 124	8 124
Increase of share capital	176	2 602	-	-	-	2 778	-	2 778
Shareholders' loans set-off effect	-	-	1 285	-	-	1 285	-	1 285
Effect of foreign exchange differences	92	6	(153 )	-	-	(55)	4	(51)
Net profit	-	-	-	-	19 539	19 539	(943)	18 596
<b>Balance at 30 June 2007</b>	<b>1 232</b>	<b>2 608</b>	<b>39 944</b>	-	<b>20 826</b>	<b>64 610</b>	<b>13 151</b>	<b>77 761</b>
Effect of changes on minority interest	-	-	-	-	-	-	(6 204)	(6 204)
Disposal of Subsidiaries	-	-	-	-	-	-	(148)	(148)
Acquisition of Subsidiaries	-	-	-	-	-	-	45 435	45 435
Repurchase of minority share	-	-	-	-	-	-	(7 600)	(7 600)
Increase of share capital	583	244 709	-	-	-	245 292	-	245 292
Issued capital and IPO expenses	-	(10 680)	-	-	-	(10 680)	-	(10 680)
Effect of foreign exchange differences	-	-	-	14 358	-	14 358	-	14 358
Net profit	-	-	-	-	83 227	83 227	(1 024)	82 203
<b>Balance at 30 June 2008</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>14 358</b>	<b>104 053</b>	<b>396 807</b>	<b>43 610</b>	<b>440 417</b>
On behalf of the Board								
Andrey Verevskiy			Anastasiia Usachova					
Chairman of the Board			CFO					

The notes on pages 7 to 51 form an integral part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2008**
*(in US dollars and in thousands unless otherwise stated)*

	Notes	Year ended 30 June 2008	Year ended 30 June 2007
<b>OPERATING ACTIVITIES:</b>			
Profit/(loss) before income tax		91 221	16 692
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>			
Amortization and depreciation	11, 12	11 641	7 723
Finance costs	26	28 115	18 863
Bad debt expenses and other accruals		285	1 070
Loss/(gain) on disposal of property, plant and equipment		(412)	1 035
Foreign exchange losses/(gain), net		(3 128)	768
Income from "DAK Asset"	27	(33)	(324)
Gain on sales of equity investments	27, 28	(2 528)	(427)
Gain on acquisition of equity investments		(9 014)	-
<b>Operating profit before working capital changes</b>		<b>116 147</b>	<b>45 400</b>
<i>Changes in working capital:</i>			
Decrease/(increase) in trade accounts receivable		(37 972)	248
Decrease/(increase) in prepayments and other current assets		(18 814)	1 246
Decrease/(increase) in restricted cash balance		(29 216)	(100)
Decrease/(increase) in taxes recoverable and prepaid		97	(13 048)
Increase in biological assets		(23 201)	(6 253)
Increase in inventories		(100 360)	(3 204)
Increase/(decrease) in trade accounts payable		(1 373)	1 965
Increase/(decrease) in advances from customers and other current liabilities		549	4 406
<b>Cash obtained from/(used in) operations</b>		<b>(94 143)</b>	<b>30 660</b>
Finance costs paid		(28 115)	(18 358)
Income tax paid		(3 361)	(708)
<b>Net cash provided by operating activities</b>		<b>(125 619)</b>	<b>11 594</b>
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(33 272)	(1 598)
Proceeds from disposal of property, plant and equipment		8 846	3 786
Sales/(Purchase) of intangible and other non-current assets		(48 515)	295
Acquisition action of Subsidiaries		(101 633)	8 934
Disposal of Subsidiaries		4 460	(68 663)
<b>Net cash used in investing activities</b>		<b>(170 114)</b>	<b>(57 246)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from short-term and long-term borrowings		294 232	190 068
Repayment of short-term and long-term borrowings		(226 923)	(135 907)
Corporate bonds issued		21 047	-
Proceeds from subordinated loan		(7 532)	7 532
Proceeds from share capital increase		583	176
Proceeds from share premium reserve increase		244 709	2 602
Issued capital and IPO expenses paid		(10 680)	-
<b>Net cash provided by financing activities</b>		<b>315 436</b>	<b>64 471</b>
TRANSLATION ADJUSTMENT		14 358	(50)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>34 061</b>	<b>18 769</b>
CASH AND CASH EQUIVALENTS, at the beginning of the period	5	24 752	5 983
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<b>5</b>	<b>58 813</b>	<b>24 752</b>

On behalf of the Board

Andrey Verevskiy \_\_\_\_\_

Chairman of the Board

Anastasiia Usachova \_\_\_\_\_

CFO

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**
*(in US dollars and in thousands unless otherwise stated)*
**1. KEY DATA BY SEGMENT**

	Oil		Grain handling and transshipment services*		Farming**		Grain		Other		Reconciliation		Continuing Operations	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Revenue (external)	472 210	216 574	-	-	3 180	904	186 531	129 442	1 219	3 459	-	-	663 140	350 379
Intersegment sales	-	437	-	-	17 100	6 300	50 894	9 078	-	-	(67 994)	(15 815)	-	-
<b>Total</b>	<b>472 210</b>	<b>217 011</b>	<b>-</b>	<b>-</b>	<b>20 280</b>	<b>7 204</b>	<b>237 425</b>	<b>138 520</b>	<b>1 219</b>	<b>3 459</b>	<b>(67 994)</b>	<b>(15 815)</b>	<b>663 140</b>	<b>350 379</b>
Other operating income	3 212	-	-	-	19 929	5 921	1 810	1 944	-	-	-	-	24 951	7 865
Operating profit (EBIT)	74 180	35 950	-	-	18 743	5 458	36 633	10 520	(17 979)	(13 294)	-	-	111 577	38 634
Total assets	473 002	169 129	101 319	-	95 324	13 357	70 962	87 532	15 001	5 062	-	-	755 608	275 080
Capital expenditures	9 301	54 006	83 000	-	44 414	-	5 933	23 222	111	848	-	-	142 759	78 076
Amortization and depreciation	6 933	5 022	-	-	1 186	463	3 286	1 718	236	346	-	-	11 641	7 549
Liabilities	46 816	14 922	8 325	-	4 679	3 649	14 949	3 761	240 422	174 987	-	-	315 191	197 319

\* New business of the Group (note 28)

\*\* Before 30 June 2008 farming was included in the grain segment. In accordance with IFRS 14, due to sales and total assets of the farming not being material, a separate disclosure was not required.



## 2. NATURE OF THE BUSINESS

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

The primary activity of the Group is related to production of bottled sunflower oil, production and subsequent export of sunflower oil and meal and wholesale trade of grain (mainly wheat, barley and corn).

The majority of the Group operations are located in Ukraine. Financial year of the Group runs from 1st of July to 30th of June.

The principal operating office of the Group is located at the following address: 35 Olesya Gonchara str., 01034 Kyiv, Ukraine.

As of 30 June 2007 and 30 June 2008 the structure 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 as of	
			30 June 2008	30 June 2007
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine. Performs transactions with financial instruments.	Ukraine	99.9%	99.9%
"Etrecom Investments", LLC	Holding company.	Cyprus	100%	N/A
"Yuzhtrans-Terminal", LLC	Dormant company.	Ukraine	99.9%	99.9%
Inerco Trade S.A.	Trade of sunflower oil, meal and grain.	Switzerland	99.0%	99.9%
Lanen S.A.		Panama	100%	100%
"Kernel-Trade", LLC		Ukraine	100%	99.8%
Jerste BV	Dormant company	Netherlands	100%	N/A
CJSC "Poltava oil crushing plant — Kernel Group"	Production plants. Production of sunflower oil and meal.	Ukraine	95.2%	94.9%
JSC "Vovchansk OEP"		Ukraine	99.3%	99.9%
CJSC "Prykolotne OEP"		Ukraine	100%	69.9%
CJSC "Prykolotnyanska oliya"		Ukraine	46.4%	0.0%
LLC JE "Inerco-Ukraine"	Holding company. No significant activity since the date of foundation.	Ukraine	100%	99.9%
CJSC "Poltavaavtotransservis"	Trucking company.	Ukraine	99.9%	98.5%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2008	30 June 2007
CJSC "Reshetylivka Hliboproduct"	Grain elevators. Provision of cleaning, drying and grain and oilseed storage services.	Ukraine	99.9%	79.9%
JSC "Reshetilovski elevator"		Ukraine	0.0%	0.0%
CJSC "Horol-Elevator"		Ukraine	100%	99.9%
JSC "Khorolskiy elevator"		Ukraine	0.0%	0.0%
CJSC "Mirgorodsky elevator"		Ukraine	99.9%	99.9%
CJSC "Globynsky elevator HP"		Ukraine	100%	86.2%
JSC "Globinsky elevator kliboproductiv"		Ukraine	0.0%	0.0%
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	88.2%	86.2%
JSC "Golovanivske khlibopriemalne pidpriemstvo"		Ukraine	Disposed of on 01 April 2008	99.2%
CJSC "Galeschina-Agro"		Ukraine	99.9%	99.9%
CJSC "Gogoleve-Agro"		Ukraine	99.9%	99.8%
CJSC "Sagaydak-Agro"		Ukraine	100%	99.9%
CJSC "Karlivka-Agro"		Ukraine	99.9%	99.9%
CJSC "Novo-Sanzharski elevator"		Ukraine	Disposed of on 31 August 2007	99.0%
CJSC "Lazorkovski Elevator"		Ukraine	99.9%	99.9%
"Zhrebkivsky elevator LTD"		Ukraine	99.9%	99.9%
"Kononivsky elevator LTD"		Ukraine	99.9%	99.9%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2008	30 June 2007
JSC "Pidgorodnanski elevator"	Grain elevators. Provision of cleaning, drying and grain and oilseed storage services.	Ukraine	Disposed of on 30 July 2007	75.0%
"Bandurskiy elevator", LLC		Ukraine	100%	99.9%
CJSC "Semenivski elevator"		Ukraine	99.9%	99.9%
"Kobelyaki hleboproduct", LLC		Ukraine	0.1%	0.1%
CJSC "Vlasivskiy KHP"		Ukraine	In process of liquidation	100%
"Sahnovshina hleboproduct", LLC		Ukraine	100%	0.1%
CJSC "Velykoburlutske HPP"		Ukraine	100%	99.8%
CJSC "Vovchansky KHP"		Ukraine	Disposed of on 23 July 2007	99.8%
CJSC "Gutnansky elevator"		Ukraine	100%	99.8%
CJSC "Lykhachivsky KHP"		Ukraine	100%	99.8%
CJSC "Shevchenkisky KHP"		Ukraine	100%	99.8%
CJSC "Orilske HPP"		Ukraine	100%	99.8%
CJSC "Kovyagivske KHP"		Ukraine	100%	99.8%
"Ykragrobiznes", LLC	Holding company.	Ukraine	100%	N/A
"Ukrainian Agricultural Company", LLC	Holding company agricultural farms.	Ukraine	Control relinquished	0.3%
"Agroservice", LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	99.9%
"Zernoservice", LLC		Ukraine	100%	99.9%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2008	30 June 2007
"Unigrain-Agro" (Semenovka), LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	99.9%
"Unigrain-Agro" (Globino), LLC		Ukraine	100%	99.9%
"Mrija-Agro", LLC		Ukraine	100%	99.9%
CJSC "Lozivske HPP"		Ukraine	100%	99.9%
CJSC "Krasnopavlivsky KHP"		Ukraine	100%	99.9%
CJSC "Agrofirma "Krasnopavlivska",		Ukraine	0.0%	0.0%
"Agrofirma "Arshitsa", LLC		Ukraine	100%	N/A
"Agrotera-Kolos", LLC		Ukraine	0.0%	N/A
"Chorna Kamyanka", LLC		Ukraine	100%	N/A
"Govtva", ALLC		Ukraine	0.0%	N/A
PRAC "Perebudova"		Ukraine	0.0%	N/A
"Manjurka", LLC		Ukraine	0.0%	N/A
"Krutenke", LLC		Ukraine	0.0%	N/A
"Promin", LLC		Ukraine	0.0%	N/A
PRAC "Brovarki"		Ukraine	0.0%	N/A
"Troyanske", ALLC		Ukraine	0.0%	N/A
"Zorya", ALLC		Ukraine	0.0%	N/A

**KERNEL HOLDING S.A. AND SUBSIDIARIES**

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2008	30 June 2007
"Hleborob", ALLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	0.0%	N/A
PRAC by the name of Shorsa		Ukraine	0.0%	N/A
AC by the name of T. Shevchenko		Ukraine	0.0%	N/A
PRAC "Drugba"		Ukraine	0.0%	N/A
"Transbulk Terminal", LLC	Grain handling and transshipment services. Provision of grain handling capacities for the Group.	Ukraine	100%	N/A
C.F.C Ukraine Ltd		Ukraine	100%	N/A
Estron Corporation Ltd		Cyprus	100%	N/A
Chorex Developments Limited		Cyprus	100 %	N/A
Hamalex Developments LTD		Cyprus	100 %	N/A

The Group consolidated the financial statements of CJSC "Prykolotnyanska oliya", JSC "Reshetilovski elevator", JSC "Khorolskiy elevator", JSC "Globinsky elevator kliboproduktiv", LLC "Kobelyaki hleboproduct", LLC "Agrofirma "Krasnopavlivska, LLC "Agrotera-Kolos", ALLC "Govtva", PRAC "Drugba", PRAC "Perebudova", "Manjurka", LLC, "Krutenke", LLC, "Promin", LLC, PRAC "Brovarki", "Troyanske", ALLC, "Zorya", ALLC, "Hleborob", ALLC, PRAC by the name of Shorsa and AC by the name of T. Shevchenko due to the fact that shareholders holding a majority share of the voting rights in these Subsidiaries are related parties of the Group. "Kernel-Capital" LLC received power of attorney from these related parties to act on their behalf in exercising ownership rights related to these shares. The Group's management believes that it has power to govern operating and financial policies of these Subsidiaries.

These consolidated financial statements were authorized for issue by the Board of Directors of Kernel Holding S.A., on 1 October 2008.

**3. CHANGE IN SHARE CAPITAL**

Since 15 June 2005 the holding company of the Group is Kernel Holding S.A. (Luxembourg) (the "Holding"), whose share capital as of 30 June 2008 consisted of 68,741,000 (sixty eight million seven hundred and forty one thousand) ordinary bearer shares without indication of a nominal value, providing 68,741,000 voting rights (as of 30 June 2007 - 9,334 shares).

The shares were distributed as follows:

SHAREHOLDERS	Shares allotted and fully paid as of	Share owned as of	Shares allotted and fully paid as of	Share owned as of
	30 June 2008		30 June 2007	
Namsen LTD (limited company registered under the legislation of Cyprus) (hereinafter the "Majority Shareholder")	40 574 250	59.03%	7 999	85.70%
Evergreen Financial Limited (a company incorporated and registered in the Territory of the British Virgin Islands) (hereinafter Evergreen Financial Limited)	-	-	1 334	14.29%
Free-float	28 166 750	40.97%	-	-
Individual	-	-	1	0.01%
<b>Total</b>	<b>68 741 000</b>	<b>100.00%</b>	<b>9 334</b>	<b>100.00%</b>

As of 30 June 2008 and 2007 100% of the beneficial interest in the "Majority Shareholder" was held by Verevskiy Andrey Mikhaylovych (hereinafter the "Beneficial Owner").

On 19 November, 2007 Namsen LTD executed a call-option for 1,334 shares (14.29%), held by Evergreen Financial Limited.

In order to perform an initial public offering of the shares of the Company on the Warsaw Stock Exchange, the general shareholders meeting resolves to split the existing shares of the Company at a split ratio of one to five thousand (1:5,000) and to consequently split the existing nine thousand three hundred thirty-four (9,334) shares of the Company without indication of a nominal value into 46,670,000 (forty-six million six hundred seventy thousand) shares of the Company without indication of a nominal value.

On 23 November, 2007 the Holding was listed on the Warsaw Stock Exchange (WSE). The total size of the Offering was PLN 546 402 000 (comprising 22 766 750 shares, of which 16,671,000 were primary offering (newly issued)).

On 27 June 2008, an additional 5,400,000 ordinary bearer shares of the Company were admitted to trading on the main market of the Warsaw Stock Exchange.

Luxembourg companies are required to allocate to legal reserve a minimum of 5% of the annual net income until this reserve equals up to 10% of subscribed share capital. This reserve of an amount of USD 125 thousand as of 30 June 2008, unchanged from 30 June 2007, may not be distributed as dividends.



#### **4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Accounting* - The accompanying consolidated financial statements are prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of 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 Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The present financial statements have been prepared in accordance with amendments to IFRS which became effective on 30 June 2008. Additional disclosure concerning financial instruments and capital management under International Accounting Standard ("IAS") № 7 "Financial instruments: disclosure" is given in the note 31. In the rest these amendments did not have a material effect on the consolidated financial statements of the Group.

*Accounting Estimates* - The application of IFRS requires the use of reasonable 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. Actual results could differ from these estimates.

*Measurement and Presentation Currency* - The local currency of the Holding was the Euro until 31 December 2006. Starting from 01 January 2007, and in accordance with the resolution of the shareholders dated 31 July 2007, the measurement currency is the United States dollar ("USD"). Management utilizes the USD as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates" as its major assets and sources of finance are denominated in USD. The measurement currencies for the Subsidiaries of the Group are mainly local currencies of the countries, where the Group Subsidiaries are incorporated and operate, with the exception of Inerco Trade S.A. (Switzerland) and Lanen S.A. (Panama). Management has utilized USD as the measurement currency for Inerco Trade SA and Lanen SA under IAS No. 21 as their major sources of finance, prices of sales contracts with customers and also prices of significant contracts for purchases of goods and services from suppliers were denominated in USD.

Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

*Basis of Consolidation* - The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group ("its Subsidiaries") made up as of 30 June 2008. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities.

The purchase method of accounting is used for acquired businesses. The equity attributable to minority owners' interests is shown separately in the consolidated balance sheet. On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between the Group enterprises are eliminated on consolidation. Unrealized gains and losses resulting from intercompany transactions are also eliminated unless for unrealized losses which cannot be recovered.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition fair values of the identifiable assets and liabilities of the Subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the acquisition.

*Goodwill* - Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses. The goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

**4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that operation are treated as assets and liabilities of the foreign operation. Therefore, they are expressed in the measurement currency of the foreign operation and are translated at the closing rate.

Excess of Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the acquired Subsidiaries over cost of acquisition is recognized immediately in the income statement of the period when the acquisition takes place.

**Intangible Assets** - Intangible assets acquired separately from a business are capitalized at primary cost. Amortization of intangible assets except for the "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks is calculated on a straight-line basis over 2-10 years, and is included in "General and administrative expenses". The "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks have indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually and whenever there is an indication that the trademarks may be impaired.

**Foreign Currencies Translation** - Transactions in currencies other than the measurement currencies of the Group 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 balance sheet date.

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in shareholders' equity and included in "Cumulative translation adjustment".

The exchange rates used in preparation of these financial statements are as follows:

Currency	Closing rate as of 30 June 2008	Average rate for the 12 months ended 30 June 2008	Closing rate as of 30 June 2007	Average rate for the 12 months ended 30 June 2007
UAH/USD	4.8489	5.0283	5.0500	5.0500
EUR/USD	0.6319	0.6824	0.7429	0.7668
PLZ/USD	2.1194	2.4621	2.7989	2.9694

**Financial instruments** - financial instruments are classified according to the following categories: financial assets or financial liabilities recognized at fair value through profit or loss; held-to-maturity investments; available-for-sale financial assets; and also the Group's trade receivables, as well as loans receivable.

**Financial assets or financial liabilities at fair value through profit or loss** – Are financial instruments, acquired, mainly, with the purpose of proceeds from short-term price fluctuations or designated as such upon initial recognition. Financial assets or liabilities are recognized at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Classified by the Group as an instrument at the moment of initial recognition, they are measured at fair value with any resultant gain or loss recognized in profit or loss.

**Held-to-maturity investments** - This category is for fixed maturity financial assets with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity except for the Group's trade or loan receivables. Held-to-maturity investments are measured at amortized cost using the effective interest method.

**Available-for-sale financial assets** - Investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items are recognized directly in equity. When such assets are disposed the cumulative gain from assets revaluation are included in a calculation of the financial result on the disposal which is registered in income statement. The cumulative loss in equity is transferred to income statement immediately.

#### **4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Loans - Lent by the Group, are financial assets, created by means of grant of money directly to a borrower or participating in providing of credit services, except for those assets, which were created with the purpose of immediate sale or sale during a short-term period or classified as investments held for trading. For loans, given on a rate and terms which are different from markets, the difference between the par value of the given out resources and fair value of lending amount is reflected in income statement in the period, when it was lent, as adjustment of sum of primary estimation of the loan. Loans with fixed maturity terms are measured at amortized cost using the effective interest method. Loans without fixed maturity terms are carried at initial cost. The given out loans are reflected in balance sheet less allowance for estimated non-recoverable amounts.

Held-to-maturity investments and the Group's trade receivables and loans receivable are included in the complement of intangible assets, except of those cases when the term of redemption expires within 12 months from the date of balance. Financial assets which are recognized at fair value through profit or loss is a part of current assets as well as available-for-sale investments if the Group's management has intent to realize them during 12 months from the date of balance. All acquisitions and sales of investments are registered at the date of calculation. Investments in equity securities where fair value cannot be estimated on a reasonable basis are stated at cost using the effective interest method less impairment losses.

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 borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

Investments in Non-consolidated Subsidiaries and Associates - Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Group intends to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair value or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary. As of 30 June 2008 and 2007 there were no investments in non-consolidated subsidiaries and associates.

#### Share capital and earnings per share

Ordinary shares - Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity.

Repurchase of share capital - When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity.

Equity-settled transactions - The Group has adopted Financial Reporting Standard (FRS) 20 'Share-based Payment' during the financial year 2008.

The cost of equity-settled transactions 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 on which 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 balance sheet 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 balance sheet date is recognized in the income statement, with a corresponding entry in equity.

Earnings per share - Are calculated by dividing net profit attributable to shareholders of the parent company by the weighted average number of shares outstanding during the period.

**4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventories** - Inventories are stated at the lower of cost or net realizable value. Cost comprises purchase cost and, where applicable, those expenses that have been incurred in bringing the inventory to their present location and condition. Cost is calculated using FIFO method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Biological Assets** - The Group classifies wheat, barley, corn, soy, sunflower seeds and other crops, which it produces, and cattle as biological assets. In accordance with IAS No. 41 "Agriculture", biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs, except for the case where the fair value cannot be measured reliably. Biological assets, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined 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 pre-tax 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.

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 cattle, were classified as current as their average useful life is less than one year.

**Taxes Recoverable and Prepaid** - Taxes recoverable and prepaid are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Property, Plant and Equipment** - Except for land, property, plant and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

Property, plant and equipment acquired in a business combination is initially recognized at fair value determined based on valuations performed by independent professionally qualified appraisers.

Capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to income statement as incurred.

Property, plant and equipment are depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisals under the straight-line method. Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20-50 years
Production machinery and equipment	10-20 years
Agricultural vehicles and equipment	3-10 years
Fixtures, fittings and other fixed assets	5-20 years
Transport vehicles	4-7 years
Construction in progress ("CIP") and uninstalled equipment	not depreciated

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets commences when the assets are put into operation.

**Impairment of Non-Current Assets** - At each balance sheet 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.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, 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 (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

**4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Trade and Other Accounts Payable - Trade and other accounts payable are stated at their nominal value.

Short-term and Long-term Borrowings - Short-term and long-term borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including payments at origination and settlement, are accounted for on an accrual basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

The difference between nominal amount of consideration received and the fair value of loans obtained from related parties of the Group at other than market terms is recognized in the period the loan is obtained as initial recognition adjustment discounting the loan based on market rates at inception.

Revenue Recognition - Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods and finished products - Revenue is recognized when the significant risks and rewards of ownership of goods for resale and finished products have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services - Revenue is recognized when services are rendered.

Classification of administrative expenses - The Group includes all expenses related to the administration of the Group in General and administrative expenses except for payroll expenses related to administration of elevators. Such expenses are included in Cost of sales.

Income Taxes - Income taxes have been computed in accordance with the laws currently enacted in the countries, where the Holding and its Subsidiaries are incorporated.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against deductible temporary differences.

Deferred tax is calculated at rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred income tax assets and liabilities are offset when:

the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;

the Group has an 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.

Leases - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are included in expenses for the period to which they relate on a straight-line basis over the term of the relevant lease.

Contingencies - Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statement but disclosed when an inflow of economic benefits is probable.



**4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Provisions** - A provision is recognized in the balance sheet 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**Segment Reporting** - In accordance with IAS 14 (Segment Reporting), certain data in the financial statements is provided by segments. The segments are those used for internal reporting and provide an assessment of risk and returns. The aim is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities.

As of 30 June 2008 the Group defined four segments with activities consolidated according to economic characteristics, products, production processes, customer relationships and methods of distribution.

The segments' activities are as follows:

<b>Segments</b>	<b>Activities</b>
<b>Oil</b>	Production, refining, bottling, marketing and distribution of sunflower oil and meal.
<b>Grain</b>	Sourcing and merchandizing of wholesale grain. Provision of cleaning, drying and grain storage services.
<b>Grain handling and transshipment services</b>	Grain handling and transshipment services in the port of Ilyichevsk.
<b>Farming</b>	Agricultural farming. Production of wheat, barley, corn, soybean and sunflower seed.

In accordance with IFRS 5, which was approved by the IASB on 31 March 2004, introduces specific recognition principles for assets and liabilities held-for-sale and for discontinued operations and requires that reporting now be based primarily on continuing operations. In the financial statements as of 30 June 2008 the segment table reflects continuing operations only. The prior-year figures have been reclassified to ensure comparability.

The reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments. These include in particular the Corporate Center, the service companies and peripheral operations.

The segment data are calculated as follows:

The intersegment sales reflect intergroup transactions effected on an arm's-length basis.

The equity items are those reflected in the balance sheet and income statement. They are allocated to the segments where possible.

Capital expenditures, amortization and depreciation relate to property, plant and equipment and intangible assets.

Since financial management of Group companies is carried out centrally, financial liabilities are not allocated directly to the respective segments. Consequently, the liabilities shown for the individual segments do not include financial liabilities.



**5. CASH**

The balances of cash as of 30 June 2008 and 2007 were as follows

	<b>30 June 2008</b>	<b>30 June 2007</b>
Cash with banks in USD	64 001	16 238
Cash with banks in UAH	22 039	8 059
Cash with banks in other currencies	2 219	98
Cash on transit bank account	258	851
Cash on hand	13	7
<b>Total</b>	<b>88 530</b>	<b>25 253</b>
Less restricted cash on Security bank account and blocked amount	(29 717)	(501)
<b>Cash for the purposes of cash flow statement</b>	<b>58 813</b>	<b>24 752</b>

As of 30 June 2008 cash on the bank account in the amount of USD 29,717 thousand (as of 30 June 2007: USD 501 thousand) was restricted in use based on short-term loan agreements with foreign and Ukrainian banks and thus was excluded from cash for the purpose of cash flow statement.

**6. TRADE ACCOUNTS RECEIVABLE, NET**

The balances of trade accounts receivable as of 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Trade accounts receivable	50 098	11 214
Allowance for estimated irrecoverable amounts (Note 31)	(1 378)	(1 386)
<b>Total</b>	<b>48 720</b>	<b>9 828</b>

As of 30 June 2008 accounts receivable from one European customer accounted for approximately 33% of the total carrying amount of trade accounts receivable (as of 30 June 2007 approximately 6 %).

**7. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS, NET**

The balances of prepayments to suppliers and other current assets as of 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Prepayments to suppliers	26 623	6 380
Accounts receivable for disposed Subsidiaries	-	1 210
Investments available for sale	-	3
Other accounts receivable and other current assets	4 001	2 067
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(888)	(1 093)
<b>Total</b>	<b>29 736</b>	<b>8 567</b>

## 8. TAXES RECOVERABLE AND PREPAID, NET

The balances of taxes recoverable and prepaid as of 30 June 2008 and 2007 were as follows:

	<u>30 June 2008</u>	<u>30 June 2007</u>
VAT («value-added tax») recoverable and prepaid	23 482	22 316
Other taxes recoverable and prepaid	226	386
Allowance for estimated irrecoverable amounts of VAT recoverable	(489)	(217)
<b>Total</b>	<u><b>23 219</b></u>	<u><b>22 485</b></u>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on domestic market in Ukraine. Allowance for estimated doubtful amounts of VAT recoverable was created in the amount of USD 489 thousand as of 30 June 2008 (as of 30 June 2007: USD 217 thousand) as a result of uncertainty of recoverability of this balance from the Ukrainian State budget (Note 31).

## 9. INVENTORIES

The balances of inventories as of 30 June 2008 and 2007 were as follows:

	<u>30 June 2008</u>	<u>30 June 2007</u>
Raw materials	51 311	23 890
Finished products	60 070	7 666
Goods for resale	26 576	6 503
Packaging materials	489	301
Fuel	2 307	653
Products of agriculture	683	-
Other inventories	3 271	1 150
<b>Total</b>	<u><b>144 707</b></u>	<u><b>40 163</b></u>

As of 30 June 2008 inventories with the carrying amount of USD 62,634 thousand (as of 30 June 2007: USD 31,556 thousand) were pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks (Notes 16, 17).

## 10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2008 and 2007 were as follows:

<b>Agricultural Farming</b>	<b>30 June 2008</b>		<b>30 June 2007</b>	
	<b>Hectares</b>	<b>Amount</b>	<b>Hectares</b>	<b>Amount</b>
Wheat crops	22 856	13 341	6 537	2 645
Sunflower seed crops	12 304	6 889	5 102	2 033
Soya beans crops	9 030	3 274	4 664	1 461
Barley crops	13 465	4 621	6 038	1 329
Corn crops	7 965	4 941	3 139	1 152
Pea crops	5 236	3 059	2 727	887
Buckwheat crops	2 067	779	-	-
Rapeseeds crops	1 902	2 184	-	-
Other crops	3 508	1 987	1 722	165
<b>Total</b>	<u><b>78 333</b></u>	<u><b>41 075</b></u>	<u><b>29 929</b></u>	<u><b>9 672</b></u>

**10. BIOLOGICAL ASSETS (CONTINUED)**

Breeding of cattle	30 June 2008	30 June 2008
	Number of heads	Amount
Cattle	2 706	1 346
<b>Total</b>	<b>2 706</b>	<b>1 346</b>

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2008 and 2007:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
<b>As of 30 June 2006</b>	<b>2 284</b>	<b>1 101</b>	<b>3 385</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2006)	1 029	-	1 029
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, harvest 2006)	-	499	499
Decrease due to harvest (harvest 2006)	(3 313)	(1 600)	(4 913)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2007)	4 250	-	4 250
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, harvest 2007)	-	5 422	5 422
<b>As of 30 June 2007</b>	<b>4 250</b>	<b>5 422</b>	<b>9 672</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2007)	654	-	654
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, harvest 2007 Note 23)	-	1 456	1 456
Decrease due to harvest (harvest 2007)	(4 904)	(6 878)	(11 782)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2008)	24 415	-	24 415
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2008)	-	16 660	16 660
<b>As of 30 June 2008</b>	<b>24 415</b>	<b>16 660</b>	<b>41 075</b>

**11. PROPERTY PLANT AND EQUIPMENT, NET**

As of 30 June 2008 property, plant and equipment with the carrying amount of USD 155,186 thousand (as of 30 June 2007: USD 119,081 thousand) was pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian and foreign banks (Note 16, 17).

As of 30 June 2008 production equipment with the carrying amount of USD 9,966 thousand was held under finance lease (as of 30 June 2007: USD 4,574 thousand) (Note 18).

**11. PROPERTY PLANT AND EQUIPMENT, NET (CONTINUED)**

The following table represents movements in property, plant and equipment for the year ended 30 June 2008 :

	Land	Buildings and Constructions	Production machinery and equipment	Agricultural vehicles and equipment	Transport vehicles	Fixtures, fittings and other fixed assets	CIP and uninstalled equipment	Total
<b>Cost</b>								
<b>As of 30 June 2007</b>	<b>2 200</b>	<b>83 724</b>	<b>38 235</b>	<b>5 256</b>	<b>3 511</b>	<b>3 788</b>	<b>4 274</b>	<b>140 988</b>
Additions from acquisition of Subsidiaries	4	23 496	57 833	5 991	850	782	152	89 108
Additions	-	-	-	-	-	-	26 826	26 826
Transfers	8	1 856	5 294	17 471	1 302	895	(26 826)	-
Due to disposal of Subsidiaries	(11)	(1 923)	(939)	(60)	(94)	(71)	(7)	(3 105)
Other disposals	(115)	(1 067)	(330)	(7 607)	(189)	(126)	-	(9 434)
Translation differences	87	4 307	3 860	767	315	289	1 064	10 689
<b>As of 30 June 2008</b>	<b>2 173</b>	<b>110 393</b>	<b>103 953</b>	<b>21 818</b>	<b>5 695</b>	<b>5 557</b>	<b>5 483</b>	<b>255 072</b>
<b>Accumulated depreciation</b>								
<b>As of 30 June 2007</b>	<b>-</b>	<b>(4 981)</b>	<b>(5 038)</b>	<b>(1 056)</b>	<b>(988)</b>	<b>(1 060)</b>	<b>-</b>	<b>(13 123)</b>
Depreciation	-	(3 665)	(4 143)	(1 461)	(613)	(572)	-	(10 454)
Due to disposal of Subsidiaries	-	286	137	8	49	27	-	507
Other disposals	-	115	101	298	52	37	-	603
Translation differences	-	(336)	(344)	(85)	(88)	(128)	-	(981)
<b>As of 30 June 2008</b>	<b>-</b>	<b>(8 581)</b>	<b>(9 287)</b>	<b>(2 296)</b>	<b>(1 588)</b>	<b>(1 696)</b>	<b>-</b>	<b>(23 448)</b>
<b>Net Book Value</b>								
<b>As of 30 June 2007</b>	<b>2 200</b>	<b>78 743</b>	<b>33 197</b>	<b>4 200</b>	<b>2 523</b>	<b>2 728</b>	<b>4 274</b>	<b>127 865</b>
<b>As of 30 June 2008</b>	<b>2 173</b>	<b>101 812</b>	<b>94 666</b>	<b>19 522</b>	<b>4 107</b>	<b>3 861</b>	<b>5 483</b>	<b>231 624</b>

## 12. INTANGIBLE ASSETS, NET

The following table represents movements in intangible assets for the year ended 30 June 2008 and 2007:

<b>Cost as of 30 June 2007</b>	<b>17 055</b>	<b>Cost as of 30 June 2006</b>	<b>7 491</b>
Additions from acquisition of Subsidiaries	26 825	Additions from acquisition of Subsidiaries	9 466
Additions	15 625	Additions	104
Disposals	(3)	Disposals	(6)
<b>Cost as of 30 June 2008</b>	<b>59 502</b>	<b>Cost as of 30 June 2007</b>	<b>17 055</b>
Accumulated depreciation as of 30 June 2007	(234)	Accumulated depreciation as of 30 June 2006	(58)
Amortization charge	(1 187)	Amortization charge	(176)
Disposals	-	Disposals	-
<b>Accumulated depreciation as of 30 June 2008</b>	<b>(1 421)</b>	<b>Accumulated depreciation as of 30 June 2007</b>	<b>(234)</b>
<b>Net book value as of 30 June 2008</b>	<b>58 081</b>	<b>Net book value as of 30 June 2007</b>	<b>16 821</b>

Included in intangible assets of Subsidiaries are the "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks with the value of USD 7,229 thousand, USD 9,385 thousand, USD 13,289 thousand and USD 287 thousand respectively. These trademarks are used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market. Trade mark "Stozhar" was pledged as security for long-term loans as of 30 June 2008 (as of 30 June 2007 trade marks "Stozhar" and "Schedry Dar" were pledged) (Note 17). Trade marks "Zolota" and "Domashnya" were pledged as security for short-term loans as of 30 June 2008.

As a result of new Subsidiaries acquisition (Note 28) in the second half of financial year 2008, the Group increased quantity of agricultural land leased by 48,404 hectares and lease rights of agricultural land were recognized in amount of USD 26,825 thousand as intangible assets. This intangible asset will be amortized over the average rental term.

Management of the Group expects the demand for bottled sunflower oil to be stable in the foreseeable future. The Group believes that, as a result of further promotion of the "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks sales of bottled oil under these trademarks and the current bottled oil market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them during an indefinite period of time. Accordingly, the trademarks which belong to the Group are considered to have indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually and whenever there is an indication that the trademarks may be impaired.

## 13. GOODWILL

The following table represents movements in goodwill for the year ended 30 June 2008 and 2007:

<b>As of 30 June 2007</b>	<b>11 491</b>
Goodwill arising on acquisition of Subsidiaries	38 909
Impairment (Note 27)	(5 081)
<b>As of 30 June 2008</b>	<b>45 319</b>

Amount of goodwill arising on acquisition of Subsidiaries includes USD 2,278 – goodwill attributable to entities which are under Group's control.

Impairment of goodwill has occurred owing to the final stage of the acquisition of the assets of the Group «Evrotek» in December 2007. As a result on 30 June 2008 the value of entities acquired corresponded to the fair value of acquired assets and goodwill was adjusted accordingly.

**14. OTHER NON-CURRENT ASSETS**

The balances of other non-current assets as of 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Grain elevators lease rights ("DAK Asset") (Note 30)	502	1 981
Guarantee bank account	-	423
Prepayments for property, plant and equipment	8 869	380
Expenses of future periods (will be used during 12 months from the date of balance)	32 269	-
Loan to Beneficial Owner	-	93
Other non-current assets	1 611	58
<b>Total</b>	<b>43 251</b>	<b>2 935</b>

*Grain elevators lease rights ("DAK Asset")*

On 10 January 2003 the Group acquired the right to claim USD 5,369 thousand from the State Joint Stock Company "DAK "Khlib Ukrainy" (hereinafter referred to as the "DAK Debt"). The "DAK Debt" represents amounts initially due by "DAK "Khlib Ukrainy" (hereinafter referred to as the "DAK") to its suppliers of chemical fertilizers, which originally matured for settlement in 1998. The "DAK Debt" was effectively purchased for a consideration of USD 979 thousand.

As "DAK" failed to settle in cash its debt on the last re-scheduled maturity date on 31 January 2003 the parties agreed that the "DAK Debt" would be recovered by granting to the Group the right for operating lease of the property of three grain elevators owned by "DAK" and by set-off of the related rentals payable against the "DAK Debt" for the total nominal amount of USD 4,872 thousand.

The description of the lease terms is as follows:

<b>Assets leased</b>	<b>Storage capacity of leased grain elevators</b>	<b>Maturity</b>	<b>Monthly rental payment</b>
Property of three grain elevators	296 thousand tons of wheat (aggregated)	December 2012	USD 43 thousand (aggregated)

The "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period. The implicit annual discount rate approximates market interest rate in UAH at inception and equals 16.5%.

As of 30 June 2008 expenses of future periods include prepayments in the amount of USD 32,269 thousand effected by the Group as per preliminary agreements to acquire farming Subsidiaries.

**15. ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES**

The balances of advances from customers and other current liabilities as of 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Advances from customers	1 969	3 036
Obligation under finance lease payable within one year (Note 18)	3 059	1 389
Accrued payroll, payroll related taxes and bonuses	1 591	1 584
Accounts payable for property, plant and equipment	10 386	1 576
Provision for unused vacations and other provisions	938	712
Short-term promissory notes issued	259	372
Taxes payable and provision for tax liabilities	2 865	266
Other current liabilities	812	-
<b>Total</b>	<b>21 879</b>	<b>8 935</b>

**16. SHORT-TERM BORROWINGS**

The balances of short-term borrowings as of 30 June 2008 and 30 June 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Bank credit lines	118 805	36 647
Interest accrued on short-term credits	620	309
Interest accrued on long-term credits	662	461
<b>Total</b>	<b>120 087</b>	<b>37 417</b>

The balances of short-term borrowings as of 30 June 2008 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<b>Amount due</b>
European bank	Libor + 5; 4.5; 3%	USD	July 2008	15 213
European bank	Libor + 2%	USD	June 2008	12 423
Ukrainian bank	Libor + 4.5 %	USD	November 2008	35 000
Ukrainian bank	7.8%	USD	June 2009	28 000
Ukrainian bank	up to 17%	UAH	June 2009	169
Ukrainian bank	15%	USD	May 2009	28 000
<b>Total bank credit lines</b>				<b>118 805</b>
Interest accrued on short-term loans				620
Interest accrued on long-term loans				662
<b>Total</b>				<b>120 087</b>

**16. SHORT-TERM BORROWINGS (CONTINUED)**

The balances of short-term borrowings as of 30 June 2007 were as follows:

	<u>Interest rate</u>	<u>Currency</u>	<u>Maturity</u>	<u>Amount due</u>
Ukrainian bank	12%	USD	July 2007	150
Ukrainian bank	12%	USD	August 2007	1 746
Ukrainian bank	12,5%	USD	September 2007	212
Ukrainian bank	Libor + 4,5%	USD	November 2007	34 539
<b>Total bank credit lines</b>				<b>36 647</b>
Interest accrued on short-term loans				309
Interest accrued on long-term loans				461
<b>Total</b>				<b>37 417</b>

As of 30 June 2008 the overall maximum credit limit for short-term bank credit lines amounted to USD 325,095 thousand (as of 30 June 2007 USD 99,800 thousand).

As of 30 June 2008 and 2007 short-term loans from banks were secured as follows:

<u>Assets pledged</u>	<u>30 June 2008</u>	<u>30 June 2007</u>
Cash	28 000	-
Inventories (Note 9)	62 634	30 008
Property, plant and equipment (Note 11)	2 423	31 380
Intangible assets (Note 12)	13 576	-
<b>Total</b>	<b>106 633</b>	<b>61 388</b>

In June 2008 Kernel Trade LLC and Kernel Holding S.A. signed loan agreements with the Ukrainian subsidiary of a European bank, each loan totaling USD 90,000 thousand. The loan to Kernel Trade LLC is secured by pledge of Kernel Holding shares for an amount of USD 180,000 thousand and owned by Namsen LTD, the majority shareholder of the Group. Funds drawn by Kernel Trade LLC are placed on deposit and pledged as security for the loan provided to Kernel Holding S.A., which can then borrow the corresponding amount. The total amount outstanding as per 30 June 2008 was USD 28,000 thousand.



**17. LONG-TERM BORROWINGS**

The balances of long-term borrowings as of 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Long-term bank loans	97 774	106 257
Long-term borrowings from related parties	-	-
Less: current portion of long-term borrowings	(6 626)	(7 018)
<b>Total</b>	<b>91 148</b>	<b>99 239</b>

Long-term bank loans

The balances of long-term borrowings as of 30 June 2008 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<b>Amount due</b>
Ukrainian bank	12%	USD	July 2010	16 550
Ukrainian bank	12%	USD	June 2010	33 100
Ukrainian bank	16%	UAH	September 2010	27
Ukrainian bank	17%	UAH	till 2010	193
Ukrainian bank	18%	UAH	December 2010	78
Ukrainian bank	19%	UAH	till 2010	29
Ukrainian bank	Libor + 5%	USD	November 2013	47 797
<b>Total bank credit lines</b>				<b>97 774</b>

The balances of long-term borrowings as of 30 June 2007 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<b>Amount due</b>
Ukrainian bank	Libor + 5,14%	USD	November 2013	5 714
Ukrainian bank	12%	USD	June 2010	41 630
Ukrainian bank	12,5%	USD	June 2010	6 850
Ukrainian bank	12,5%	USD	September 2010	3 033
Ukrainian bank	12,5%	USD	November 2010	3 150
Ukrainian bank	Libor + 5,14%	USD	November 2013	41 924
Ukrainian bank	Libor + 5,14%	USD	November 2013	3 573
Belgian bank	3,98%	USD	July 2007	383
<b>Total</b>				<b>106 257</b>

**17. LONG-TERM BORROWINGS (CONTINUED)**
Long-term loans from Ukrainian Banks

Long-term loans from Ukrainian banks as of 30 June 2008 included revolving and non-revolving credit lines from two banks with the overall maximum credit limit of USD 163,240 thousand (as of 30 June 2007 USD 106,000 thousand).

As of 30 June 2008 and 2007 long-term loans from Ukrainian banks were secured as follows:

<b>Assets pledged</b>	<b>30 June 2008</b>	<b>30 June 2007</b>
Property, plant and equipment (Note 11)	152 763	87 701
Inventories (Note 9)	-	1 548
Intangible assets (Note 12)	9 385	16 614
Controlling stakes in Subsidiaries	-	-
<b>Total</b>	<b>162 148</b>	<b>105 863</b>

In addition, controlling stakes in the following Subsidiaries were pledged to secure the long-term bank loans of the Group as of 30 June 2008 and 2007:

<b>Name of Subsidiary, in which a stake was pledged</b>	<b>30 June 2008</b>	<b>30 June 2007</b>
CJSC "Poltava oil crushing plant-Kernel Group"	CJSC "Poltava oil crushing plant-Kernel Group"	
CJSC "Reshetylivka Hliboproduct"	CJSC "Reshetylivka Hliboproduct"	
CJSC "Globynsky elevator HP"	CJSC "Horol-Elevator"	
CJSC "Gutnansky elevator"	CJSC "Karlivka-Agro"	
JSC "Poltavske khlibopriemalne pidpriemstvo"	CJSC "Sagaydak-Agro"	
CJSC "Prykolotne OEP"	CJSC "Galeschina-Agro"	
CJSC "Velykoburlutske HPP"	CJSC "Lazorkovski Elevator"	
CJSC "Lykhachivsky KHP"	CJSC "Novo-Sanzharski elevator"	
CJSC "Shevchenkisky KHP"	CJSC "Mirgorodskiy elevator"	
CJSC "Orilske HPP"	JSC "Golovanivske hlibopriemalne pidpriemstvo"	
CJSC "Kovyagivske KHP"	JSC "Pidgorodnanski elevator"	
CJSC "Poltavaavtotransservis"	JSC "Poltavske khlibopriemalne pidpriemstvo"	
LLC "Bandurskiy elevator"	CJSC "Poltavaavtotransservis"	
	CJSC "Gogoleve-Agro"	
	CJSC "Semenivski elevator"	
	CJSC "Prykolotne OEP"	
	CJSC "Velykoburlutske HPP"	
	CJSC "Lykhachivsky KHP"	
	CJSC "Shevchenkisky KHP"	
	CJSC "Orilske HPP"	
	CJSC "Kovyagivske KHP"	
	CJSC "Gutnansky elevator"	
	CJSC "Krasnopavlivsky KHP"	
	CJSC "Lozivske HPP"	
	CJSC "Globynsky elevator HP"	
	JSC "Vovchansk OEP"	

Subsequent to 30 June 2008, the Group was negotiating with Ukrainian commercial banks various loans to finance its operating and investment activities (Note 36).

**18. OBLIGATIONS UNDER FINANCE LEASE**

As of 30 June 2008 and 2007 the major components of finance lease liabilities were as follows:

	Minimum lease payments	Present value of minimum lease payments
	30 June 2008	30 June 2008
Amounts payable due to the finance lease:		
Within one year	3 790	3 059
Later than one year and not later than five years	7 669	6 907
	11 459	9 966
Less future finance charges	(1 493)	N/a
<b>Present value of lease obligations</b>	<b>9 966</b>	<b>9 966</b>
Less: Amount due for settlement within one year (Note 15)		(3 059)
<b>Amount due for settlement after one year</b>		<b>6 907</b>
	Minimum lease payments	Present value of minimum lease payments
	30 June 2007	30 June 2007
Amounts payable due to the finance lease:		
Within one year	1 857	1 389
Later than one year and not later than five years	3 632	3 185
	5 489	4 574
Less future finance charges	(915)	N/a
<b>Present value of lease obligations</b>	<b>4 574</b>	<b>4 574</b>
Less: Amount due for settlement within one year (Note 15)		(1 389)
<b>Amount due for settlement after one year</b>		<b>3 185</b>

In the period from April to July 2005 CJSC "Poltava oil crushing plant - Kernel Group", a Subsidiary, entered into four finance lease contracts to acquire equipment for production of bottled sunflower oil with an Ukrainian subsidiary of an European bank for the total amount of USD 5,628 thousand. The finance lease liability is denominated in USD and bears interest rate of 11.3% per annum.

On 12 May 2008 a Ukrainian Subsidiary of Kernel Holding S.A. signed a 4-year financial lease agreement with an overall total limit of USD 15 million, with the Ukrainian subsidiary of a European bank for financing of agricultural machinery and equipment. USD 3,3 million were outstanding as per 30 June 2008.

**19. CORPORATE BONDS ISSUED**

As of 30 June 2007 corporate bonds issued were as follows:

<b>Series</b>	<b>Amount due, USD</b>	<b>Currency</b>	<b>Coupon</b>	<b>Maturity</b>
Series A	4 968 500	USD	15%	11 September 2008
Series B	4 968 500	USD	15%	06 October 2008
<b>Total</b>	<b>9 937 000</b>			

As of 30 June 2008 corporate bonds issued were as follows:

<b>Series</b>	<b>Amount due, USD</b>	<b>Currency</b>	<b>Coupon</b>	<b>Maturity</b>
Series A	5 155 808	USD	16%	11 September 2008
Series B	5 155 808	USD	16%	06 October 2008
Series C	20 672 234	USD	14%	18 September 2010
<b>Total</b>	<b>30 983 850</b>			

In the period from September to October 2005, "Kernel-Trade" LLC, a Subsidiary, issued corporate bonds denominated in UAH for the equivalent amount of USD 9,892 thousand, repayable in September and October 2008, for series A and B respectively. As of 31 December 2007 the coupon interest on these corporate bonds was 15% per annum (16% as of October 2006), payable on a quarterly basis.

In September 2007, "Kernel-Trade" LLC, a Subsidiary, issued corporate bonds denominated in UAH for the total equivalent amount of USD 19,802 thousand and repayable in September 2010 (series C). The bonds bear coupon interest of 14% per annum, payable on a quarterly basis, and guaranteed by Inerco Trade S.A. and "Kernel Capital" LLC, subsidiaries of Kernel Holding S.A. The interest rate is subject to review once a year in September. Bondholders have a put option, which can be exercised during 30 days from the date the revised rate is announced.

**20. INCOME TAX**

As of 30 June 2008 and 2007 the major components of deferred tax assets and liabilities were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
<b>Deferred tax assets arising from:</b>		
Tax losses carried forward	184	2 453
Valuation of advances from customers	1 612	734
Valuation of property, plant and equipment	538	616
Valuation of accounts receivable	336	299
Valuation of inventories	-	-
Valuation of accrued expenses and other temporary differences	211	237
<b>Deferred tax asset</b>	<b>2 881</b>	<b>4 339</b>
Less: valuation allowance	(294)	(428)
<b>Net deferred tax asset after valuation allowance</b>	<b>2 587</b>	<b>3 911</b>
<b>Deferred tax liability arising from:</b>		
Valuation of property, plant and equipment	(16 281)	(15 263)
Valuation of intangible assets	(3 569)	(3 660)
Valuation of prepayments to suppliers and prepaid expenses	(14 441)	(2 979)
Valuation of financial investments	-	(235)
Valuation of inventories	(82)	(21)
<b>Deferred tax liability</b>	<b>(34 373)</b>	<b>(22 158)</b>
<b>Net deferred tax liability</b>	<b>(31 786)</b>	<b>(18 247)</b>

As of 30 June 2008 and 2007 all deferred taxes arose from temporary differences in value related to assets and liabilities of Subsidiaries located in Ukraine. The corporate income tax rate in Ukraine was 25% as of 30 June 2008 and 30 June 2007.

The components of income tax expense for the year ended 30 June 2008 and 30 June 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Current income tax expenses	(3 361)	(614)
Deferred tax benefit/(expenses)	(5 657)	2 518
<b>Income tax benefit/(expenses)</b>	<b>(9 018)</b>	<b>1 904</b>

The income tax charge for the years ended 30 June 2008 and 2007 is reconciled to the profit before income tax per consolidated income statement as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Profit/(loss) before income tax:	91 221	16 692
Tax at the statutory income tax rate in Ukraine of 25%	(22 805)	(4 173)
Expenditures not allowable for income tax purposes and non-taxable income, net	14 082	6 505
Change in valuation allowance	(295)	(428)
<b>Income tax benefit (expenses)</b>	<b>(9 018)</b>	<b>1 904</b>

## 21. REVENUE

Revenue for the period of 12 months ended 30 June 2008 and 2007 was as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Revenue from bulk sunflower oil, cake and meal	324 850	159 515
Revenue from bottled sunflower oil	147 100	56 598
Revenue from oil business services	260	461
Revenue from grain trade	171 126	119 248
Revenue from grain silo services	18 585	11 098
Other revenue	1 219	3 459
<b>Total</b>	<b>663 140</b>	<b>350 379</b>

For the above-stated period ended 30 June 2008 revenues from five European customers accounted for approximately 22,5% of the total revenue (for the 12 months ended 30 June 2007 revenue from five European customers accounted for 28,3% of the total revenue).

## 22. COST OF SALES

The cost of sales for the period of 12 months ended 30 June 2008 and 2007 was as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Cost of goods for resale and raw materials used	472 605	243 116
Payroll and payroll related costs	16 358	13 632
Depreciation of property, plant and equipment	9 393	6 511
Rental payments	1 580	725
Other operating costs	4 610	3 368
<b>Total</b>	<b>504 546</b>	<b>267 352</b>

## 23. OTHER OPERATING INCOME

Other operating income for the period of 12 months ended 30 June 2008 and 2007 was as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Gain arising from changes in fair value attributable to physical changes and to changes in the market price for biological assets (Note 10)	18 116	5 921
Other operating income	6 835	1 944
<b>Total</b>	<b>24 951</b>	<b>7 865</b>

**24. DISTRIBUTION COSTS**

The distribution costs for the period of 12 months ended 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Carriage and freight	41 638	33 217
Marketing and advertising	7 061	1 843
Payroll and payroll related costs	1 538	1 325
Customs expenses	879	1 256
Certification	853	604
Sanitation services	164	189
Depreciation	203	187
Other expenses	70	342
<b>Total</b>	<b>52 406</b>	<b>38 963</b>

**25. GENERAL AND ADMINISTRATIVE EXPENSES**

The general and administrative expenses for the period of 12 months ended 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Payroll and payroll related costs	9 242	5 481
Bank services	1 110	987
Bad debts expenses	1 977	791
Amortization and depreciation	2 045	847
Taxes other than income tax	824	831
Audit, legal and other professional fees	1 053	749
Rental payments	861	709
Repairs and material costs	629	632
Information expenses	75	399
Business trip expenses	103	369
Communication expenses	454	284
Insurance	624	183
Other expenses	565	1 033
<b>Total</b>	<b>19 562</b>	<b>13 295</b>

The fair value of the share based transactions as of 30 June 2008 in amount of USD 822 thousand (30 June 2007: USD nil) is recognized as the payroll and payroll related expenses for the period ended 30 June 2008. The auditors' remuneration for the period ended 30 June 2008 in amount of USD 285 thousand is included in audit, legal and other professional fees.

**26. FINANCE COSTS, NET**

The finance costs for the period of 12 months ended 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Interest expense on bank loans and corporate bonds	26 786	17 993
Interest expense on borrowings from related parties	-	315
Other finance costs, net	1 329	555
<b>Total</b>	<b>28 115</b>	<b>18 863</b>
Including financial liabilities measured at amortized cost	<b>249</b>	<b>208</b>

**27. OTHER INCOME/ (EXPENSES), NET**

Other income/ (expenses) for the period of the year ended 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Income from "DAK Asset"	33	324
Gain on sale of equity investments (Note 28)	2 528	427
Gain on acquisition of 30% minority stake in CJSC "Prykolotne OEP"	3 603	-
Gain on purchase of minority shareholding in LLC "Sahnovshina hleboproduct"	1 002	-
Gain on purchase of minority shareholding in LLC Kobelyaki hleboproduct	476	-
Losses on impairment of Goodwill (Note 13)	(5 081)	-
Gain/(losses) on disposal of property, plant and equipment	921	(1 035)
Gain on acquisition of minority stake	9 037	-
Other income/expenses, net	(7 888)	(2 027)
<b>Total</b>	<b>4 631</b>	<b>(2 311)</b>

Income from "DAK Asset" for the year ended 30 June 2008 represents change in value of the "DAK Asset" as a result of passage of time and partial realization of the nominal amount of the "DAK Debt", which was not recognized as an asset at 30 June 2007, by additional set-offs with "DAK" (Note 14).

**28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES**

The following entities were disposed of during the year ended 30 June 2008:

<b>Subsidiary</b>	<b>Principal Activity</b>	<b>Country of Incorporation</b>	<b>Disposal date</b>
CJSC "Novo-Sanzharski elevator"	Grain elevators. Provision of cleaning, drying and grain storage services.	Ukraine	31 August 2007
JSC "Pidgorodnanski elevator"		Ukraine	30 July 2007
CJSC "Vovchansky KHP"		Ukraine	23 July 2007
JSC "Golovanivske khlibopriemalne pidpriemstvo"		Ukraine	01 April 2008



**28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)**

Subsidiaries, which have been disposed of, had been previously fully consolidated. Fair value of assets, liabilities and contingent liabilities disposed of during the year ended 30 June 2008 was as follows:

**Assets disposed of, net:**

Cash	49
Trade accounts receivable, net	108
Prepayments to suppliers and other current assets, net	168
Taxes recoverable and prepaid, net	91
Inventory	373
Property, plant and equipment, net (Note 11)	2 598
Deferred tax assets	12
Other non-current assets	46
Short-term loans	(2)
Trade accounts payable	(513)
Advances from customers and other current liabilities	(312)
Deferred tax liabilities	(436)
	<hr/>
<b>Fair value of assets of Subsidiaries disposed of, net</b>	<b>2 182</b>
<b>Minority interest of Subsidiaries disposed of</b>	<b>(148)</b>
<b>Fair value of assets disposed of, net</b>	<b>2 034</b>
<b>Gain on disposal of Subsidiaries (Note 27)</b>	<b>2 528</b>
<b>Total cash consideration received</b>	<b>4 562</b>
Less: cash from assets disposed of, net	(49)
Less: accounts receivable for Subsidiaries disposed of	(53)
	<hr/>
<b>Net cash inflow from Subsidiaries disposed of</b>	<b>4 460</b>
	<hr/> <hr/>

**28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)**

The following entities were acquired during the year ended 30 June 2008:

Subsidiary	Principal Activity	Country of Incorporation	Acquisition date	Group's Effective Ownership share as of 30 June 2008
"Agrofirma "Arshitsa", LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	30 January 2008	100 %
"Agrotera-Kolos", LLC		Ukraine	12 February 2008	0%
"Chorna Kamyanka", LLC		Ukraine	11 February 2008	100 %
"Govtva", ALLC		Ukraine	23 January 2008	0 %
PRAC "Perebudova"		Ukraine	22 January 2008	0 %
AC by the name of T. Shevchenko		Ukraine	22 January 2008	0 %
"Manjurka", LLC		Ukraine	07 May 2008	0 %
"Krutenke", LLC		Ukraine	07 May 2008	0 %
"Promin", LLC		Ukraine	22 May 2008	0 %
PRAC "Brovarki"		Ukraine	06 June 2008	0 %
"Troyanske", ALLC		Ukraine	09 June 2008	0 %
"Zorya", ALLC		Ukraine	02 June 2008	0 %
"Hleborob", ALLC		Ukraine	18 June 2008	0 %
PRAC by the name of Shorsa		Ukraine	04 June 2008	0 %
PRAC "Drugba"		Ukraine	25 June 2008	0 %
"Etrecom Investments", LLC	Holding company.	Cyprus	21 July 2007	100%
Jerste BV	Dormant company	Netherlands	17 January 2008	100%
"Transbulk Terminal", LLC	Grain handling and transshipment services	Ukraine	30 June 2008	100 %
C.F.C Ukraine Ltd		Ukraine	30 June 2008	100 %
Estron Corporation Ltd		Cyprus	30 June 2008	100 %
Chorex Developments Limited		Cyprus	30 June 2008	100 %
Hamalex Developments LTD		Cyprus	30 June 2008	100 %

**28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES (CONTINUED)**

These acquisitions have been fully consolidated starting from the acquisition dates. Fair value of assets, liabilities and contingent liabilities were as follows:

**Acquired net assets:**

Cash	1 211
Trade accounts receivable, net	967
Prepayments to suppliers and other current assets, net	1 372
Taxes recoverable and prepaid, net	1 194
Inventory	4 557
Biological assets, current	9 548
Property, plant and equipment, net	91 652
Land lease rights	26 825
Not-current biological assets, net	793
Trade accounts payable	(1 622)
Advances from customers and other current liabilities	(5 517)
Short-term borrowings	(4 941)
Current portion of long-term borrowings	(5 457)
Long-term borrowings	(1 301)
Deferred tax liabilities	(7 360)
Obligations under finance lease	(100)

<b>Fair value of net assets of acquired Subsidiaries</b>	<b>111 821</b>
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Minority interest of acquired Subsidiaries	(38 872)
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<b>Fair value of acquired net assets</b>	<b>72 949</b>
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Goodwill	38 909
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Negative goodwill	(9 014)
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<b>Total cash considerations paid</b>	<b>102 844</b>
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Less: acquired cash	(1 211)
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<b>Net cash outflow from acquisition of Subsidiaries</b>	<b>101 633</b>
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Goodwill attributable to minority shareholders	(2 278)
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Negative goodwill attributable to minority shareholders	8 881
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<b>Net cash outflow from acquisition of Subsidiaries attributable to Kernel Holding S.A. shareholders</b>	<b>108 236</b>
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**29. TRANSACTIONS WITH RELATED PARTIES**

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

The Group had the following balances outstanding with related parties as of 30 June 2008 and 2007:

	<b>Related party balances as of 30 June 2008</b>	<b>Total category as per consolidated balance sheet as of 30 June 2008</b>	<b>Related party balances as of 30 June 2007</b>	<b>Total category as per consolidated balance sheet as of 30 June 2007</b>
Trade accounts receivable, net, (Note 6)	-	48 720	38	9 828
Prepayments to suppliers and other current assets, net, (Note 7)	710	29 736	218	8 567
Other non-current assets (Note 14)	32 269	43 251	-	2 935
Trade accounts payable, net Advances from customers and other current liabilities (Note 15)	-	5 545	23	5 809
	6	21 879	13	8 935
Subordinated loan	-	-	7 532	7 532

Transactions with related parties for the period of 12 months ended 30 June 2008 and 2007 were as follows:

	<b>Amount of operations with related parties, for the year ended 30 June 2008</b>	<b>Total category per consolidated income statement for the year ended 30 June 2008</b>	<b>Amount of operations with related parties, for the year ended 30 June 2007</b>	<b>Total category per consolidated income statement for the year ended 30 June 2007</b>
Revenue (Note 21)	-	663 140	152	350 379
General, administrative and distribution expenses (Note 24, 25)	2 214	71 968	757	52 258
Finance costs (Note 26)	11	28 115	315	18 863
Other (expenses) /income, net (Note 27)	(3)	4 631	29	(2 311)

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

**30. COMMITMENTS AND CONTINGENCIES**

Operating Environment - The principal business activities of the Group are in Ukraine. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes. As a result, the Group's assets and operations could be at risk if there were any adverse changes in the political and business environments.

Taxation - Ukrainian tax authorities are increasingly directing their attention to the business community. As a result, the Ukrainian tax environment is often changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and penalty interest.

It should be noted that the Group was involved in transactions that may be interpreted by the tax authorities in a way different from that of the Group and additional tax charges and penalties may be imposed. Despite the fact that the most significant tax returns of the Group companies for the said periods were reviewed by the tax authorities without any significant disputes or additional tax charges, they are still open for further review. In accordance with the current legislation, tax returns remain open and subject to examination for a three-year period after their submission, however, in certain cases this limitation does not apply.

Future tax examinations could raise issues or assessments which are contrary to the Group tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Group believes it has complied with Ukrainian tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

Retirement and Other Benefit Obligations - Most employees of the Group receive pension benefits from the Pension Fund, an Ukrainian Government organization in accordance with the applicable laws and regulations. The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance the benefits. The only obligation of the Group with respect to this pension plan is to make the specified contributions.

As of 30 June 2008 and 30 June 2007 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.

Legal Issues - The Group is involved in litigation and other claims that are in the ordinary course of its business activities. In the period ended 30 June 2008 the Group received, in particular, notifications of claims and possible litigation in connection with cases of contaminated Ukrainian oil. Management of the Group believes that the resolution of such legal matters will not have a material impact on its financial position.

Capital commitments – As of 30 June 2008 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 13 million for supply of equipment and services required for construction of and the new solvent extraction plant under construction, and for a total amount of USD 8 million for supply of equipment and services required for the increasing the production capacity at CJSC "Poltava oil crushing plant-Kernel Group". As of 30 June 2007 the Group had a commitment to purchase a 30% shareholding in CJSC "Prikolotne OEP" for an amount of EURO 2 054 thousand.

**30. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Contractual Commitments on Sales - As of 30 June 2008 the Group had entered into commercial contracts for export of 61,231 tons of grain and 68,301 tons of sunflower oil and meal, corresponding to an amount of USD 20,730 thousand and USD 66,935 thousand respectively in prices as of 30 June 2008.

Operating Leases - As of 30 June 2008 and 2007 the Group had outstanding commitments under non-cancellable operating lease agreements with following maturities:

Lease term	Future minimum lease payment as of 30 June 2008	Future minimum lease payment as of 30 June 2007	With Companies of the Group as of 30 June 2008	With Companies of the Group as of 30 June 2007
Less than 1 year	3 038	2 264	3 510	495
From 1 to 5 years	9 238	5 168	-	-
More than 5 years	4 414	590	-	-
<b>Total</b>	<b>16 690</b>	<b>8 022</b>	<b>3 510</b>	<b>495</b>

Operating lease payments mainly represent rentals payable by the Group for "DAK" grain elevators and equipment (Note 14), office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation.

**31. FINANCIAL INSTRUMENTS**
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 the return to shareholders through a combination of debt and equity capital. In November 2007 the Group was listed on the Warsaw Stock Exchange (WSE). Net proceeds of additional capital from the placement constituted USD 152,367 thousand after deduction of total subscription cost. In April 2008 the Group increased the equity by USD 81,725 thousand as a result of a secondary offering of shares.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 16, 17, 18, 19, cash and cash equivalents, and equity attributable to Kernel Holding SA shareholders, comprising issued capital, reserves and retained earnings.

Gearing ratio

The Group's management reviews quarterly the capital structure of the Group, taking into consideration seasonality in activity of the Group. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Following listing on the WSE the Group's management considers that the gearing ratio should not exceed 150%.

	30 June 2008	30 June 2007
Debt liabilities* (Note 16, 17, 18, 19)	255 752	164 328
Cash and cash equivalents (Note 5)	(88 530)	(25 253)
Net debts	167 222	139 075
Equity**	396 807	64 610
<b>Gearing ratio</b>	<b>42%</b>	<b>215%</b>

\*Debts include short-term and long term borrowings, corporate bonds issued, obligations under finance lease and subordinated loans.

\*\* Equity includes the share capital, share-premium reserve, additional paid-in capital and retained earnings.

**31. FINANCIAL INSTRUMENTS (CONTINUED)**

Due to its activity, the Group is exposed to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

*Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of 30 June 2008 and 2007 were as follows:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Cash (Note 5)	88 530	25 253
Trade accounts receivable, net (Note 6)	48 720	9 828
VAT ("value-added tax") recoverable, net	23 219	22 485
<b>Total</b>	<b>160 469</b>	<b>57 566</b>

The maximum exposure to credit risk for trade receivable at the reporting date by geographic region was:

	<b>30 June 2008</b>	<b>30 June 2007</b>
Domestic customers (accounts receivable, net)	22 548	4 404
International customers (account receivable, net)	26 172	5 424
<b>Total</b>	<b>48 720</b>	<b>9 828</b>

Almost all the clients of the Group are wholesale customers. The Group's most significant customer, an international customer, accounted for USD 16,160 thousand of the trade receivables as of 30 June 2008 (as of 30 June 2007 one customer accounted for USD 690 thousand).

*Trade and other receivables*

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 customers operate, has less of an influence on credit risk. Approximately 22,5% of the Group's revenue is attributable to sales transactions with 5 customers.

The Group's management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references, and also counterparty's recommendations. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from The Group's management; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. To reduce non-payment risk on international markets the Group presents the title documents via banking channels and uses payment instruments, such as letters of credit (LC) and bank guarantees.

**31. FINANCIAL INSTRUMENTS (CONTINUED)**
Impairment losses

The aging of trade receivables as of 30 June 2008 and 2007 was as follows (Note 6):

	Gross carrying amount 30 June 2008	Impairment 30 June 2008	Gross carrying amount 30 June 2007	Impairment 30 June 2007
Current	41 614	-	7 116	-
Past due 0-30 days	4 801	-	1 209	-
Past due 31-180 days	2 346	( 352 )	1 453	( 218 )
Past due 181-365 days	622	( 311 )	536	( 268 )
More than one year	715	( 715 )	900	( 900 )
<b>Total</b>	<b>50 098</b>	<b>( 1 378 )</b>	<b>11 214</b>	<b>( 1 386 )</b>

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main component of this allowance is a specific loss that relates to past-due trade receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The movement in the allowance for impairment in respect of trade receivables for the year ended 30 June 2008 and 2007 was as follows:

	30 June 2008	30 June 2007
Balance at 1 July	(1 386)	(973)
Impairment loss recognized	8	(413)
<b>Balance at 30 June</b>	<b>(1 378)</b>	<b>(1 386)</b>

VAT recoverable

Amounts expected for VAT return in future periods are specified in the table below:

**Repayment schedule**

July 2008	6 960
September 2008	1 856
October 2008	3 230
November 2008	1 752
December 2008	5 762
January 2009	3 659
<b>Total</b>	<b>23 219</b>



**31. FINANCIAL INSTRUMENTS (CONTINUED)**

For the period ended 30 June 2008 the amount of VAT returned was USD 64,706 thousand (for the period ended 30 June 2007 USD 25,973 thousand). The schedule of VAT recovered is specified below:

Terms of VAT return	30 June 2008
July 2007	1 169
August 2007	3 070
September 2007	2 971
October 2007	315
January 2008	4 465
February 2008	6 553
March 2008	16 876
April 2008	12 971
May 2008	8 890
June 2008	7 426
<b>Total</b>	<b>64 706</b>

Terms of VAT return	30 June 2007
July 2006	1 138
August 2006	1 340
September 2006	1 888
October 2006	2 995
November 2006	2 610
December 2006	3 052
January 2007	4 712
February 2007	974
March 2007	2 373
April 2007	2 015
May 2007	1 131
June 2007	1 745
<b>Total</b>	<b>25 973</b>

**Guarantees**

The Group's policy is to provide financial guarantees only to wholly-owned (controlled) subsidiaries. As of 30 June 2008 as well as at 30 June 2007 no guaranties were outstanding in favor of third parties.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

**31. FINANCIAL INSTRUMENTS (CONTINUED)**

The contractual maturities of financial liabilities, including interest payments as of 30 June 2008 were as follows:

<b>Non-derivative financial liabilities</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
Trade accounts payable	5 545	(5 545)	(5 545)	-	-	-
Short-term borrowings (Note 16)	120 087	(126 967)	(126 967)	-	-	-
Long-term borrowings (Note 17)	91 148	(122 316)	(13 496)	(56 078)	(35 494)	(17 248)
Obligations under finance lease (Note 18)	6 907	(11 459)	(3 790)	(3 660)	(4 009)	-
Corporate bond issued (Note 19)	30 984	(37 760)	(13 816)	(2 951)	(20 993)	-
<b>Total</b>	<b>254 671</b>	<b>(304 047)</b>	<b>(163 614)</b>	<b>(62 689)</b>	<b>(60 496)</b>	<b>(17 248)</b>

The contractual maturities of financial liabilities, including interest payments as of 30 June 2007 were as follows:

<b>Non-derivative financial liabilities</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
Trade accounts payable	5 809	(5 809)	(5 809)	-	-	-
Short-term borrowings (Note 16)	37 417	(40 518)	(40 518)	-	-	-
Long-term borrowings (Note 17)	99 239	(146 137)	(18 451)	(21 634)	(90 869)	(15 183)
Obligations under finance lease (Note 18)	3 185	(5 489)	(2 850)	(1 605)	(1 034)	-
Corporate bond issued (Note 19)	9 937	(11 969)	(1 625)	(10 344)	-	-
Subordinated loan	7 532	(7 532)	(7 532)	-	-	-
<b>Total</b>	<b>163 119</b>	<b>(217 454)</b>	<b>(76 785)</b>	<b>(33 583)</b>	<b>(91 903)</b>	<b>(15 183)</b>

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group policy is to synchronize future cash-flow from sales and payments under financial liabilities, as well as limitation of open stocks position.

**Currency risk**

The major sources of finance of the Group, prices of sales contracts with customers and also prices of significant contracts for purchase of goods and services from suppliers are denominated in USD.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides a natural hedge and no derivatives are entered into.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

**31. FINANCIAL INSTRUMENTS (CONTINUED)**

The Group's exposure to foreign currency risk as at 30 June 2008 was as follows:

	<u>UAH</u>	<u>USD</u>	<u>EUR</u>	<u>Other currencies</u>
Cash	22 287	64 001	2 214	28
Trade accounts receivable, net	22 548	26 145	27	-
Trade accounts payable	(5 271)	(274)	-	-
Short-term borrowings (Note 16)				
<i>Ukrainian banks</i>	(169)	(91 000)	-	-
<i>European banks</i>	-	(27 636)	-	-
Long-term borrowings (Note 17)				
<i>Ukrainian banks</i>	(327)	(97 447)	-	-
<i>European banks</i>	-	-	-	-
Obligations under finance lease (Note 18)	-	(6 907)	-	-
Corporate bonds issued (Note 19)	(30 984)	-	-	-
<b>Balance sheet gross exposure</b>	<b>8 084</b>	<b>(133 118)</b>	<b>2 241</b>	<b>28</b>
<b>Estimated sales</b>	-	<b>94 060</b>	-	-
<b>Estimated purchases</b>	-	-	-	-
<b>Gross exposure</b>	-	<b>94 060</b>	-	-
<b>Net exposure</b>	<b>8 084</b>	<b>( 39 058)</b>	<b>2 241</b>	<b>28</b>

A 10 percent strengthening of UAH against USD as at 30 June 2008 would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

<u>USD</u>	<u>EUR</u>	<u>Other currencies</u>
3 906	224	3

Conversely, a 10 percent fall of UAH against USD as at 30 June 2008 would have had the opposite effect, on the basis that all other variables remain constant.

**31. FINANCIAL INSTRUMENTS (CONTINUED)**

The Group's exposure to foreign currency risk as at 30 June 2007 was as follows:

	UAH	USD	EUR	Other currencies
Cash	8 917	16 238	98	-
Trade accounts receivable, net	4 404	5 424	-	-
Trade accounts payable	(5 413)	-	( 396)	-
Short-term borrowings (Note 16)				
<i>Ukrainian banks</i>	-	(36 647)	-	-
<i>European banks</i>	-	-	-	-
Long-term borrowings (Note 17)				
<i>Ukrainian banks</i>	-	(105 874)	-	-
<i>European banks</i>	-	(383)	-	-
Obligations under finance lease (Note 18)	-	(3 185)	-	-
Corporate bonds issued (Note 19)	(9 937)	-	-	-
<b>Balance sheet gross exposure</b>	<b>(2 029)</b>	<b>(124 427)</b>	<b>(298)</b>	<b>-</b>
Estimated sales	-	26 106	-	-
Estimated purchases	-	-	-	-
<b>Gross exposure</b>	<b>-</b>	<b>26 106</b>	<b>-</b>	<b>-</b>
<b>Net exposure</b>	<b>(2 029)</b>	<b>(98 321)</b>	<b>(298)</b>	<b>-</b>

A 10 percent strengthening of UAH against USD as at 30 June 2007 would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	USD	EUR	Other currencies
	9 832	30	-

Conversely, a 10 percent fall of UAH against USD as at 30 June 2007 would have had the opposite effect, on the basis that all other variables remain constant.

Interest rate risk – the risk of changes in interest rates impact primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). The Group obtains the borrowings with fixed and with variable rate.

The interest rate profile of the Group's interest-bearing financial instruments as of 30 June 2008 and 2007 was as follows:

	Carrying amount	
	30 June 2008	30 June 2007
<b>Fixed rate instruments</b>		
Financial liabilities	145 150	77 813
<b>Variable rate instruments</b>		
Financial liabilities	110 602	86 515
<b>Total</b>	<b>255 752</b>	<b>164 328</b>

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

**31. FINANCIAL INSTRUMENTS (CONTINUED)**
Other market price risk

The Group enters into commodity contracts for the delivery of physical goods only and does not use any hedging tools in respect of price hedging.

**32. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: Disclosure and Presentation" and IAS No. 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 June 2008 and 2007 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash - for these short-term instruments the carrying amount is a reasonable estimate of fair value.

Trade and Other Accounts Receivable - The carrying amount of trade and other accounts receivable is considered a reasonable estimate of their fair value as the allowance for estimated irrecoverable amounts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Trade and Other Accounts Payable - The carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.

Short-term Borrowings - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Long-term Bank Borrowings - The carrying amount of long-term bank borrowings is considered a reasonable estimate of their fair value as the nominal interest rate on long-term bank borrowings is considered to be a reasonable approximation of the fair market rate with reference to loans with similar credit risk level and maturity period at the reporting date.

Long-term Loans from Related Parties - The carrying amount of long-term loans from related parties equals their fair value.

**33. SHARE BASED PAYMENTS AND MANAGEMENT REMUNERATION**

On 20 February, in accordance with management and Corporate Governance information provided in the Prospectus dated 25 October 2007, Kernel Holding S.A. signed a Management Incentive Plan providing to the management an option to purchase in aggregate up to 2,216,935 shares of Kernel Holding S.A., such number being equal to 3,5% of the issued and outstanding stock of Kernel Holding S.A. as at the adoption date of such plan, at IPO price (24 PLN). The management considers IPO date (23 November 2007) as the date of grant of the Management Incentive Plan. The option shall vest and become exercisable as to one third of the shares under option on 23 November 2008, as to a further one third of the shares under option on 23 November 2009, and as to the remaining shares under option on 23 November 2010, and is in force till 23 November 2018. There are no cash settlement alternatives. As of 30 June 2008 316,705 options out of 2,216,935 were not granted.

	Weighted average fair value in USD, per option		Number of options	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
Beginning of the year	-	-	-	-
Options granted during the year	2.2215	-	1,900,230	-
Vested during the year	-	-	-	-
Outstanding at end of year	2.2215	-	1,900,230	-

**33. SHARE BASED PAYMENTS AND MANAGEMENT REMUNERATION (CONTINUED)**

		Number of options			Fair value recognized as an expense during the year, USD thousand
		at beginning of the year	granted during the year	executed during the year	
Patrick Conrad	Member of the Board, Executive Director, Head of investor relations	-	633 410	-	633 410
Konstantin Litvinsky	Head of Trade Department	-	633 410	-	633 410
Anastasiia Usachova	Member of the Board, Executive Director, CFO	-	633 410	-	633 410

The fair value of the share based transactions as of 30 June 2008 in amount of USD 822 thousand (30 June 2007: USD nil) is recognized as an expense (part of the payroll and payroll related expenses) and a corresponding increase in equity over the vesting period.

The fair value of employee share based payments is calculated using the Black-Scholes model that uses the assumptions noted in the following table. The expected volatility of the shares is based on historical volatility calculated using the daily close price of the Group shares up to 15 September 2008. It has been assumed that all options will vest. The expected option term of options granted represents the period of time when the options granted are expected to be outstanding and is based on the contractual terms, vesting period and expectations of future employee behavior. The risk-free interest rate is based on the rate of Polish Treasury zero-coupon bond with a term equal to the expected option term of the option grants on the date of grant.

**Assumptions:**

	30 June 2008	30 June 2007
Expected option term (in years)	4,00	n/a
Expected dividend yield	0 %	n/a
Expected volatility	15%	n/a
Risk-free interest rate	5,25%	n/a

Directors' remuneration for the year ended 30 June 2008:

Name	Position	Salary, USD thousand	IPO Bonus, USD thousand	Total, USD thousand
Andrey Verevskiy	Chairman of the Board	0	0	0
Patrick Conrad	Member of the Board, Executive Director, Head of investor relations	195	250	445
Konstantin Litvinsky	Head of Trade Department	126	350	476
Anastasiia Usachova	Member of the Board, Executive Director, CFO	117	250	367
Viktoriia Lukianenko	Member of the Board, Executive Director, Head of Legal Department	54	98	152
Andrzej Danilczuk *	Member of the Board, Non-executive Director	33	-	33
Ton Schurink *	Member of the Board, Non-executive Director	36	-	36

\*Non-executive directors were appointed on 12 October 2007. Non-executive directors provide their services pursuant to a letter of appointment and a service contract.

The executive directors are not entitled to remuneration for their services as Board members but are refunded, to a reasonable extent, for any expenses incurred by them in performing their duties, including reasonable travelling expenses.

The Members of the Board of Directors and the Management Team members are not granted any pensions, retirement or similar benefits by the Group.

### 34. EARNINGS PER SHARE

Basic earning per share is computed by dividing net income available to common shareholders by the weighted-average number of ordinary shares outstanding (40,074,247 for the period ended 30 June 2008 and 8,808 for the period ended 30 June 2007), excluding any dilutive effects of stock options. Diluted earning per share is computed similar to basic earning 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 exercises were used to acquire common shares at the average market price during the reporting period. For calculating diluted earnings per share an average number of 40,196,769 ordinary shares are taken into account.

### 35. INITIAL PUBLIC OFFERING AND SECONDARY OFFERING COSTS

Total subscription, IPO costs and cost of secondary offering were USD 11,628 thousand, including as follow:

	<u>IPO</u>	<u>Secondary offering</u>
Advisors' fees	7 264	1 677
Legal and auditors expenses	798	200
Polish authorities	162	69
Road show, publishing of prospectus and promotion	496	14
Management IPO remuneration, USD	948	-
Average cost of subscription per one New Share, USD	0.58	0.36

In line with the cost recognition method and the manner of cost presentation in the Company's financial statements, share offering expenses in amount of USD 10,680 thousand decreased the share premium reserve, and USD 948 thousand were recognized as an expense in the profit and loss account.



**36. SUBSEQUENT EVENTS**

After 30 June 2008 Kernel Holding S.A. issued corporate guarantees for the total amount of USD 105 million to guarantee short-term trade finance facilities of the Group with two European banks.

On 16 July 2008 a Subsidiary of Kernel Holding S.A. signed an agreement with a Ukrainian enterprise to acquire a Ukrainian company leasing 2,358 hectares of land in the central part of Ukraine (with 10-years lease term). The value of the deal will come to USD 3,200,000.

On 24 July 2008 a Subsidiary of Kernel Holding S.A. signed an agreement with a Ukrainian enterprise to acquire a Ukrainian company leasing 1,714 hectares of land in the central part of Ukraine (with 10-years lease term). The value of the deal will come to USD 2,300,000.

On 3 September 2008 the Group signed with a syndicate of European banks a USD 225 million syndicated credit agreement for the financing of the sunflower seeds procurement, crushing and transportation costs. The facility is 1 year credit with the possibility for both parties to renew the credit for the following 2 years upon mutual consent. Kernel Holding S.A. issued a corporate guarantee as a part of the facility security package.

On 16 September 2008 the Group signed a USD 50 million bridge term loan facility with a European bank. The main purpose of the short-term facility is the re-financing of the pre-payment effected by the Company to Namsen Limited in view of the acquisition of the grain terminal in Illichevsk Commercial Sea Port. Kernel Holding S.A. issued a corporate guarantee as a part of the facility security package.

On 18 September 2008 the bondholders of C series executed their put option for the total amount of USD 15,467 thousand. The bonds were subsequently sold back to the market in September 2008 and carried a coupon interest of 17%.

On 26 September 2008 the Group signed two facility agreements for a total amount of USD 63 million with a Ukrainian subsidiary of a European bank. A two-year working capital facility of USD 45 million will be used for general company purposes and partly to refinance more expensive working capital lines. A long-term 5 years facility for an amount of USD 18 million was signed to finance an expansion of processing capacity at the Poltava crushing plant.

On 1 October 2008 the Board of directors of Kernel Holding S.A. informed investors on the settlement of the legal issues pertaining to the grain handling terminal controlled by the Company. A full and final settlement has been reached with the third party, against which arbitration proceedings were on-going. As a result of the settlement, a broad agreement has been reached with this third party and, in particular, no claims whatsoever can be brought against Kernel in respect of the grain handling terminal. Hence transfer from Namsen Ltd to Kernel Holding S.A. of the legal title to the grain handling terminal can now be effected. As disclosed in the current report dated 26 June 2008, the transfer of the grain handling terminal will be effected at cost, such cost to include legal fees borne by Namsen Ltd in the arbitration process. Based on that, the grain handling terminal was fully consolidated as of 30 June 2008 as Subsidiaries owned by the Group. As part of the settlement the Terminal signed a service contract to provide handling and transshipment service to this third party for 20 years at market rates.

# **Kernel Holding S.A.**

**Capital: USD 1,815,174.84**

**R.C.S. Luxembourg B-109.173**

**Annual accounts as at 30.06.2008**

Registered office: L-1331 Luxembourg  
65, Boulevard Grange-Duchesse Charlotte

Fortis Intertrust Luxembourg S.A  
65, Boulevard Grande-Duchesse Charlotte  
L-1331 Luxembourg

**Kernel Holding S.A.**

A public limited company

65, boulevard Grande-Duchesse Charlotte

L-1331 Luxembourg

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Jean Bernard ZEIMET  
Réviseur d'Entreprises  
Independent Member of Baker Tilly International  
67, Rue Michel Welter  
**L-2730 Luxembourg**

## **REPORT OF THE AUDITOR**

To the board of Directors of

KERNEL HOLDING S.A.  
65, Boulevard Grande-Duchesse Charlotte  
**L-1331 Luxembourg**

### **Report on the financial statements**

Following our appointments by the board of Directors dated September 12, 2008 we have audited the accompanying financial statements of KERNEL HOLDING S.A., which comprise the balance sheet as at June 30, 2008 expressed in USD, and the income statement for the period July 1, 2007 to June 30, 2008 expressed in USD, and a summary of significant accounting policies and other explanatory notes.

### **Board of Directors responsibility for the financial statements**

The board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Responsibility of the Auditor**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institute des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the auditor, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of KERNEL HOLDING S.A. as of June 30, 2008, and the results of its operations for the period from July 1, 2007 to June 30, 2008 in accordance with the Luxembourg legal and regulatory requirements relating to the preparation the financial position.

October 10, 2008

Jean Bernard ZEIMET  
Réviseur d'Entreprises  
67, Rue Michel Welter  
L-2730 Luxembourg

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**BALANCE SHEET AS OF 30 JUNE 2008***(in US dollars and in thousands unless otherwise stated)*

	Notes	30 June 2008	30 June 2007
<b>ASSETS</b>			
Formation expenses		9 785	11
Financial Assets	4, 2	58 009	14 443
Other accounts receivable:	5		
Becoming due within one year		83 012	-
Becoming due after more than one year		139 585	14 672
Prepayments and accrued income	6	15	-
Cash	2	484	72
<b>TOTAL ASSETS</b>		<b>290 890</b>	<b>29 198</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts payable:			
Becoming due within one year		303	-
Becoming due after more than one year	11	28 779	7 597
Provisions for liabilities and charges	10	93	65
<b>TOTAL LIABILITIES</b>		<b>29 175</b>	<b>7 662</b>
<b>CAPITAL AND RESERVES</b>			
Subscribed capital	7	1 815	1 232
Share premium reserve		247 316	2 609
Additional paid in capital	8	123	-
Retained earnings	9	17 572	8 047
Profit/(loss) for the year		(5 111)	9 648
<b>TOTAL CAPITAL</b>		<b>261 745</b>	<b>21 536</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>290 890</b>	<b>29 198</b>

On behalf of the Board

\_\_\_\_\_  
 Andrey Verevskiy  
 Chairman of the Board

\_\_\_\_\_  
 Anastasiia Usachova  
 CFO

The notes on pages 4 to 8 form an integral part of these annual accounts

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**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008***(in US dollars and in thousands unless otherwise stated)*

	<b>Year ended 30 June 2008</b>	<b>Year ended 30 June 2007</b>
Interest income received	-	3
Income derived from affiliated undertakings and interest income received	11	9 715
<b>GROSS PROFIT</b>	<b>11</b>	<b>9 718</b>
OPERATING EXPENSES:		
General and administrative expenses	2 448	10
Other operating expenses	587	142
<b>TOTAL OPERATING EXPENSES</b>	<b>3 035</b>	<b>152</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>(3 024)</b>	<b>9 566</b>
Financial expenses, net	(2 358)	(14)
Other income, net	271	96
<b>PROFIT/(LOSS)</b>	<b>(5 111)</b>	<b>9 648</b>

On behalf of the Board

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Andrey Verevskiy  
Chairman of the Board

---

Anastasiia Usachova  
CFO

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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT 30 JUNE 2008****NOTE 1 – GENERAL COMMENTS**

Kernel Holding S.A. (herein refer to as the “Company”), was incorporated on June 15, 2005 in the form of a public limited company under the Luxembourg law. Its registered office is established in Luxembourg.

The company object is the acquisition, the management, the enhancement and the disposal of participations in whichever form in domestic and foreign companies.

The company may also contract loans and grant all kinds of support, loans, advances and guarantees to companies, in which it has a direct or indirect participation or which are members of the same group.

It may open branches in Luxembourg and abroad. Furthermore, the company may acquire and dispose of all other securities by way of subscription, purchase, exchange, sale or otherwise.

In addition, the company may acquire, manage, enhance and dispose of real estate located in Luxembourg or abroad.

On the basis of the offering prospectus (the “Prospectus”) approved on 25 October 2007 by the *Commission de Surveillance du Secteur financier*, shares in the Company were offered to investors in the offering consisting of a public offering in Poland and an international offering by way of private placements to selected institutional investors in certain jurisdictions outside of Poland.

The company is included in the consolidated accounts of Kernel in Ukraine located at 01034, Gonchara Street 35, Kiev, Ukraine; and its consolidated accounts are available there.

**NOTE 2 – PRINCIPAL ACCOUNTING METHODS AND VALUATION RULES****2.1. General principles**

The annual accounts are established in accordance with Luxembourg legal and regulatory provisions and generally accepted accounting practices.

**2.2. Principal valuation rules**

The following are the principal valuation rules, in compliance with the principles described above:

**Currency conversion**

The accounts are expressed in United-States Dollars (USD)

On the balance sheet date:

- The assets expressed in a currency other than the balance sheet currency are valued individually at the lower of either their value at the historic exchange rate or their value determined on the basis of the exchange rate in effect on the balance sheet date.
- The liabilities expressed in a currency other than the balance sheet currency are valued individually at the higher of either their value at the historic exchange rate or their value determined on the basis of the exchange rate in effect on the balance sheet date.

Income and charges denominated in currencies other than USD are translated at rates of exchange prevailing at the date of the relevant transaction.

**Formation expenses**

Formation expenses and capital increase expenses are amortized on a straight line basis over a period of 5 years.



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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT 30 JUNE 2008 (CONTINUED)****NOTE 2 – PRINCIPAL ACCOUNTING METHODS AND VALUATION RULES****2.3. Financial assets**

Investments are valued at the lower of either their acquisition price or their fair market value estimated on the balance sheet date by the Board of Directors. To estimate the value of investments, the Board of Directors uses the company's latest financial statements.

Long-term loans are valued at their nominal value. Value adjustments are made when the estimated fair market value is lower than the nominal value.

**Current asset receivables**

Current asset receivables are valued at their nominal value. Value adjustments are made when the estimated fair market value is lower than the nominal value.

**2.3. Cash at bank**

This item is valued at its nominal value.

**Assets: prepayments and accrued income**

This item consists of charges paid or recorded in advance.

**Creditors**

Debts are valued at their nominal value.

**NOTE 3 – FORMATION EXPENSES**

The company records its formation and capital increase expenses under this caption.

	<u>2008, USD</u>	<u>2007, USD</u>
Acquisition price at the start of the financial year	18 946,31	18 946,31
Capital increase expenses	12 222 365,11	-
Acquisition price at the end of the financial year	12 241 311,42	18 946,31
Value adjustments at the start of the financial year	(7 578,52)	-
Value adjustments of the year	(2 448 262,30)	(7 578,52)
Value adjustments at the end of the financial year	12 455 840,82	(7 578,52)
Net value at the end of the financial year	<u>9 785 470,60</u>	<u>11 367,79</u>

**NOTE 4 – FINANCIAL ASSETS**

	<b>Shares in affiliated companies</b>	
	<u>2008, USD</u>	<u>2007, USD</u>
Gross book value – opening balance	14 442 895,88	-
Additions for the year	43 566 482,04	14 442 895,88
Gross book value – closing balance	58 009 377,92	14 443 295,17
Depreciation – opening balance	-	-
Depreciation – closing balance	-	-
Net book value – closing balance	<u>58 009 377,54</u>	<u>14 442 896,88</u>

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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT 30 JUNE 2008 (CONTINUED)****NOTE 4 – FINANCIAL ASSETS (CONTINUED)**

<b>Company name + registered office</b>	<b>Shareholding held as % of the capital</b>	<b>Equity at 30.06.08</b>	<b>Result for the 2008 year</b>
INERCO TRADE S.A. Genève, Switzerland	99,94%	3 422 815,42	361 440,78
KERNEL CAPITAL LLC 16, Nemirovicha-Danchenka Street, Kyiv 01133 Ukraine	99%	127 800,67	22 209,15
CHORNA KAMYANKA LLC Ukraine	100%	2 403,28	1 852,40
KERNEL TRADE 16, Nemirovicha-Danchenka Street, Kyiv 01133 Ukraine	99%	132 516,008	45 605,02
UNIGRAIN-AGRO Ltd (Zamozhny, Globino district) Ukraine	99%	1 801 613,78	(83 063,10)
MRIYA-AGRO Ltd Ukraine	99%	3 330,37	31,006
ZERNOSERVIS Ltd Ukraine	99%	9 341,27	505,011

The Company also held two others companies:

- 100% of Jerste B.V. a company incorporate and existing under the laws of Netherlands with its registered office at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands.
- 100% of Etrecom Investments Ltd, a company incorporate and existing under the Cyprus under the Companies Law, Cap.113.

<b>Company name + registered office</b>	<b>Shareholding held as % of the capital</b>	<b>Equity at USD</b>	<b>Result for the last financial year, USD</b>
AGROSERVIS LLC Ukraine	99,9%	2 892,03	174,55
UNIGRAIN-AGRO Ltd (Urban village of Semenovka) Ukraine	99%	8 373,46	(145,50)
UKRAGROBIZNES Ltd Ukraine	100%	28,21	(3,5)

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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT 30 JUNE 2008 (CONTINUED)****NOTE 5 – DEBTORS**

This item consists mainly of:

- Loan of USD 10,000,000 to INERCO TRADE S.A. bearing an interest of 0.01%, with a term of 8 years (31.12.2014).
- Loan of USD 150,000,000 to LANEN S.A. bearing an interest of 0.01% with a term of 3 years (18.11.2010)
- Advance of USD 83,000,000 for the acquisition of 100% of the shares of the company Estron Corporation limited, a company incorporated and organized under the law of the Republic of Cyprus and having its registered office at Annis Komninis 29A, P.C. 1061, Nicosia, Cyprus.
- Money to receive from the sale of Kernel Group International LLC to Siolian Holdings Ltd S.A. for an amount of USD 5,032,996.85.

**NOTE 6 – PREPAYMENTS AND ACCRUED INCOME**

The prepayments and accrued income for an amount of USD 14,589.95.

**NOTE 7 – SUBSCRIBED CAPITAL**

The subscribed and fully paid-up capital of 1,815,174.84 USD is represented by 68,741,000 shares without indication of a nominal value.

**NOTE 8 – LEGAL RESERVE**

Under Luxembourg law, the company is obliged to transfer to a legal reserve 5% of its net profit each year until the reserve reaches 10% of the issued share capital. This reserve is not available for distribution.

**NOTE 9 – RETAINED EARNINGS**

	<b>USD</b>
Retained earnings at 01.07.2007	8 047 199,82
Profit for the financial year 2006/2007	9 648 162,72
LEGAL RESERVE	(123 236,80)
<b>Result brought forward at 30.06.2008</b>	<b>17 572 125,74</b>

The allocation of retained earnings was approved by the General Shareholders' Meeting of October 16, 2007.

**NOTE 10 – PROVISIONS FOR RISKS AND CHARGES**

The provision for risks and charges is composed out of the following items:

- Capital tax provision for an amount of USD 19,509.88.
- Audit and advisory services fees for a total amount of USD 73,251.73.

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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT 30 JUNE 2008 (CONTINUED)****NOTE 11 – CREDITORS**

The creditors consist mainly of loan of USD 28,000,000 due to Joint Stock Innovation Bank UkrSibbank, bearing an interest of 15 %, and with a term of one year (29.05.2009).

No debt is covered by an actual surety

**NOTE 12 – EXTRAORDINARY INCOME**

The extraordinary income consists mainly of:

- Interest from the capital increase of April 11, 2008 for an amount of USD 107,799.68
- Reversal of the provision for risk and charges for an amount of USD 40,536.
- Income resulting from the liquidation of Kernel Assets Division for an amount of USD 29,343.46.

**NOTE 13 - TAX STATUS**

The company was incorporated as a Holding company and, according to the Luxembourg tax law, was exempt from income and fortune tax.

On July 31, 2007, the company adopted the corporate objects of a fully taxable company. Therefore, the company is fully taxable under Luxembourg tax regulations.

**NOTE 12 – OFF BALANCE SHEET COMMITMENTS**

The company is engaged as guarantor in the facility agreement of April 4, 2008 existing between the limited liability Company “Bandurskyi Elevator” (Borrower) a company incorporated and existing under the laws of Ukraine with its registered office at 40 Tsentral’na Street, village of Bandurka, 55 247 Mykolayiv Oblast –Ukraine; and the credit institution “Investkredit Bank AG” (Lender) organized and existing under the laws of the Republic of Austria with its registered office at Vienne.

The facility agreement is set up to finance part of the project which consist on the construction of a Greenfield multi-seed crushing plant for processing of up to 900 metric tons of rapeseed, up to 1,500 metric tons of sunflower seed and up to 1,180 metric tons of soybeans per day; the crushing plant shall produce crude vegetable oil and meal, destined mostly for export with a total annual capacity of 230,000 metric tons of oil, 195,000 metric tons of meal and 86,700 metric tons of hulls.

Therefore, the credit institution shall provide to the borrower a loan facility for a principal amount of up to USD 52,000,000, (USD fifty two million) granted for 7 years (April 1, 2015). The reference interest rate shall be LIBOR with the following margin 3.52% p.a. until project physical completion,

3.316%p.a. after project physical completion and 2.653% p.a. from the earlier of financial completion and fulfillment of the Guarantor Target Ratios.

The company Kernel Holding S.A. as guarantor guarantees all the obligations (including principal, interest, costs, fees and charges) at any time owned by the borrower “Bandurskyi Elevator” to the lender “Investkredit Bank AG”.

**NOTE 14 – SUBSEQUENTS EVENTS**

No event occurred after the financial year end.