



**Kernel Holdings S.A.**  
**Annual Report**  
**2010**

## Introduction by Andrey Verevskiy, Chairman of the Board

Dear Shareholders:

Financial year 2010 has been a challenging, yet exciting and eventful year. Though results were flat year-on-year as the Company operated in difficult market conditions, we nevertheless largely reached our financial targets for the year. Focusing on the development of the Company, we closed landmark transactions, which impacted not only 2010, but will change the landscape of the industries in which we operate and consolidate our leading positions for the future.

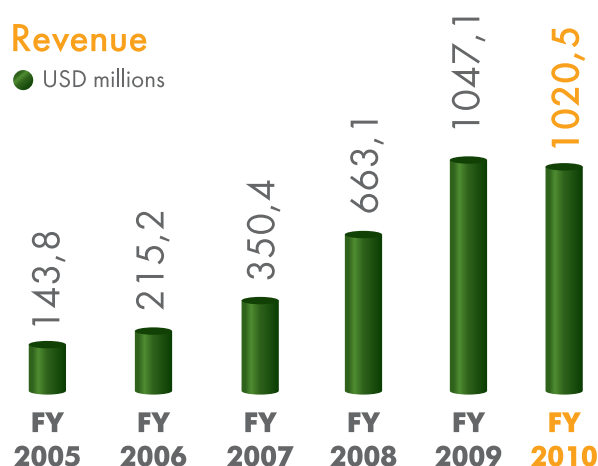
Overall, markets throughout financial year 2010 did not provide much support to Kernel's operations, with prices in both the grain and oil markets decreasing 35 percent year-on-year. Performance of Ukrainian agriculture was also down year-on-year. Volumes of grain harvested in 2009 decreased by 14 percent compared to 2008, leading to grain exports from Ukraine decreasing from 25 million tons in season 2008/2009 to 21 million tons in season 2009/2010. Compounding these adverse market conditions, Ukraine credit risk was perceived as extremely high, driving interest rates at record levels and making long-term financing largely unavailable to companies operating in Ukraine. Politics in Ukraine made matters only worse, with our first three quarters overshadowed by presidential elections and the general perception that the outcome of the election might be tense. In these difficult market, financial and political circumstances, Kernel succeeded in reaching its financial targets. I highlight below the key factors, which supported, or negatively impacted, results in financial year 2010.





## Revenue

● USD millions

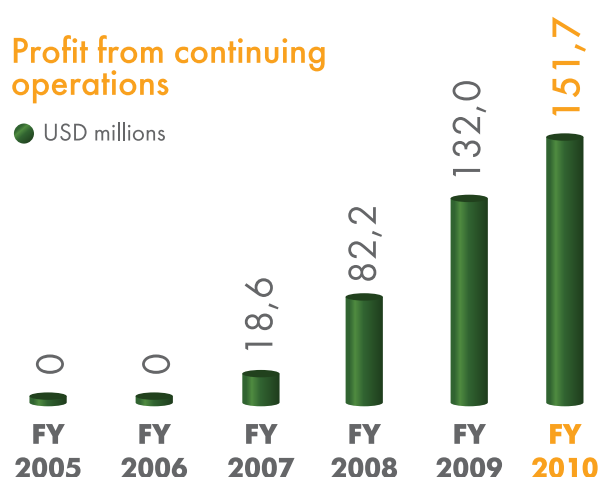


Notwithstanding a lower grain harvest and export from Ukraine, our grain business originated and exported 2.2 million tons of grain, soybean and rape-seed, equivalent to the grain volume exported in season 2008/2009. Revenue was of course lower, due to lower grain prices, but we maintained operating margin at a healthy 8.6 percent.

Our grain terminal business delivered impressive results: While there was less grain exported from Ukraine over the season, Transbulkterminal maintained grain throughput at 3.3 million tons, the same volume achieved over the previous season, and generated a 46.4 percent operating margin.

## Profit from continuing operations

● USD millions

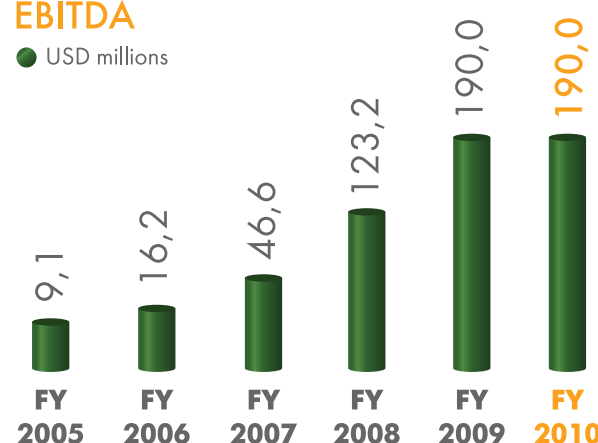


Silo services, on the other hand, posted disappointing results, as the lower grain harvest translated into a 31.6 percent drop in volumes stored in Company silos, decreasing year-on-year from 1.9 to 1.3 million tons of grain and oilseeds throughput, and a lower year-on-year operating margin, standing at 35.8 percent for the year under review.

Bulk oil posted very strong results, with sales increasing 56 percent over the period and reaching USD 400 million thanks to the expansion of our crushing capacities and the resulting 63 percent increase in volumes sold, achieving a healthy 17.9 percent operating margin.

## EBITDA

● USD millions



Bottled oil showed a slight decrease in sales from USD 122 million in 2009 to USD 112.6 million in 2010. Volume wise, however, we saw a revival of the consumer market, as sales in volume terms increased 15 percent year-on-year, from 98 million liters in 2009 to 112 million liters in 2010.

Financing was of course one of our concerns throughout the year gone by. The effects of the international financial crisis could still be felt on banks in general, and Ukraine risk in particular was largely considered off-bounds. In this difficult environment, we refinanced debt related to our grain terminal, possibly the only long-term financing in Ukraine over calendar year 2009. In April 2010, we announced our intention to raise equity capital, in order to partially finance the increase in working capital required following the acquisition of Allseeds, and also further acquisitions contemplated by the Company. The offering was substantially oversubscribed and the Company eventually raised an amount equivalent to USD 80 million.

Financial year 2010 was also a year of significant achievements in the implementation of our strategy to grow both organically and by acquisition. In September 2009, we reached an agreement to lease 50 percent of the crushing capacity of the Black Sea Industries crushing plant in Illichevsk on the Black Sea. This long-term agreement gives Kernel the opportunity to capture sunflower seed shipped directly to Black Sea ports by the farmers. Furthermore, the proximity of the Black Sea Industries plant to Transbulkterminal brings considerable savings in oil and meal transport and logistics. Shortly after concluding the Black Sea Industries transaction, we were offered the opportunity to buy out Allseeds. Initiated in January 2010, the transaction was finalized and assets integrated into Kernel by June. Construction of the Bandurka green-field plant was also completed, though with much delay.

The steps taken in financial year 2010 are critical to implement our growth strategy for financial year 2011 and beyond. By increasing our silo network, our origination reach has been greatly expanded into the key agricultural regions of Kirovograd and Nikolayev. On the back of this origination expansion, we expect to achieve organic growth in our grain business, to increase steadily the Company's share of Transbulkterminal grain throughput, and to leverage the strategic location of our newly built, acquired and leased crushing capacities in order to consolidate further our strong franchise in the oil industry in Ukraine.

To conclude on financial year 2010, and looking to the future, I am confident the year gone by has brought vital new elements to our Company. It has greatly strengthened our capacity to achieve growth and sustainable results in the years ahead, and in particular to deliver the results we plan for 2011. Each new season brings, of course, its fair share of hurdles to overcome, and 2011 is no exception, but I strongly believe the leading positions we have built in Ukraine across all our business segments are key to our further expansion and success, as I see still significant potential in Ukraine for organic growth and M&A transactions.

Andrey Verevskiy  
Chairman of the Board





# *Kernel Holding S.A. Business Portfolio*

**KERNEL**

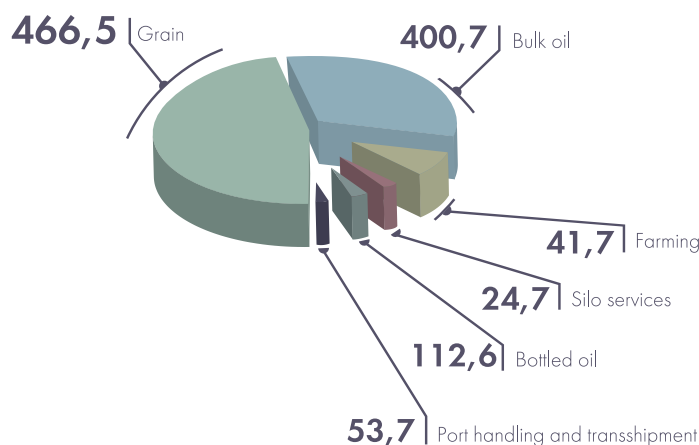
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## Overview

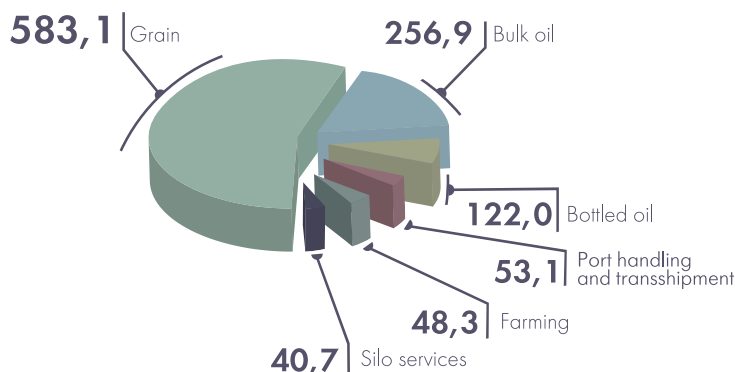
### FY 2010 revenue by operating segment

(in USD millions, including intersegment revenue)



### FY 2009 revenue by operating segment

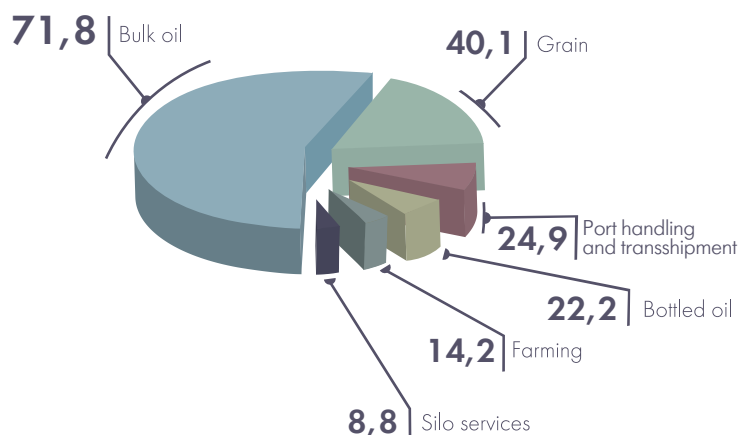
(in USD millions, including intersegment revenue)



Kernel Holding S.A. is an agri-business company operating across the agricultural value chain and with extensive assets in Ukraine: We operate in farming, in grain origination, storage, transport and marketing, in the production, refining, bottling and marketing of bulk and bottled sunflower oil. We provide silo services to farmers and grain handling and transshipment services to grain exporters. As principals in the merchandizing of grain and oil products, we service our customers both in Ukraine and on the international market. We deliver to them a range of bulk agricultural products, such as wheat, barley, corn, soybean and rapeseed, which we sell without transforming. From the processing of sunflower seed in our crushing, refining and bottling plants, we sell to our clients either bulk sunflower oil and sunflower meal products, or bottled oil. Our business model is built both on the diversity of products we offer and markets we operate in, and the powerful synergies we derive from the complementarities of our various business segments. While we operate and develop each of our businesses on the basis of its own and intrinsic business values, we derive significant advantages from integration and operations common to our different businesses. Sustainability of our earnings is derived not only from diversity, but also from the nature of earnings: As a producer in the farming business, Kernel will directly gain or lose from price changes in the crops produced, whereas in our grain or oil businesses, our direct exposure to price fluctuations is considerably reduced. Finally, our grain silo and terminal businesses are fee-for-service businesses, largely immune to the price volatility of commodity markets and depending essentially on production volumes generated by the Ukrainian agricultural sector or by grain in transit from neighboring countries.

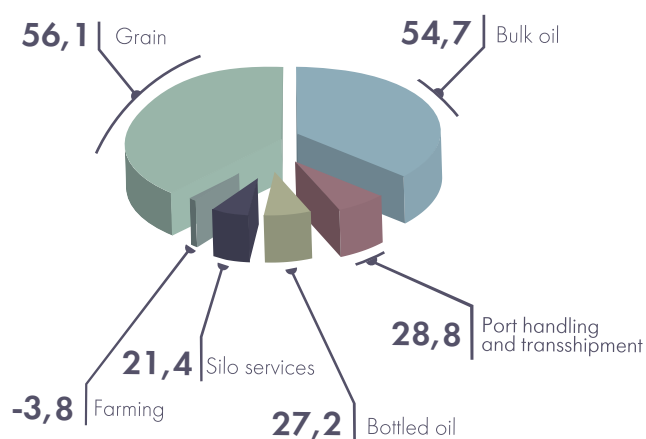
### FY 2010 operating profit by segment

(in USD millions, prior G&A expenses allocation)



### FY 2009 operating profit by segment

(in USD millions, prior G&A expenses allocation)



Over the past decade, Kernel has developed both through organic growth and by acquisition. Today, we purchase millions of tons of grain for export and feedstock for our crushing plants each year. We buy from thousands of farmers throughout Ukraine, with our own farms supplying a fraction of the needs of the Company. Our 2.3 million tons of inland grain storage capacity not only provide a unique platform to service the farmers, our most important clients, but also to buy their produce, which we will then deliver to the international market, primarily through Transbulkterminal, our grain terminal on the Black Sea, or process in our oilseeds crushing plants for the production and sale of sunflower oil and meal. By leveraging our origination, logistics and production assets, we have built leading positions in the grain business, where we typically account for 10 percent of all Ukraine grain exports, in the bulk oil business, where the continuous capacity expansion of the Company has made us by far the largest crusher in the country and will lead us to export close to 30 percent of total bulk oil from Ukraine in financial year 2011, and in the bottled oil segment, where Kernel is the No 1 producer and marketer, supplying one third of all bottled oil purchased by the consumer in Ukraine.



# *Bulk Oil Segment*



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## Sunflower seed production increase provides strong foundation to Kernel organic growth

Bulk oil sales, tonnage



Our bulk oil business comprises the origination and processing of sunflower seed, followed by merchandizing of the products resulting from the processing, primarily crude sunflower oil and sunflower meal. Procurement of sunflower seed is effected in Ukraine only. The conjunction of a continental climate and extremely fertile soil, known as Black Earth, provides ideal growing conditions for the crop, and make for an abundance of sunflower seed in Ukraine. Sunflower has been a traditional crop in this part of Eastern Europe, and has led to the development of a thriving crushing industry going back to the nineteenth century. The near-perfect growing conditions and the development of the crushing industry have led to sunflower becoming a core crop of modern Ukraine and the farmers primary cash crop. The significant inroads made by Kernel in the crushing industry would not provide a solid foundation for the future growth of the Company, if this were not supported by the overall development of agriculture in Ukraine, and in particular the positive trend we witness in production of oilseed in the country. Today, Ukrainian farmers plant on average 4.5 million hectares of sunflower yielding on average 1.5 tons of seed per hectare. With 6 to 7 million tons per year, the country's average yearly crop production largely exceeds domestic consumption needs, estimated at 1.5 million tons of seed per year. **Looking ahead, we expect farmers in Ukraine will find compelling arguments to continue increasing production: with the more advanced farming enterprises already producing each year between 2.2 and 2.7 tons of sunflower seed per hectare, and as global demand for oil steadily increases, we expect the average yield for the country to exceed 2 tons per hectare, and total production of sunflower seed in Ukraine to reach 9, possibly 10, million tons per year, providing Kernel a large feedstock base for its future organic growth in Ukraine.**

## Oilseed crushing: A core industry of Ukraine

Sunflower seed is the primary feedstock for most crushing plants in Ukraine and is mostly processed domestically. Oilseed crushing has been a core industry of Ukraine for the last 150 years, this explaining why the foundations of some of the Company's crushing plants were laid in the nineteenth century. The processing technology employed has, of course, changed considerably. What remains of those pioneering days is the prime location of the plants acquired and extensively upgraded by the Company: Kernel crushing plants are located in the immediate vicinity of the sunflower fields, ensuring stable supply and minimizing cost of seed transport. As the sunflower crop is harvested, farmers will deliver the seed either directly to the crushing plants, or to Kernel inland grain silos, located a relatively short distance from the plants. Throughout the season, sunflower seed purchased by the Company and stored in grain silos will be loaded, mostly on trucks, and hauled to the plants, as Kernel processes the feedstock into crude sunflower oil and sunflower meal, in execution of sales contracts. Company crushing plants operate without interruption throughout the year, to the exception of a 2 to 3 - week yearly maintenance period, usually in between seasons.

## Kernel crushing plants: Efficient production assets from Russia to the Black Sea

Kernel today owns and operates 6 crushing plants and rents 50 percent of the capacity in a seventh plant, totaling 2.3 million tons of sunflower seed crushing capacity per year. With crushing capacity installed some 30 km from the border with Russia, capacity in the ports of Nikolayev and Illichevsk and a string of crushing facilities located in between, Kernel has created a network of facilities enabling the Company to become the buyer of choice for thousands of growers throughout all these regions. While the foundations of the plants of Kirovograd, Poltava, Volchansk and Prikolotnoe were laid in Soviet days or even earlier, the plants of Nikolayev and Bandurka are green-field plants. Older plants of the Company have been extensively upgraded and production capacities increased significantly over the last decade: in aggregate, the crushing capacity of Kirovograd, Poltava, Volchansk and Prikolotnoe has been increased from an initial 600 000 tons of sunflower seed per year, to 1.4 million tons per year, providing the Group with 800 000 tons of organic growth in crushing capacity.



## FY 2010 developments in Kernel oilseed crushing capacity

Financial year 2010 saw major developments in our bulk oil segment, which have, in essence, transformed a leading position into a long-term franchise over a significant portion of the Ukrainian crushing business. In total, throughout the season, we increased the Company's aggregate sunflower seed crushing capacity from 800 000 tons per year at the beginning of FY2010, to 2.2 million tons by the end of FY2010, and crushed 1.2 million tons of seed, producing 532 000 tons of oil, a 69 percent year-on-year increase in oil production resulting both from organic and acquisition-driven growth.

Our Poltava plant, the first plant acquired by the Company, has been not only extensively upgraded, but capacity was also increased from 260 000 tons of crushing capacity per year, to 430 000 tons per year. This new capacity was commissioned in December 2009, and contributed to our increased sales in the third and fourth quarters of financial year 2010. Additionally to development of existing plant, we completed construction of our green-field Bandurka plant. Though we initially underestimated the seriousness of the impact of the global financial crisis on some of our contractors in this project and therefore suffered delays in the construction schedule, we took the necessary steps to ensure that the new plant would be in a position to contribute to our financial year 2011.

In addition to organic growth, we seized the opportunity to acquire Allseeds, a major competitor in Ukraine, thereby adding two crushing plants to the Company, totaling 565 000 tons of crushing capacity per year. The Kirovograd plant was extensively upgraded by previous management and provides 420 000 tons of crushing capacity in central Ukraine, a key sunflower producing region located strategically between the Company's Poltava stronghold, and its southern crushing facilities. The Nikolayev crushing plant, while built recently and acquired by Kernel as part of the Allseeds transaction, is the only Company plant with relatively low efficiency: The plant has a 145 000 tons crushing capacity and uses simple press technology to process sunflower seed. Due to the absence of solvent extraction technology, the Nikolayev plant yields in the range of 38 percent oil, instead of 45 percent, as for the other five crushing plants of the Company.

We added capacity not only through organic development and acquisition, but also by renting out crushing capacity, which had been previously underutilized: In September 2009, Kernel signed a long-term tolling agreement to process sunflower seed in the Black Sea Industries crushing plant, located in Illichevsk on the Black Sea. The Black Sea Industries agreement provides Kernel the right to process 250 000 tons of oilseed per year, and offers Kernel an attractive long-term opportunity to procure and process seed produced in regions bordering the Black Sea and transported by growers directly to port. The location of the Black Sea Industries crushing plant also offers significant synergies with Transbulkterminal: Built some 500 meters from the Company's grain terminal, the Black Sea Industries plant is linked to Transbulkterminal by a pipeline for the transport of oil and a conveyor belt for transport of meal, enabling the Company to use the terminal's infrastructure and ship oil and meal at a minimal cost.

**Altogether, our comprehensive expansion strategy over financial year 2010 has added not only capacity, but also geographical reach to the Company. To our strongholds in the north-eastern provinces of Kharkov and Poltava, we have added the key sunflower seed growing regions of Kirovograd and Nikolayev, located in central and southern Ukraine. By integrating Allseeds, a major competitor, into Kernel, we strengthen our bargaining power when purchasing feedstock and consolidate our position as the dominant crusher in these new regions. The conjunction of both the capacity increase and the new geographical reach has created a strong and long-term franchise, which, we believe, significantly enhances the capacity of the Company to generate sustainable margins in the bulk oil segment.**

## **Crude sunflower oil and meal: well-defined commodities, primarily sold for export**

Kernel crushing plants produce crude sunflower oil and sunflower meal, both of which are widely-traded and well-defined commodities. Save for crude oil volumes to be refined and bottled, oil is sold in bulk form. While a perfectly edible product, and still bought as such by consumers in Ukraine, crude oil is purchased mostly in order to be refined and finally bottled. As a rule, the oil refining and bottling processes take place in the country of consumption, and crude oil will be transported and exported in bulk, without further transformation in Ukraine. Following production, crude oil is loaded into tank cars and transported directly to oil tank farms located on the Black Sea or with easy access to the sea, before being finally loaded into sea-going tankers and exported. In financial year 2010, Kernel exported a total of 366 000 tons of bulk oil to consumer countries in Europe, Northern Africa and the Middle East. The company will typically sell crude oil either to large international trading houses on a Free on Board Black Sea delivery basis, or to local refiners and bottlers on a Cost, Insurance and Freight delivery basis, directly to the country of final consumption. Though oil export volumes are large and planned to grow by nearly 100 percent in financial year 2011, all sales are concluded on a spot basis, on fixed price and volume terms, with delivery date agreed on a transaction-by-transaction basis. Sunflower meal, the by-product of the crushing process, is also virtually fully exported. Sold primarily to feed compounders operating in Europe, Kernel delivered 443 000 tons of sunflower meal in financial year 2010 and will be increasing sales volumes twofold as a consequence of the Company's crushing capacity expansion.

# *Bottled Oil Segment*



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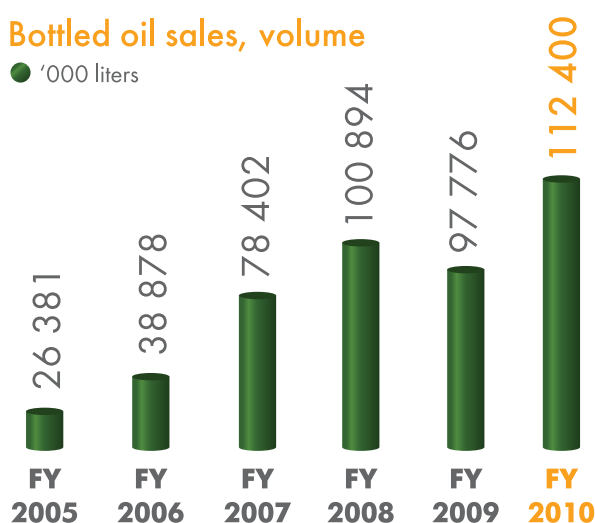


## Kernel: No 1 producer and marketer of bottled oil in Ukraine

Operations in our bottled oil segment comprise the production and bottling of refined oil, followed by the marketing of the bottled oil to our customers in Ukraine and abroad. Refining of crude sunflower oil and bottling of refined oil are done exclusively at Company plants. Built over the previous 10 years, our refining and bottling facilities in both Poltava and Prikolotnoe are located on the premises of Company crushing plants, providing an efficient and seamless seed-to-bottle production cycle and minimizing production time and transportation costs. Quality and security of production are also greatly enhanced, as the continuous production cycle at each plant largely eliminates any quality risk in the course of production.

### Bottled oil sales, volume

● '000 liters



Kernel sells to the consumer market refined oil packaged primarily in one-liter bottles and sold under 3 main brands: Schedry Dar, Stozhar and Chumak Zolota. The three-brand strategy allows the Company to position the brands in different price segments and to develop a variety of marketing strategies in order to target the widest possible consumer base. Our products are sold in Ukraine either directly to large retailers or through regional distributors, ensuring that our products are available in each and every region of the country. International sales of bottled oil are typically concluded on a Delivered at frontier ("DAF") basis.

## Modest recovery in a consolidated market

Kernel sold 112 million liters of bottled oil in financial year 2010, compared to 98 million liters for the previous year, the 15 percent pick-up in sales volumes reflecting a modest recovery in consumer demand. Our main market is Ukraine, where we hold a 35 percent market share, making Kernel the leading producer and marketer of bottled oil in the country. Ukraine is a largely consolidated market, with Kernel, together with Bunge, holding in the range of 65 percent of the market, and no other producer providing nationwide coverage or holding a market share over 7 percent. Bottled oil exports provide a quarter of our bottled oil sales and offer attractive premiums to bulk oil exports. The bottled oil export market remains, however, quite limited, as importing countries will tend to buy crude oil and have their own refining and bottling plants servicing the local consumer. Overall, growth in bottled oil sales is expected to be relatively low, in a range of 4 to 5 percent per year, and reflect forecasted growth for the country.

# *Grain Segment*

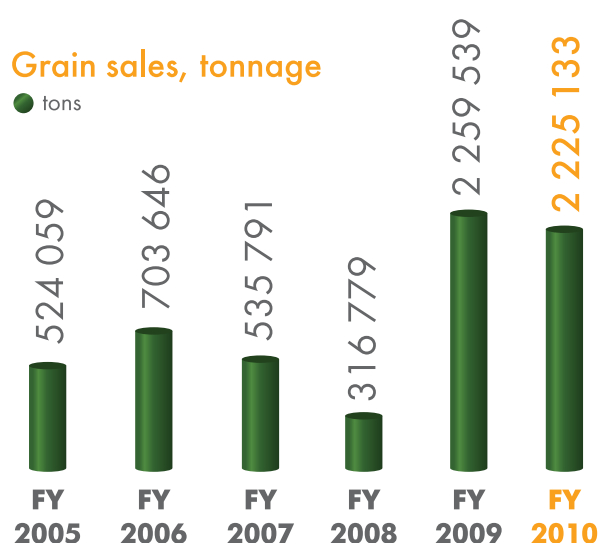


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## Kernel organic growth: Leveraging Ukraine's grain export potential

Kernel operates as a leading grain supply pipeline manager linking international markets with agriculture in Ukraine, a fundamental sector of the Ukrainian economy: The Company originates directly from the farmer grain, mostly wheat, barley, corn, and oil-bearing crops, primarily rapeseed and soybean, stores the grain in inland grain silos, organizes and manages logistics from inland grain silos to load port in order to ship, without processing or transforming, the grain sold by the Company to customers worldwide. In financial year 2010, Kernel originated and exported 800 000 tons of wheat, 400 000 tons of barley, 600 000 tons of corn, 260 000 tons of rapeseed and 140 000 tons of other crops, totaling 2.2 million tons of grain and oil-bearing crops, equivalent to 10 percent of the total grain export from Ukraine for the season 2009/2010.



The farming industry in Ukraine has changed considerably over the past 10 years. Following the demise of the Soviet Union and a decade when Ukrainian farms barely produced enough to feed the country, Ukraine is now regaining its past status as the bread basket of Europe. Each year, farmers in Ukraine are becoming better and more efficient growers, producing increasingly large surpluses available for export. Today, save for adverse weather conditions, Ukraine produces from 40 to 50 million tons of wheat, barley and corn, of which 15 to 25 million tons are available for export. While this export volume makes Ukraine one of the leading grain exporters in the world, Kernel considers this level of production still well below the potential of the country, with average yields far below yields achieved in competitor countries with less favorable farming conditions. **Over the next decade, as world food demand steadily increases, Kernel expects grain volumes available for export to grow twofold and reach between 30 and 40 million tons per year. Looking ahead, thanks to our unique origination and logistics platform, we see Kernel deriving considerable organic growth from this increase in export volumes generated by Ukrainian agriculture.**



## Nationwide grain origination base

Kernel sources grain from thousands of farmers located in most grain producing regions of Ukraine, by leveraging its extensive network of regional offices and purchasing managers, directly in contact with each farmer, and grain silos, a key asset and point of contact with the farming community. As a rule, grain purchased by Kernel will be stored inland, either in Company silos or in third-party silos, while waiting to be shipped to load port for final export. Storage time of grain purchased from the farmer will average 90 days, and depend on the terms and timing of delivery of the export sales contract. Logistics within Ukraine are fully managed and organized by Kernel. Throughout season 2009/2010, the Company organized transport through Ukraine of over 2 million tons of grain, mostly by rail. Kernel will also buy grain shipped directly at load port, thereby capturing part of the harvest delivered by truck directly to the ports by the farmers.

After being loaded in railcars at inland silos, grain will be shipped to the Black Sea, primarily to Transbulkterminal, the Company's grain terminal in Illichevsk. On average, 85 percent of the grain exported by the Company will be shipped through Transbulkterminal, the remaining 15 percent being exported through various third-party grain export terminals, usually in Nikolayev or on the Sea of Azov. Choice of the export terminal will depend on where the grain was purchased and the cost of transport to port. Once discharged at the grain terminal, grain will be loaded on vessels at the earliest possible date, keeping storage time and fees at port at a minimum.

## Kernel primary market: export

In its grain business, Kernel acts as a principal both when purchasing and selling the grain. Grain will be purchased mostly directly from the farmers or, occasionally, from local traders. Purchase contracts are concluded at fixed price, and with immediate delivery and transfer of a specific volume into the name of the Company at the inland grain silo. As a policy, Kernel does not provide crop financing to farmers, and grain purchased must be readily available in silo, in order for the Company to effect payment to the seller. With Ukraine being a large exporter of grain and, as a rule, grain prices not being regulated by the State, the price offered to the farmer is a direct function of the price the Company gets from the international market. Grain sales will match tonnage purchased and be contracted in the same time frame, shielding the Company of price risk. Actual delivery of the grain is agreed with the buyer on a transaction-by-transaction basis, and will primarily depend on logistics within Ukraine and the requirements of the buyer.

Kernel exports all grain purchased or produced. The Company sells to a wide range of clients, from major international grain trading houses to well-established local operators supplying domestic consumer markets, primarily countries of the Mediterranean, in the Middle East and Asia. Terms of delivery will be either Free on board ("FOB") Black Sea, or Cost, insurance and freight ("CIF") whenever Kernel charters the vessel and delivers directly to the shores of the consumer country. Though there are no hard and fast rules as to what terms of delivery are preferable, the Company will seek delivery terms, which are in the best economic interest of the Company and maximize flexibility in management of its export sales contracts. As the Company grows and expands its client base and markets, the proportion of CIF sales will tend to increase.

# *Silo Services Segment*

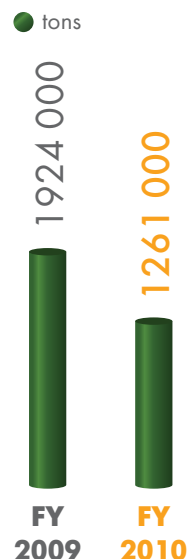


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## Inland grain silo: Key point of contact with the farmer

### Grain & oilseed throughput



Grain silos are at the heart of our relationship with farmers. Immediately after crops are harvested, farmers will require a range of services provided by our silos such as cleaning, drying and storage of grain. The grain will be kept in silo for a period, which will vary from a few weeks to a couple of months. Typically, shortly after harvesting, the farmer will sell a sizable portion of his production, usually to cover his most pressing cash requirements. The balance of his crop will be stored in silos and sold more evenly over the season, depending on his needs and market expectations. Silo services are provided against a fee and Kernel is under no obligation to buy the grain stored in Company grain silos. Equally, the farmer is also free to sell his produce to any third party. Kernel is, however, in a vantage position to buy the grain, as it has full visibility on ownership of the crops in stock and cultivates a close and long-lasting relationship with the farmers, as they harvest and store year after year their crops in Kernel silos. Revenues of the silo services segment are highly dependent not only on the long-term relationship with the farmer, but also on the size of the crop. Over season 2009/2010, as a consequence of Ukraine's lower 2009 grain harvest, Kernel's inland silos stored a total of 1.3 million tons of grain and oilseeds, compared to 1.9 million tons in financial year 2009.



## New Kernel silos: Capturing organic growth on the back of larger crops

Over 15 years, Kernel has assembled a dense network of grain silos in the regions of Poltava and Kharkov, two major agricultural regions of Ukraine with over 2 million hectares of farmland, where the Company operates a total grain storage capacity of 1.5 million tons. In a further development, the Company's storage capacity in central and southern Ukraine has been boosted by our recent Allseeds acquisition, adding 600 000 tons of storage capacity to the Company. Aggregate storage capacity in the regions of Kirovograd, Cherkassy and Nikolayev now stands at 600 000 tons, an especially important development as the Company expands its crushing capacity in those regions. Altogether, the Company now operates 2.3 million tons of grain storage capacity in 39 inland silos.

Inland grain silos are critical to efficient origination in the grain and oil segments. Today, the Company buys on average 50 percent of the wheat, barley and corn, and over 70 percent of sunflower seed stored in Company silos. As the silos are situated a relatively short distance from the Company's crushing plants, which are the geographical point of reference to determine the sunflower seed purchase price, Kernel has a logistical, and therefore price, advantage over competitors. The purchasing of grain, on the other hand, will be subject to a more level playing field, as the geographical point of reference determining the purchase price for the wheat, barley and corn will be the same for all major grain exporters, essentially the range of deep-water grain terminals in Yuzhny, Odessa and Illichevsk, on the Black Sea. Kernel retains here, nevertheless, the advantage of owning and operating the largest private network of inland grain silos, and therefore managing the timing of shipment of the grain from inland silo to port terminal.

Looking to the next 2 years, Kernel has planned to add inland silo capacity by building 6 new facilities. The new silos will be built at locations, which will not only support our existing grain, crushing and farming operations, but also fully capitalize on the growing grain supply and therefore add to organic growth of the Company by increasing our origination and grain export operations and our transshipment operations through Transbulkterminal in Illichevsk.

# *Grain Handling and Transshipment Services*



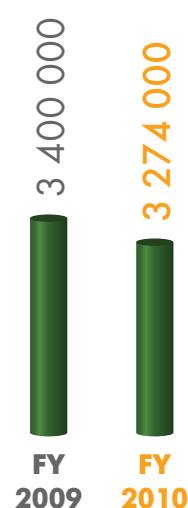
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## Transbulkterminal: Strategic asset in Kernel's grain supply pipeline

### Grain terminal throughput

● tons



Transbulkterminal (hereinafter "TBT"), our grain terminal complex in the Black Sea port of Illichevsk, provides grain handling and transshipment services to major grain exporters, and in particular to Kernel. Services will typically include the discharging of railcars and trucks and storage of grain in the terminal grain bins located directly alongside berth, and the loading of the grain into the client's vessel, directly at berth. Kernel and third-party clients will typically export through TBT wheat, in particular milling wheat, barley, corn, rapeseed and soybean. While the grain terminal boasts 200 000 tons of grain storage capacity, the primary function of the terminal is not storage, but fast and efficient transshipment of grain onto Handy-size and Panamax vessels. Clients are contractually allowed to a minimum period of storage at the terminal, allowing for timely reloading and export of the cargo. Longer storage time will carry a high cost for the client, as Kernel seeks to maximize turnover through TBT. Over season 2009/2010, TBT achieved a total throughput of 3.3 million tons, including oil and meal produced at the Black Sea Industries crushing plant and transshipped through TBT.

Transbulkterminal is of critical importance to the Company's grain supply and export pipeline. We mentioned in our 2009 review that Ukraine would remain an important player on the international grain market. 2010 and the recent fluctuations we have seen in the price of wheat highlight the vital role Ukraine, Russia and Kazakhstan now play on the international grain market in determining the price of grain on world markets. The surplus grain volumes these 3 countries will typically produce have to be brought to the international market and, whereas Kazakhstan is landlocked and Russia has limited access to the south seas, Ukraine is in a vantage position to export its ever larger surpluses of grain, thanks to its direct and wide access to the Black Sea and its range of deep-water ports. Transbulkterminal, located in Illichevsk, the second largest commercial sea port of Ukraine, is ideally suited not only to export Ukrainian surplus grain, but also to service customers for grain produced in Russia and Kazakhstan and being exported through Ukrainian ports.



## OilTransTerminal: New Kernel oil terminal adds flexibility in FY2011 bulk oil export management

From financial year 2011 onwards, the scope of services provided and accounted for by the terminal segment will include the services provided by OilTransTerminal, a new vegetable oil terminal in the port of Nika-Tera, Nikolayev, and by a bulk terminal for the transshipment of meal in the port of Nikolayev. Both transshipment facilities were recently acquired from Allseeds, and will likely be used by Kernel only, as export volumes of both oil and meal are set to increase significantly in FY2011.

## Leveraging Transbulkterminal to capitalize on the growth of grain export volumes from Ukraine

As with all Kernel businesses, we focus on the intrinsic economic value of the grain terminal. We endeavor to maximize utilization of the asset, contribution of the business segment to the Company and return on investment for the Company's shareholders. Accordingly, grain handling and transshipment services are provided not only to the Company, but also to third-parties, primarily large and reliable exporters of grain, who will typically be major international trading houses and direct competitors of Kernel in Ukraine. Over season 2009/2010, 45 percent of Transbulkterminal revenue was generated from services rendered to third-parties. **Going forward, as Kernel consolidates its origination capacity in the traditional strongholds of Poltava and Kharkov, leverages recently acquired grain silos further to the south and builds new inland silo capacity, we expect a sizable increase in Kernel grain volumes handled and exported through Transbulkterminal, our goal being to eventually utilize the full capacity of our terminal without jeopardizing margins in either the grain or the terminal businesses.**

# *Farming*



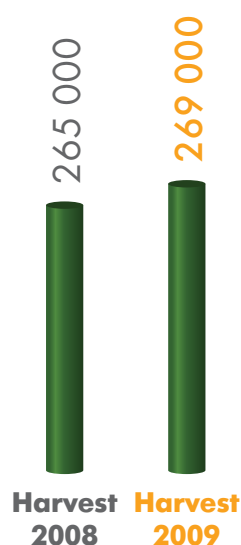
**KERNEL**

*Kernel Holding S.A. Annual Report 2010*

## Capitalizing on Ukraine's core competitive strengths

### Farm production, 85 000 ha

● grain and oil - bearing crops, tons



Kernel's farming operations comprise 25 agricultural farms, managing an aggregate of 85 000 hectares of prime farm land. Kernel has concentrated its farming operations in 5 large clusters, located in oblasts where the Company owns silo capacity and crushing plants. Kernel's farms produce a range of crops, exclusively on the basis of their commercial value for the Company's export operations or crushing activity. Our farms have typically planted a crop mix producing up to one third of wheat, and from 10 to 15 percent of each of barley, corn, soybean, peas and sunflower. Harvest 2009 yielded 269 000 tons of crops in aggregate, equivalent to the production level reached in 2008.

While yields presently achieved by the Company are above average yields in Ukraine, Kernel strives to improve and reach yields of top performers in agricultural countries with similar soil, weather and operational conditions. Improved and sustained profitability will be achieved by steadily increasing our farming expertise, improving farming technology and equipment, and also implementing a crop mix most suited to Ukrainian farming conditions. To this effect, the Company will be largely phasing out the production of barley and peas, which are of more limited commercial value than wheat, corn or oil-bearing crops.

## Targeting growth by adding prime farming operations to existing Kernel farm clusters

While Kernel has been actively developing farming since 2002, this business segment remains one of the smallest in the Company's portfolio. The Company is actively seeking opportunities to expand its farming operations, focusing on price, proximity to existing farming operations and quality of the acquisition targets considered. While Kernel does not intend to become self-sufficient over time either in feedstock for the crushing plants or in grain for export, the Company strongly believes in the competitive advantages of Ukraine farming and will continue to capitalize on this inherent and natural strength of the country by both increasing the size and continuously improving the quality of the Company's farming operations.



# *Review of Financial Results*

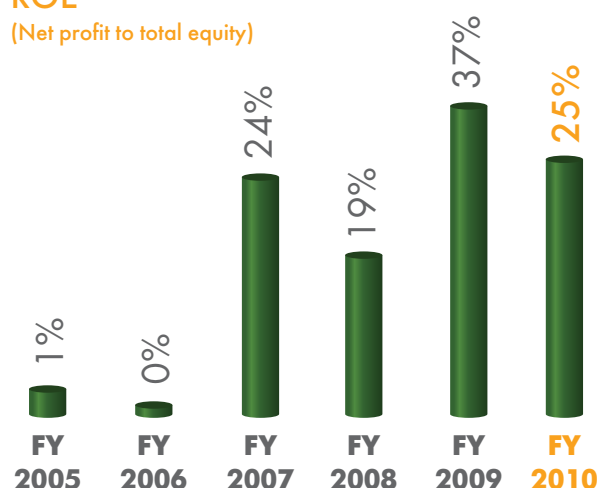
For the year ending 30 June 2010, Kernel Holding S.A. (hereinafter “Kernel” or “the Company”) had revenue of USD 1 020 471 thousand, operating profit of USD 167 484 thousand and net profit of USD 151 701 thousand. As of 30 June 2010, Kernel had total assets of USD 1 124 773 thousand.

The Company’s revenue and profit are derived across six end product and services segments:

- **Bulk sunflower oil** – In FY2010, the bulk sunflower oil segment contributed USD 400 698 thousand in revenue (36.4% of the Company’s total revenue\*) and USD 71 784 thousand in operating profit to the Company.
- **Bottled sunflower oil** – In FY2010, the bottled sunflower oil segment contributed USD 112 627 thousand in revenue (10.2% of the Company’s total revenue\*) and USD 22 221 thousand in operating profit to the Company.
- **Grain** – In FY2010, the grain segment contributed USD 466 462 thousand in revenue (42.4% of the Company’s total revenue\*) and USD 40 056 thousand in operating profit to the Company.
- **Silo services** – In FY2010, the silo services segment contributed USD 24 715 thousand in revenue (2.3% of the Company’s total revenue\*) and USD 8 836 thousand in operating profit to the Company.
- **Grain handling and transshipment services** – In FY2010, the grain handling and transshipment segment contributed USD 53 732 thousand in revenue (4.9% of the Company’s total revenue\*) and USD 24 922 thousand in operating profit to the Company.
- **Farming** – In FY2010, the farming segment contributed USD 41 710 thousand in revenue (3.8% of the Company’s total revenue\*) and USD 14 164 thousand in operating profit to the Company.

## ROE

(Net profit to total equity)



The Company’s end product and services segments are supported by its origination and processing functions. In FY2010, the Company sourced 3.2 million tonnes of oilseed and grain and processed a total of approximately 1.2 million tonnes of sunflower seeds.

The Company’s products are primarily sold on the international markets, with 81% of revenue derived from exports in FY2010.

\*Total revenue is the sum of external revenue and intersegment sales.

## Intersegment transactions

Intersegment transactions amongst the Company's segments are eliminated in the Company's consolidated statement of comprehensive income. Due to the high level of vertical integration within the Company's operations, there are a number of transactions between segments in the Company.

The most significant category of intersegment sales is the farming segment's sales to the bulk sunflower oil, bottled sunflower oil and grain segments, which totalled USD 37 903 thousand in 2010 (90.9% of total sales for the farming segment). The grain handling and transshipment services segment had intersegment sales to the grain segment in the amount of USD 29 646 thousand in 2010 (55.2% of total sales for the grain handling and transshipment services segment). The silo services segment also had substantial intersegment sales, primarily to the bulk sunflower oil, bottled sunflower oil and grain segments, which were USD 11 924 thousand in 2010 (48.3% of total sales by the silo services segment).

Goods or services are sold inter segments at average market prices. Intersegment sales are conducted and accounted for as follows:

**Grain handling and transshipment services** – when the grain segment uses the services of the grain handling and transshipment segment, the grain segment pays the same price as third parties and the transaction is recorded as revenue for the grain handling and transshipment segment and cost of goods sold for the grain segment;

**Silo services** – when the bottled sunflower oil, bulk sunflower oil or grain segments use the Company's silos for storage, the respective segment pays the same amount as third parties and the transaction is recorded as revenue for the silo services segment and cost of goods sold for the bottled sunflower oil, bulk sunflower oil or grain segment;

**Farming** – when the bottled sunflower oil, bulk sunflower oil or grain segments purchase oilseed or grain from the Company's farming segment, the respective segment pays the same amount as third parties and the transaction is recorded as revenue for the farming segment and cost of goods sold for the bottled sunflower oil, bulk sunflower oil or grain segment.



## Acquisitions

In the course of financial year 2010, the Company acquired the Allseeds group production assets (including two crushing plants, the OilTransTerminal and approximately 600 000 tonnes of silo storage capacity) through a series of call option agreements. The Company initiated the acquisition in January 2010 and the assets have been consolidated as part of the Company since April 2010. Allseeds was acquired at a total enterprise value of USD 202 000 thousand, and the Company anticipates the acquisition will impact the results of operations of the bulk sunflower oil, grain handling and transshipment and silo services segments.

## Capacity Expansion

In FY2010, in addition to the acquisition described above, the Company expanded its processing capacity through investments and long-term lease of third-party crushing capacity.

In September 2009, the Company expanded its crushing capacity by 250 000 tonnes per year through a long-term tolling agreement with Black Sea Industries, under which the Company is entitled to 50% of the crushing capacity at the Illichevsk plant.

In December 2009, following a USD 25 000 thousand modernisation of its press and solvent extraction operations, the Poltava plant's crushing capacity was increased from 260 000 tonnes to 430 000 tonnes per year.

In June 2010, Kernel finished the building of its first green-field project, the Bandurka multi-seed crushing plant, with a crushing capacity of 510 000 tonnes per year. The plant recently began operations in its testing mode and is expected to be running at full capacity by January 2011.

## Results of Operations

During the year ended 30 June 2010, the Company's results were relatively stable compared to the year ended 30 June 2009, with slightly lower revenue and operating profit but higher net profit over the period.

## Revenue

The Company's revenue decreased by 2.5% to USD 1 020 471 thousand in 2010 from USD 1 047 113 thousand in 2009.

The following table presents the Company's revenues by segment (including intersegment sales) for 2009 and 2010:

Revenue by segment, including intersegment sales	FY 2009		FY 2010		Change from 2009 to 2010
	Amount (USD'000)	Percentage of total revenue	Amount (USD'000)	Percentage of total revenue	
Bottled sunflower oil	121 974	11.0%	112 627	10.2%	(7.7%)
Sunflower oil in bulk	256 871	23.3%	400 698	36.4%	56.0%
Grain handling and transshipment services	53 117	4.8%	53 732	4.9%	1.2%
Farming	48 316	4.4%	41 710	3.8%	(13.7%)
Grain	583 084	52.8%	466 462	42.4%	(20.0%)
Silo services	40 700	3.7%	24 715	2.3%	(39.3%)
Reconciliation	(56 949)		(79 473)		
<b>Total revenues</b>	<b>1 047 113</b>		<b>1 020 471</b>		<b>(2.5)%</b>

## ***Bottled sunflower oil***

Revenues from sales of bottled sunflower oil were USD 112 627 thousand in 2010, as compared to USD 121 974 thousand in 2009, a decrease of 8%, primarily attributable to a decrease in price for bottled sunflower oil products, partially offset by an increase in sales volume of 15%.

## ***Bulk sunflower oil***

Revenues from sales of bulk sunflower oil were USD 400 698 thousand in 2010, as compared to USD 256 871 thousand in 2009, a 56% increase over the period. This was primarily attributable to increases in crude oil executed sales contracts in volume terms which increased year-on-year from 224 000 tonnes to 366 000 tonnes in 2010 as a result of processing capacity expansion.

## ***Grain handling and transshipment services***

In FY2010, the Company accounted for half of the grain shipped through Transbulkterminal and, consequently, half of the revenues of the grain and handling and transshipment services segment were intersegment sales derived from services rendered to the Company. Total revenues in the grain handling and transshipment services segment were USD 53 732 thousand (USD 29 646 thousand attributable to intersegment sales) as compared to USD 53 117 thousand (USD 24 015 thousand attributable to intersegment sales) in 2009, an increase of 1.2%. External revenue decreased by 17.2%, as a result of the increased throughput attributable to the Company.

## ***Farming***

The farming segment sells most of its produce to the grain and oil segments of the Company. Total revenues in the farming segment were USD 41 710 thousand (USD 37 903 thousand attributable to intersegment sales) in 2010, as compared to USD 48 316 thousand (USD 39 619 thousand attributable to intersegment sales) in 2009, a decrease of 13.7% over the period.

## ***Grain***

The Company's grain segment revenue was USD 466 462 thousand in 2010, as compared to USD 583 084 thousand in 2009, a decrease of 20.0%. The year-on-year decrease was primarily attributable to a decrease in grain prices. In volume terms, the Company sold 2 225 133 tonnes of grain in 2010 as compared to 2 259 539 tonnes in 2009, representing a minor decrease of 1.5% over the period.

## ***Silo services***

In FY 2010, half of the services provided by Company silos were rendered to other segments of the Company. Total revenue from the silo services segment was USD 24 715 thousand (USD 11 924 thousand attributable to intersegment sales) in 2010, as compared to USD 40 700 thousand (USD 10 065 thousand attributable to intersegment sales) in 2009, a decrease of 39.3% over the period. The decrease was primarily attributable to lower throughput resulting from a lower 2009 harvest in Ukraine relative to 2008 harvest.



## Gross Profit

Gross profit was USD 311 057 thousand in 2010, as compared to USD 316 804 thousand in 2009, representing a decrease of 1.8% over the period. The minor decrease reflects the fact that revenues and cost of sales both decreased primarily as a result of lower global commodity prices, as goods for resale and raw materials represent 92% of cost of goods sold. The Company's gross profit margin increased slightly over the period to 30.5% in 2010, as compared to 30.3% in 2009.

## Other Operating Income

Other operating income was USD 17 547 thousand in 2010 as compared in USD 16 880 thousand in 2009, representing an increase of 4% over the period, which was primarily attributable to an increase in the fair market value of the Company's biological assets. In FY2010, USD 13 353 thousand of other operating income were attributable to the farming segment, of which USD 7 482 thousand were biological assets and USD 5 759 thousand were VAT refunds.

## Distribution costs

Distribution costs were USD 134 388 thousand in 2010 as compared to USD 143 301 thousand in 2009, representing a decrease of 6.2% over the period. This was primarily due to a decrease in carriage and freight costs, resulting from lower grain exports in 2010.

## General and administrative expenses

General and administrative expenses were USD 26 732 thousand in 2010 as compared to USD 23 735 thousand in 2009, representing an increase of 12.6% over the period, primarily attributable to integration costs related to the Allseeds acquisition. As a percentage of revenue, general and administrative expenses increased slightly from 2.3% in 2009 to 2.6% in 2010.

## Operating Profit

The Company's operating profit was USD 167 484 thousand in 2010, as compared to USD 166 648 thousand in 2009, representing an increase of 0.5% over the period. Although consolidated operating profit was relatively stable, there were changes in operating profit by segment, with substantial increases in the bulk sunflower oil and farming segments and decreases in the bottled sunflower oil, grain, grain handling and transshipment services and silo services segments.

The following table provides information relating to the Company's operating profit by segments for the years ended 30 June 2009 and 2010, calculated prior to G&A expenses allocation:

Operating profit	FY 2009	FY 2010	Change from 2009 to 2010
	(USD'000)	(USD'000)	
Bottled sunflower oil	27 230	22 221	(18.4%)
Sunflower oil in bulk	54 678	71 784	31.3%
Grain handling and transshipment services	28 787	24 922	(13.4%)
Farming	(3 757)	14 164	
Grain	56 118	40 056	(28.6%)
Silo services	21 407	8 836	(58.7%)
Unallocated G&A expenses	(17 815)	(14 499)	
<b>Total Operating profit</b>	<b>166 648</b>	<b>167 484</b>	<b>0.5%</b>

## ***Bottled sunflower oil***

Operating profit from the Company's bottled sunflower oil segment was USD 22 221 thousand in 2010 as compared to USD 27 230 thousand in 2009, representing an 18.4% decrease over the period. The decrease was primarily due to a decrease in revenue as a result of lower prices for bottled sunflower oil in 2010.

## ***Bulk sunflower oil***

Operating profit from the Company's bulk sunflower oil segment was USD 71 784 thousand in 2010 as compared to USD 54 678 thousand in 2009, representing an increase of 31.3% over the period. The increase was attributable to an increase in revenue as a result of increased crude oil production.

## ***Grain handling and transshipment services***

Operating profit from the Company's grain handling and transshipment services segment was USD 24 922 thousand in 2010 as compared to USD 28 787 thousand in 2009, representing a decrease of 13.4% over the period. Throughput volumes decreased by 3.7% year-on-year due to the lower 2009 harvest, compared to the record harvest in 2008, which also allowed the Company to charge premiums for services in financial year 2009.

## ***Farming***

Operating profit from the Company's farming segment was USD 14 164 thousand in 2010 as compared to an operating loss of USD 3 757 thousand in 2009. This increase was attributable primarily to an increase in the fair market value of biological assets, as a consequence of the increase in agricultural commodity prices at the close of financial year 2010.

## ***Grain***

Operating profit from the Company's grain segment was USD 40 056 thousand in 2010 as compared to USD 56 118 thousand in 2009, representing a decrease of 28.6% over the period. The decrease was attributable to a decrease in revenue resulting from lower commodity prices for grain products, while, in relative terms, the grain operating margin remained stable at 8.59% for the period under review.

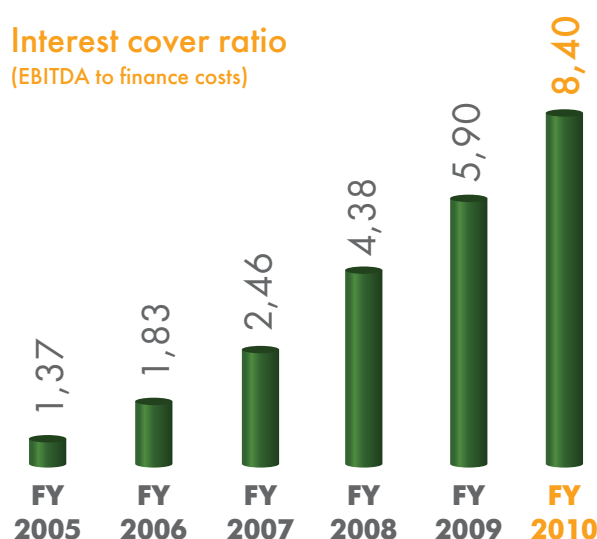
## ***Silo services***

Operating profit from the Company's silo services was USD 8 836 thousand in 2010 as compared to USD 21 407 thousand in 2009, representing a decrease of 58.7% over the period. The decrease was primarily attributable to a 31.6% decrease in throughput over the period under review, which the Company was unable to mitigate because of the high fixed cost base of the silo services segment.



## Finance costs, net

### Interest cover ratio (EBITDA to finance costs)



Finance costs were USD 22 784 thousand in 2010 as compared to USD 32 239 thousand in 2009, representing a 29.3% decrease over the period. This decrease is attributable to the Company's increased confidence in its cash position in 2010 relative to 2009, when the Company did not repay certain of its working capital lines as a result of its conservative approach to cash management during the economic downturn and financial crisis.

## Foreign exchange (loss)/gain, net

Foreign exchange (loss)/gain, net was a gain of USD 10 957 thousand in 2010 as compared to a loss of USD 3 095 thousand in 2009. The increase is attributable to the Company's foreign exchange gains resulting from the discrepancy between the official exchange rate published by the National Bank of Ukraine and the commercial market exchange rate: Kernel, as most market players, will purchase grain and sunflower seed by regularly converting its mostly US Dollar resources into the local currency at the commercial market exchange rate offered to Kernel by the Company's banks in Ukraine. IFRS financial accounts, on the other hand, take into consideration the official exchange rate established by the National Bank, which, for part of the period under review, was below the commercial market exchange rate and resulted in foreign exchange gain.

## Net profit

Net profit from continuing operations was USD 151 701 thousand in 2010 as compared to USD 131 982 thousand in 2009, representing an increase of 14.9% for the period under review, due to lower finance costs and foreign exchange gains for the period under review.

## Cash Flows

The following table provides a summary of the Company's cash flows in 2010 and 2009:

	30 June 2009	30 June 2010
	(USD'000)	
Net cash provided by operating activities	129 289	84 796
Net cash used in investing activities	(95 313)	(125 649)
Net cash provided by financing activities	5 283	543
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>39 259</b>	<b>(40 310)</b>

### Net cash provided by operating activities

The Company's cash flows provided by operating activities were USD 84 796 thousand in 2010 as compared to USD 129 289 thousand in 2009, representing a decrease of 34.4% over the period. The decrease was primarily attributable to increases in working capital, partially offset by higher profit before income tax.

The Company defines working capital as current assets (excluding cash) minus current liabilities (excluding short-term bank borrowings, short-term corporate bonds and current portion of long term borrowings). The main contributors to working capital are the Company's inventories, accounts receivable, accounts payable and taxes recoverable and prepaid.

	30 June 2009	30 June 2010
Changes in working capital:	(USD'000)	
Decrease in trade accounts receivable	15 449	5 503
Increase in prepayments and other current assets	(1 150)	(674)
(Increase)/decrease in restricted cash balance	(1 474)	29 471
Increase in taxes recoverable and prepaid	(49 173)	(100 449)
Decrease/(increase) in biological assets	23 489	(7 199)
Increase in inventories	(7 341)	(16 134)
Increase/(decrease) in trade accounts payable	1 941	(17 765)
(Decrease)/increase in advances from customers and other current liabilities	(6 713)	9 887
<b>Total Change in working capital</b>	<b>(24 972)</b>	<b>(97 360)</b>

In FY2010, the total contribution to working capital was USD 97 360 thousand. The main changes to working capital were in respect of the following components:

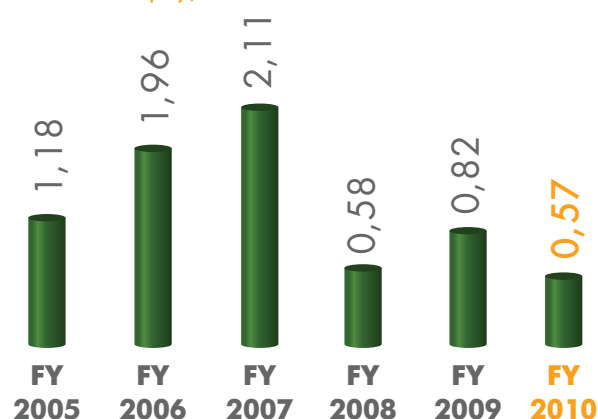
- Inventory – the Company's inventories increased year-on-year by USD 16 134 thousand, primarily due to an increase in processing capacity;

- Accounts Receivable – the Company's accounts receivable decreased by USD 5 503 thousand due to higher volume of bulk oil delivered in the fourth quarter of FY2010 as compared to the fourth quarter of FY2009;
- Taxes Recoverable and Prepaid – the Company's taxes recoverable and prepaid increased by USD 100 449 thousand as a result of increased production and low VAT recovery in 2010;
- Net cash used in investing activities was USD 125 649 thousand in 2010, as compared to USD 95 313 thousand in 2009. In 2010, USD 70 800 thousand were used to fund the Allseeds acquisition.

## Short-term and long-term borrowings

### Leverage

(Total interest-bearing debt to total equity)



As of 30 June 2010, the Company had total interest-bearing debt of USD 350 367 thousand, including long-term and short-term borrowings and the present value of lease obligations. To finance its operations and development, the Company uses a combination of trade financing, syndicated loans and bilateral bank facilities.

Total interest-bearing debt	30 June 2009	30 June 2010
	(USD'000)	
Short-term borrowings	148 483	169 098
Long-term borrowings, including current portion of long-term debt	132 599	168 218
Present value of finance lease obligations	16 461	13 051
<b>Total interest-bearing debt</b>	<b>297 543</b>	<b>350 367</b>

As of 30 June 2010, the Company had incurred USD 169 098 thousand of short-term debt to finance in part USD 147 787 thousand of inventory and USD 65 483 thousand of accounts receivable.

# Risk Factors and Risk Management Policies

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

- **Poor harvest:** The Company's operations and results are dependent on a steady supply of raw materials. Unfavourable weather and growing conditions can lead to shortages in sunflower seeds or any of the other crops which are critical to the Company's business, and could have a material adverse effect on the Company's business, results of operations and financial condition.
- **Product quality:** The Company is subject to grain, sunflower oil and protein meal quality requirements and regulations. Actual or alleged violations of such requirements or alleged or actual contamination of the Company's food products could have a material adverse effect on the Company's reputation and its business, financial condition and results of operations.
- **Export limitations and restrictions:** Export restrictions imposed by the Ukrainian government on agricultural commodities can have a material adverse effect on the Company's business, financial condition and results of operations. In financial year 2009 and 2010, no grain or oil export limitations or restrictions were imposed by the Ukrainian government. In financial year 2011, as a result of the lower 2010 grain harvest and of the significant rise in grain prices on the international market, the government of Ukraine introduced so-called "soft measures" to contain the export of grain. There have been strong indications that the soft export containment measures could be changed into grain export quotas in the course of the quarter ending 31 December 2010.
- **Increased competition:** The Company could face increased competition from current and new operators in the Ukrainian agricultural industry. As the Ukrainian agricultural sector develops and crop production increases, farmers grow stronger and expand their acreage, grain traders and crushers see opportunities to expand business, which could lead to a relative loss in market position of the Company, and could have a material adverse effect on the Company's business, financial condition and results of operations.
- **Commodity price volatility:** The Company's products are mostly commodities and their prices are subject to fluctuations that may affect the Company's profitability. The Company's earnings are to an extent dependent on the prices of the commodities that it sells, including, amongst others, oilseed, grain, sunflower oil and meal. These fluctuate due to factors beyond the Company's control, including, amongst others, world supply and demand, supply of raw materials, weather, crop yields and governmental regulation. In addition, the price of vegetable oils depends on the production levels and prices of all edible oils as many oils, including sunflower oil, are substitutive by users to various degrees. Any of the above factors could adversely affect the Company's business, results of operations and financial condition.



- **Price controls:** Detrimental price controls could be introduced for the Company's key products and affect its operations. Under Ukrainian legislation, local state authorities may regulate prices of certain food products, including crude and bottled sunflower oil. In particular, the local state authorities may from time to time oblige producers of certain food products, including producers of bottled sunflower oil, to obtain approval from the local officers of the State Prices Inspection before increasing the wholesale prices of such products by more than 1% in any given month. Furthermore, the Cabinet of Ministers of Ukraine has introduced in the past a procedure for the determination of prices of food products which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it seeks to limit the profit margin charged on such products. If detrimental price controls were introduced for the Company's key products or the Company failed to comply with the Ukrainian price regulation mechanism described above, its business, results of operations and financial condition could be materially adversely affected.

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

# Management Remuneration, Related Party Transactions and Changes to Management

## Management remuneration

FY2010 management remuneration information is disclosed in note 33 to the consolidated financial statements.

## Related Party Transactions

FY2010 related party transactions information is disclosed in note 29 to the consolidated financial statements.

## Changes to Management

The following individuals were Board Directors for the Financial years ended 30 June 2010 and 2009, and no changes to the Board of Directors occurred in the course of the reporting period:

Name	Position/Function	Appointment date	Term of office
Andrey Verevskyy	Chairman of the Board of Directors	September 21, 2007	Annual General Meeting of Shareholders, 15 November 2010
Patrick Conrad	Executive director	September 21, 2007	Annual General Meeting of Shareholders, 15 November 2010
Victoriia Lukyanenko	Executive director	September 21, 2007	Annual General Meeting of Shareholders, 15 November 2010
Anastasiia Usachova	Executive director	September 21, 2007	Annual General Meeting of Shareholders, 15 November 2010
Andrzej Danilczuk	Non-executive director	November 15, 2008	Annual General Meeting of Shareholders, 15 November 2010
Ton Schurink	Non-executive director	November 15, 2008	Annual General Meeting of Shareholders, 15 November 2010

# Management statement

This statement is provided to confirm that to the best of our knowledge the consolidated annual financial statements and comparative information have been prepared in compliance with IFRS and give a true, fair and clear view of Kernel Holding S.A. assets, financial standing and net results and that the directors' report on the operations of Kernel Holding S.A., including the business portfolio review, review of financial results, risk factors and risk management policies review, and review of management remuneration, related party transactions and changes to management, truly reflects the development, achievements and situation of the Group.

This statement is also provided to confirm that LLP BAKER TILLY UKRAINE and TEAMAUDIT S.A. 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 2010, 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

Patrick Conrad  
Director

Anastasiia Usachova  
Director

22 September 2010

# *Kernel Holding S.A. and Subsidiaries*

*Consolidated Financial Statements  
for the year ended 30 June 2010*



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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 statement of financial position as of June 30, 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended June 30, 2010, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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



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*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Kernel Group as of June 30, 2010, and of its financial performance and its cash flows for the year ended June 30, 2010 in accordance with International Financial Reporting Standards.

Managing Partner

“BAKER TILLY UKRAINE” LLP

TEAMAUDIT S.A.  
Reviseurs d'Entreprises  
67, Rue Michel Welter  
L-2730 Luxemburg

22 September 2010  
Kiev, Ukraine

Registration # 1590

Alexander Pochkun

Jean Bernard Zeimet

# Management Representation Letter

LLP Baker Tilly International  
Fizkultury 28 st., Kyiv,  
Ukraine, 01033

This representation letter is provided in connection with your audit of the financial statements of Kernel Holding S.A. and subsidiaries (the “Company”) for the year ended 30 June 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of (present fairly, in all material respects,) the financial position of the Company as of 30 June 2010 and results of its activities and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

We acknowledge our responsibility for the fair presentation of financial statements in accordance with IFRS.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify, nor necessarily be expected to disclose any instances of fraud, shortages, errors and other irregularities, should exist.

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other directors and officials of the company, the following representations:

## **Financial Statements and Accounting Records**

1. We acknowledge, as members of management of the Company, our responsibility for preparing financial statements which give a true and fair view and for making accurate representations to you. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the company have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders meetings, have been made available to you.
2. The financial statements are free of material misstatements, including omissions.
3. We believe that the effect of uncorrected misstatements is immaterial both individually and in total.
4. We explained the reasons for not correcting misstatements brought to the attention by the auditor.
5. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
6. Each element of the financial statements is properly classified, described and disclosed in accordance with IFRS.



7. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.
8. The following have been properly recorded and when appropriate, adequately disclosed in the financial statements:
  - a The identity of, and balances and transaction with, related parties.
  - b Losses arising from sale and purchase commitments.
  - c Agreements and options to buy back assets previously sold.
  - d Assets pledged as collateral.

## **Internal Control**

9. We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
10. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Company (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the (consolidated) financial statements. We have also disclosed any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the (consolidated) financial statements.

## **Laws and Regulations**

11. We are not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations that are central to the Company’s ability to conduct its business or that could have a material effect on the financial statements.
12. We are not aware of any pending or threatened litigation, proceedings, hearing or claims negotiations that may result in significant loss to the company.
13. All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

## **Transactions with Related Parties**

14. All transactions with related parties have been disclosed in the financial statements. We have made available to you all relevant information concerning such transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

## Post-Balance Sheet Events

15. There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

## Other Representations

16. The Company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of noncompliance. There has no been noncompliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of noncompliance.
17. The Company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in notes to the financial statements.
18. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in the notes to the financial statements all guarantees that we have given to third parties.
19. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
20. Stock is not stated at an amount in excess of net realisable value.
21. We have no plans to abandon product lines or other plans that will result in any excess or obsolete stock.
22. There are no other agreements not related with the ordinary course of business.
23. The company has not had nor entered into at any time during the year, any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit facilities) for directors nor to guarantee or provide security for such matters other than those disclosed in the financial statements.
24. We believe that the company's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the company's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the company's ability to continue as a going concern need to be made in the financial statements.
25. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in notes to the financial statements, we have no other line of credit arrangements.
26. 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.

27. In our opinion on realization in the ordinary course of the business, the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
  28. Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments and contingencies where the items are expected to result in significant loss to the company. Other such items, where in our opinion provision is unnecessary, have been appropriately disclosed in the financial statements.
  29. We are not aware of any fact which may endanger the financial position of the company.
  30. There is no report draft, response or decisions of controlling bodies, rating organizations, or public and private external experts, which content might effect the presentation and principles of evaluating the financial statements.
- We are not aware of any violations of legal documents or contractual provisions, which the Company would be obliged to mention in the notes to financial statements or, if necessary, compensate from provision of possible expenses, or account for on determining the liabilities.
- 31.

On the whole, we think that we have taken into consideration all data provided to us so that the financial statements reliably present the financial position, as well as financial annual report of Kernel Holding and subsidiaries. We confirm that at present we have no fact which may significantly influence the financial statements of the considered period, or which, without influencing these financial statements, may significantly affect either positively or negatively the future financial position of the company.

On behalf of the Management

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

September 22, 2010



## SELECTED FINANCIAL DATA AS OF 30 JUNE 2010

(in thousands unless otherwise stated)

SELECTED FINANCIAL DATA for the year ended 30 June 2010	thousand USD		thousand PLN		thousand EUR	
	2010	2009	2010	2009	2010	2009
I. Revenue	1 020 471	1 047 113	3 010 594	3 077 779	735 045	769 419
II. Operating profit/(loss)	167 484	166 648	494 112	489 828	120 639	122 453
III. Profit/(loss) before income tax	151 593	126 863	447 231	372 888	109 193	93 219
IV. Net profit/(loss)	151 701	131 982	447 549	387 935	109 270	96 980
V. Net cash flow from operating activity	84 796	129 289	250 165	380 019	61 079	95 002
VI. Net cash flow from investment activity	(125 649)	(95 313)	(370 690)	(280 154)	(90 505)	(70 036)
VII. Net cash flow from financial activity	543	5 283	1 602	15 528	391	3 882
VIII. Total net cash flow	(40 310)	39 259	(118 923)	115 394	(29 035)	28 848
IX. Total assets	1 124 773	699 706	3 818 154	2 220 377	920 964	496 791
X. Current liabilities	352 161	195 051	1 195 445	618 956	288 349	138 486
XI. Non-current liabilities	167 721	147 192	569 346	467 084	137 330	104 506
XII. Share capital	1 933	1 815	6 562	5 760	1 583	1 289
XIII. Total equity	604 891	357 463	2 053 363	1 134 337	495 285	253 799
XIV. Weighted average number of shares	69 070 178	68 741 000	69 070 178	68 741 000	69 070 178	68 741 000
XV. Profit/(loss) per ordinary share (in USD/PLN/EUR)	2,20	1,97	6,49	5,80	1,59	1,45
XVI. Diluted number of shares	73 891 365	68 741 000	73 891 365	68 741 000	73 891 365	68 741 000
XVII. Diluted profit/(loss) per ordinary share (in USD/PLN/EUR)	2,06	1,97	6,07	5,80	1,48	1,45
XVIII. Book value per share (in USD/PLN/EUR)	8,71	5,18	29,58	16,43	7,13	3,68
XIX. Diluted book value per share (in USD/PLN/EUR)	8,15	5,18	27,65	16,43	6,67	3,68

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010**

(in US dollars and in thousands unless otherwise stated)

	Notes	30 June 2010 audited	30 June 2009 audited
<b>ASSETS</b>			
<i>CURRENT ASSETS:</i>			
Cash	5	59 482	129 263
Trade accounts receivable, net	6, 29	65 483	32 419
Prepayments to suppliers and other current assets, net	7, 29	94 233	25 810
Taxes recoverable and prepaid, net	8	205 584	72 871
Inventory	9	147 787	99 086
Biological assets	10	26 131	18 932
<b>Total current assets</b>		<b>598 700</b>	<b>378 381</b>
<i>NON-CURRENT ASSETS:</i>			
Property, plant and equipment, net	11	379 035	221 770
Intangible assets, net	12	31 842	35 686
Goodwill	13	86 058	45 166
Other non-current assets	14, 29	29 138	18 703
<b>Total non-current assets</b>		<b>526 073</b>	<b>321 325</b>
<b>TOTAL ASSETS</b>		<b>1 124 773</b>	<b>699 706</b>
<b>LIABILITIES AND EQUITY</b>			
<i>CURRENT LIABILITIES:</i>			
Trade accounts payable	29	10 913	7 539
Advances from customers and other current liabilities	15, 29	131 386	25 806
Short-term borrowings	16	169 098	148 483
Short-term corporate bonds	19	-	1 993
Current portion of long-term borrowings	17	40 764	11 230
<b>Total current liabilities</b>		<b>352 161</b>	<b>195 051</b>
<i>NON-CURRENT LIABILITIES:</i>			
Long-term borrowings	17	127 454	121 369
Obligations under finance lease	18	7 796	11 491
Deferred tax liabilities	20	32 376	14 207
Other non-current liabilities		95	125
<b>Total non-current liabilities</b>		<b>167 721</b>	<b>147 192</b>
<i>Equity attributable to Kernel Holding S.A. equity holders</i>			
Issued capital		1 933	1 815
Share premium reserve		317 741	236 637
Additional paid-in capital		39 944	39 944
Revaluation reserve		11 260	-
Translation reserve		(160 622)	(162 163)
Retained earnings		391 606	239 601
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>601 862</b>	<b>355 834</b>
<i>Non-controlling interest</i>		3 029	1 629
<b>Total equity</b>		<b>604 891</b>	<b>357 463</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 124 773</b>	<b>699 706</b>
Book value		601 862	355 834
Weighted average number of shares	34	69 070 178	68 741 000
<b>Book value per share (in USD)</b>		<b>8,71</b>	<b>5,18</b>
Diluted number of shares	34	73 891 365	68 741 000
<b>Diluted book value per share (in USD)</b>		<b>8,15</b>	<b>5,18</b>

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements

# **CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010**

(in US dollars and in thousands unless otherwise stated)

	Notes	Year ended 30 June 2010 audited	Year ended 30 June 2009 audited
REVENUE	21	1 020 471	1 047 113
COST OF SALES	22, 29	(709 414)	(730 309)
<b>GROSS PROFIT</b>		<b>311 057</b>	<b>316 804</b>
OTHER OPERATIONAL INCOME	23	17 547	16 880
OPERATING EXPENSES			
Distribution costs	24, 29	(134 388)	(143 301)
General and administrative expenses	25, 29	(26 732)	(23 735)
<b>RESULT FROM OPERATING ACTIVITIES</b>		<b>167 484</b>	<b>166 648</b>
Finance costs, net	26,29	(22 784)	(32 239)
Foreign exchange (loss)/gain, net		10 957	(3 095)
Other (expenses)/income, net	27,29	(4 064)	(4 451)
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>151 593</b>	<b>126 863</b>
INCOME TAX	20	108	5 119
<b>PROFIT FROM CONTINUING OPERATIONS</b>		<b>151 701</b>	<b>131 982</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO</b>			
Equity holders of Kernel Holding S.A.		152 005	135 548
Non-controlling interest		(304)	(3 566)
Weighted average number of shares	34	69 070 178	68 741 000
Profit/(loss) per ordinary share (in USD)		2,20	1,97
Diluted number of shares	34	73 891 365	68 741 000
Diluted profit/(loss) per ordinary share (in USD)		2,06	1,97

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Year ended 30 June 2010 audited	Year ended 30 June 2009 audited
<b>NET PROFIT</b>	<b>151 701</b>	<b>131 982</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Exchange differences on translating foreign operations	1 532	(175 401)
Gain on property revaluation	15 154	-
Income tax related to components of other comprehensive income	(3 789)	-
<b>OTHER COMPREHENSIVE INCOME NET</b>	<b>12 897</b>	<b>(175 401)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>164 598</b>	<b>(43 419)</b>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of Kernel Holding S.A.	164 806	(40 973)
Non-controlling interest	(208)	(2 446)

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements



# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010**

(in US dollars and in thousands unless otherwise stated)

	Attributable to Kernel Holding S.A. shareholders								
	Issue capital	Share premium reserve	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Total	Non-controlling interest	Total equity
Balance at 30 June 2008	1 815	236 637	39 944	104 053	-	14 358	396 807	43 610	440 417
Profit for the period	-	-	-	135 548	-	-	135 548	(3 566)	131 982
Other comprehensive income	-	-	-	-	-	(176 521)	(176 521)	1 120	(175 401)
Total comprehensive income for the period	-	-	-	135 548	-	(176 521)	(40 973)	(2 446)	(43 419)
Effect of changes on minority interest	-	-	-	-	-	-	-	(39 535)	(39 535)
Balance at 30 June 2009	1 815	236 637	39 944	239 601	-	(162 163)	355 834	1 629	357 463
Profit for the period	-	-	-	152 005	-	-	152 005	(304)	151 701
Other comprehensive income	-	-	-	-	11 260	1 541	12 801	96	12 897
Total comprehensive income for the period	-	-	-	152 005	11 260	1 541	164 806	(208)	164 598
Effect of changes on minority interest	-	-	-	-	-	-	-	1 608	1 608
Increase of share capital	118	-	-	-	-	-	118	-	118
Issued capital and IPO expenses	-	81 104	-	-	-	-	81 104	-	81 104
Balance at 30 June 2010	1 933	317 741	39 944	391 606	11 260	(160 622)	601 862	3 029	604 891

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements



# **CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010**

(in US dollars and in thousands unless otherwise stated)

	Notes	Year ended 30 June 2010 audited
<b>OPERATING ACTIVITIES:</b>		
Profit/(loss) before income tax		151 593
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>		
Amortization and depreciation	11, 12	22 540
Finance costs	26	22 784
Bad debt expenses and other accruals		3 319
Loss/(gain) on disposal of property, plant and equipment		172
Non-operating foreign exchange loss/(gain), net		5 914
Loss/(gain) on sales of equity investments		(578)
<b>Operating profit before working capital changes</b>		<b>205 744</b>
<i>Changes in working capital:</i>		
Decrease/(increase) in trade accounts receivable		5 503
Decrease/(increase) in prepayments and other current assets		(674)
Decrease/(increase) in restricted cash balance		29 471
Decrease/(increase) in taxes recoverable and prepaid		(100 449)
Decrease/(increase) in biological assets		(7 199)
Decrease/(increase) in inventories		(16 134)
Increase/(decrease) in trade accounts payable		(17 765)
Increase/(decrease) in advances from customers and other current liabilities		9 887
<b>Cash obtained from/(used in) operations</b>		<b>108 384</b>
Finance costs paid		(22 784)
Income tax paid		(804)
<b>Net cash provided by/(used in) operating activities</b>		<b>84 796</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment		(56 526)
Proceeds from disposal of property, plant and equipment		321
Sales/(Purchase) of intangible and other non-current assets		768
Acquisition of Subsidiaries		(70 798)
Disposal of Subsidiaries		586
<b>Net cash used in investing activities</b>		<b>(125 649)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term and long-term borrowings		830 245
Repayment of short-term and long-term borrowings		(905 491)
Corporate bonds issued/(repaid)		(1 993)
Proceeds from share capital increase		118
Proceeds from share premium reserve increase		81 104
<b>Net cash provided by financing activities</b>		<b>3 983</b>
TRANSLATION ADJUSTMENT		(3 440)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(40 310)
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>		<b>98 072</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<b>5</b>	<b>57 762</b>

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements





# **CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2009**

(in US dollars and in thousands unless otherwise stated)

	Notes	Year ended 30 June 2009 audited
<b>OPERATING ACTIVITIES:</b>		
Profit/(loss) before income tax		126 863
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>		
Amortization and depreciation	11, 12	23 408
Finance costs	26	32 239
Bad debt expenses and other accruals		(1 202)
Loss/(gain) on disposal of property, plant and equipment		4 306
Foreign exchange losses/(gain), net		3 095
Income from "DAK Asset"	27	(194)
Loss/(gain) on sales of equity investments	28	(345)
<b>Operating profit before working capital changes</b>		<b>188 170</b>
<i>Changes in working capital:</i>		
Decrease in trade accounts receivable		15 449
Increase in prepayments and other current assets		(1 150)
Increase in restricted cash balance		(1 474)
Increase in taxes recoverable and prepaid		(49 173)
Decrease in biological assets		23 489
Increase in inventories		(7 341)
Increase in trade accounts payable		1 941
Decrease in advances from customers and other current liabilities		(6 713)
<b>Cash obtained from/(used in) operations</b>		<b>163 198</b>
Finance costs paid		(32 239)
Income tax paid		(1 670)
<b>Net cash provided by operating activities</b>		<b>129 289</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment		(91 531)
Proceeds from disposal of property, plant and equipment		2 885
Purchase of intangible and other non-current assets		(1 216)
Acquisition of Subsidiaries		(5 825)
Disposal of Subsidiaries		374
<b>Net cash used in investing activities</b>		<b>(95 313)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term and long-term borrowings		541 093
Repayment of short-term and long-term borrowings		(476 532)
Corporate bonds issued		(28 991)
<b>Net cash provided by financing activities</b>		<b>35 570</b>
TRANSLATION ADJUSTMENT		(30 287)
NET INCREASE IN CASH AND CASH EQUIVALENTS		39 259
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>		<b>58 813</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<b>5</b>	<b>98 072</b>

On behalf of the Board

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

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

The notes on pages 57 to 98 form an integral part of these consolidated financial statements



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(in US dollars and in thousands unless otherwise stated)

## 1. KEY DATA BY OPERATING SEGMENT FOR THE YEAR ENDED 30 JUNE 2010

	Bottled sunflower oil	Sunflower oil in bulk	Grain handling and transshipment services	Farming	Grain	Silo services	Other	Reconciliation	Continuing Operations
Revenue (external)	112 627	400 698	24 086	3 807	466 462	12 791			1 020 471
Intersegment sales			29 646	37 903		11 924		(79 473)	
<b>Total</b>	<b>112 627</b>	<b>400 698</b>	<b>53 732</b>	<b>41 710</b>	<b>466 462</b>	<b>24 715</b>		<b>(79 473)</b>	<b>1 020 471</b>
Other operating income		2 468	2	13 353	379	892	453		17 547
<b>Operating profit (EBIT)</b>	<b>22 221</b>	<b>71 784</b>	<b>24 922</b>	<b>14 164</b>	<b>40 056</b>	<b>8 836</b>	<b>(14 499)</b>		<b>167 484</b>
Finance costs net									(22 784)
Foreign exchange (loss)/gain, net									10 957
Other (expenses)/ income, net									(4 064)
Income tax									108
<b>Net profit</b>									<b>151 701</b>
<b>Total assets</b>	<b>105 089</b>	<b>410 664</b>	<b>120 734</b>	<b>67 486</b>	<b>297 373</b>	<b>81 676</b>	<b>41 751</b>		<b>1 124 773</b>
Capital expenditures	12 362	127 825	7 078	3 240	1 458	54 850	7 527		214 340
Amortization and depreciation	2 265	4 887	3 241	8 906	225	2 494	522		22 540
Liabilities	4 782	43 177	4 590	2 459	14 378	19 240	431 256		519 882

During the year ended 30 June 2010 none of the Group's external customers accounted for more than 10 % of total external revenue. Five subsidiaries of one international trading house, accounted for 12 % of total external revenue. During the year ended 30 June 2010 export sales amounted to 81% of total external sales revenue.

# 1. KEY DATA BY OPERATING SEGMENT FOR THE YEAR ENDED 30 JUNE 2009 (CONTINUED)

	Bottled sunflower oil	Sunflower oil in bulk	Grain handling and transshipment services	Farming	Grain	Silo services	Other	Reconciliation	Continuing Operations
Revenue (external)	121 974	256 871	29 102	8 697	583 084	30 635	16 750		1 047 113
Intersegment sales			24 015	39 619		10 065		(73 699)	
<b>Total</b>	<b>121 974</b>	<b>256 871</b>	<b>53 117</b>	<b>48 316</b>	<b>583 084</b>	<b>40 700</b>	<b>16 750</b>	<b>(73 699)</b>	<b>1 047 113</b>
Other operating income	1 659	1 230	3 344	2 512	7 254	881			16 880
<b>Operating profit (EBIT)</b>	<b>27 230</b>	<b>54 678</b>	<b>28 787</b>	<b>(3 757)</b>	<b>56 118</b>	<b>21 407</b>	<b>(17 815)</b>		<b>166 648</b>
Finance costs net									(32 239)
Foreign exchange (loss)/gain, net									(3 095)
Other (expenses)/ income, net									(4 451)
Income tax									5 119
<b>Net profit</b>									<b>131 982</b>
<b>Total assets</b>	<b>108 131</b>	<b>155 975</b>	<b>102 217</b>	<b>70 248</b>	<b>124 785</b>	<b>62 163</b>	<b>76 187</b>		<b>699 706</b>
Capital expenditures	30 914	33 368	362	21 139	681	1 843	849		89 156
Amortization and depreciation	4 355	3 103	3 195	10 633	220	1 892	10		23 408
Liabilities	2 662	5 630	1 103	3 170	7 841	6 656	315 181		342 243

During the year ended 30 June 2009 none of the Group's external customers accounts for more than 10% of total external revenue. During the year ended 30 June 2009 export sales amount to 83% of total external sales revenue.

## 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 bulk sunflower oil and meal, wholesale trade of grain (mainly wheat, barley and corn), farming and provision of logistics and transshipment services.

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 2010 and 30 June 2009 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 2010	30 June 2009
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine.	Ukraine	100%	99.8%
"Group Management", LLC	Holding company	Ukraine	94%	N/A
"Etrecom Investments", LLC	Holding company	Cyprus	100%	100%
Corolex Public Co. Limited	Holding company	Cyprus	94%	N/A
CJSC "Grain Trading Company Allseeds-Ukraine"	Holding company	Ukraine	94%	N/A
Inerco Trade S.A.	Trade of sunflower oil, meal and grain.	Switzerland	100%	100%
Inerco Commodities S.A.		Switzerland	100%	100%
Restomon LTD		British Virgin Islands	100%	100%
Lanen S.A.		Panama	100%	100%
"Grain Trading Company", LLC		Ukraine	94%	N/A
"Kernel-Trade", LLC		Ukraine	100%	100%
Jerste BV	Holding company	Netherlands	100%	100%
PJSC "Poltava oil crushing plant — Kernel Group"	Production plants. Production of sunflower oil and meal.	Ukraine	98.3%	73.05%
PJSC "Vovchansky V OEP"		Ukraine	99.4%	99.3%
"Prykolotnjansky OEP", LLC		Ukraine	100%	100%
JSC "Kirovogradoliya"		Ukraine	93.2%	N/A
"Ekotrans", LLC		Ukraine	94%	N/A
"Bandurskiy oil crushing plant ", LLC		Ukraine	100%	100%
LLC JE "Inerco-Ukraine"	Holding company. No significant activity since the date of foundation.	Ukraine	100%	100%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2010	30 June 2009
"Reshetylivka Hliboproduct", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100%	100%
JSC "Reshetilovski elevator"		Ukraine	Control relinquished	0.0%
"Horol-Elevator", LLC		Ukraine	100%	100%
JSC "Horolskiy elevator"		Ukraine	Control relinquished	0.0%
JSC "Mirgorodsky elevator"		Ukraine	100%	100%
"Globynsky elevator HP", LLC		Ukraine	100%	100%
JSC "Globinsky elevator kliboproduktiv"		Ukraine	Control relinquished	0.0%
"Skifiya-Zernotrada", LLC		Ukraine	94%	N/A
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	88.2%	88.1%
"Galeschina-Agro", LLC		Ukraine	Disposed of on 18 December 2009	99.8%
"Elevator – Grain Tading Company", LLC		Ukraine	94%	N/A
"Gogoleve-Agro", LLC		Ukraine	99.9%	99.8%
"Sagaydak-Agro", LLC		Ukraine	100%	100%
"Karlivka-Agro", LLC		Ukraine	99.9%	99.8%
JSC "Trykratskiy GPC"		Ukraine	86.5%	N/A
JSC "Lazorkovski Elevator"		Ukraine	99.9%	99.8%
"Zherebkivsky elevator ", LLC		Ukraine	99.9%	99.8%
"Kononivsky elevator ", LLC		Ukraine	99.9%	99.8%
"Semenivsky elevator", LLC		Ukraine	99.9%	99.8%
"Kobelyaki hleboproduct", LLC		Ukraine	100%	100%
"Sahnovshina hleboproduct", LLC		Ukraine	100%	100%
"Velykoburlutske HPP", LLC		Ukraine	100%	100%
"Gutnansky elevator", LLC		Ukraine	100%	100%
"Lykhachivsky KHP", LLC		Ukraine	100%	100%
"Shevchenkisky KHP", LLC		Ukraine	100%	100%
"Orilske HPP", LLC		Ukraine	Disposed of on 28 October 2009	100%
"Kovyagivske KHP", LLC		Ukraine	100%	100%
"Viktorovsky elevator, LLC		Ukraine	100%	100%



Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2010	30 June 2009
CJSC "Poltavaavtotransservis"	Trucking company.	Ukraine	100%	99.8%
"MTE-2004", LLC		Ukraine	94%	N/A
"Ukragrobiznes", LLC	Holding company.	Ukraine	100%	100%
"Agroservice", LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	100%
"Zernoservice", LLC		Ukraine	100%	100%
"Unigrain-Agro" (Globino), LLC		Ukraine	100%	100%
"Unigrain-Agro" (Semenovka), LLC		Ukraine	100%	100%
"Mrija-Agro", LLC		Ukraine	100%	100%
PJSC "Lozivske HPP"		Ukraine	100%	100%
PJSC "Krasnopavlivsky KHP"		Ukraine	100%	100%
CJSC "Agrofirma "Krasnopavlivska"		Ukraine	Control relinquished	0.0%
"Agrofirma "Arshitsa", LLC		Ukraine	100%	100%
"Agrotera-Kolos", LLC		Ukraine	100%	100%
"Chorna Kamyanka", LLC		Ukraine	100%	100%
"Govtva", ALLC		Ukraine	100%	100%
PRAC "Perebudova"		Ukraine	100%	100%
"Manjurka", LLC		Ukraine	100%	100%
"Krutenke", LLC		Ukraine	100%	100%
"Promin", LLC		Ukraine	100%	100%
PRAC "Brovarki"		Ukraine	100%	100%
PRAC by the name of Shorsa		Ukraine	100%	100%
"Troyanske", ALLC		Ukraine	100%	100%
"Zorya", ALLC		Ukraine	100%	100%
"Hleborob", ALLC		Ukraine	100%	100%
AC by the name of T. Shevchenko		Ukraine	100%	100%
PRAC "Drugba"		Ukraine	100%	100%
"Agrofirma "Chkalova", LLC		Ukraine	100%	100%
Agrofirma "Vitchizna", LLC		Ukraine	100%	100%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			30 June 2010	30 June 2009
"Transbulk Terminal", LLC	Provision of grain handling and transshipment services, including services to the Group.	Ukraine	100%	100%
C.F.C Ukraine Ltd		Ukraine	Disposed of on 15 January 2010	100%
Estron Corporation Ltd		Cyprus	100%	100%
Chorex Developments Limited		Cyprus	100%	100%
Hamalex Developments LTD		Cyprus	100%	100%
"Oiltransterminal", LLC	Provision of oil handling and transshipment services, including services to the Group.	Ukraine	94%	N/A

In August 2009 "Bandurskiy elevator", LLC was renamed "Bandurskiy oil crushing plant ", LLC.

These consolidated financial statements were authorized for issue by the Board of Directors of Kernel Holding S.A. on 17 September 2010.

### 3. CHANGE IN ISSUED CAPITAL

Since 15 June 2005 the holding company of the Group is Kernel Holding S.A. (Luxembourg) (the "Holding"), whose issued capital as of 30 June 2010 consisted of 73 191 000 (seventy three million one hundred and ninety one thousand) ordinary bearer shares without indication of a nominal value, providing 73 191 000 voting rights (as of 30 June 2009 – 68 741 000 shares).

The shares were distributed as follows:

<b>EQUITY HOLDERS</b>	<b>Shares allotted and fully paid as of 30 June 2010</b>	<b>Share owned as of</b>	<b>Shares allotted and fully paid as of 30 June 2009</b>	<b>Share owned as of</b>
Namsen LTD (limited company registered under the legislation of Cyprus) (hereinafter the "Majority Equity holder")	30 174 250	41.23%	40 574 250	59.03%
Free-float	43 016 750	58.77%	28 166 750	40.97%
<b>Total</b>	<b>73 191 000</b>	<b>100.00%</b>	<b>68 741 000</b>	<b>100.00%</b>

As of 30 June 2010 and 2009 100% of the beneficial interest in the "Majority Equity holder" was held by Verevskiy Andrey Mikhaylovych (hereinafter the "Beneficial Owner").

In order to perform an initial public offering of the shares of the Company on the Warsaw Stock Exchange, the general shareholders meeting resolved 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 newly issued shares.

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.

On 3 June, 2010 Kernel issued 4 450 000 new shares, thereby increasing the Company's share capital by USD 117 506.70, to a total amount of USD 1 932 681.54. Following the issuance of new shares, Kernel's share capital is divided into 73 191 000 shares without indication of a nominal value, giving right to 73 191 000 votes at the General Meeting of the Company.

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 issued capital. This reserve of an amount of USD 125 thousand as of 30 June 2010, unchanged from 30 June 2009, 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 2010. The Group has adopted IFRS 8 Operating Segments in advance of its effective date, with effect from 1 July 2008. From 1 July 2009 the Group has adopted IAS 1 Presentation of Financial Statements (revised). The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: presenting all items of income and expense recognized in the income statement, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group has chosen to present two statements. Additionally from 1 July 2009 Group has adopted IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised).

*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* - Starting from 01 January 2007, and in accordance with the resolution of the shareholders dated 31 July 2007, the measurement currency of Kernel Holding S.A. 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), Lanen S.A. (Panama), Estron Corporation Ltd (Cyprus), Chorex Developments Limited (Cyprus), Hamalex Developments LTD (Cyprus), Restomon LTD (British Virgin Islands), Inerco Commodities S.A. (Switzerland), Jerste BV (Netherlands), Corolex Public Co.Limited (Cyprus) and Etrecom (Cyprus). Management has utilized USD as the measurement currency for Inerco Trade S.A., Lanen S.A., Estron Corporation Ltd, Chorex Developments Limited, Hamalex Developments LTD, Restomon LTD, Inerco Commodities S.A., Jerste BV, Corolex Public Co.Limited and Etrecom 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. From 1 July 2009 and on the basis of IAS No.21, management adopted USD as the measurement currency of "Kernel-Trade" LLC, as the 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, or pegged to, the USD. On the basis of IAS No.21 USD was also adopted as the measurement currency for CJSC "Poltava oil crushing plant — Kernel Group", JSC "Vovchansk OEP", CJSC "Prykolotne OEP", and from 1 April 2010 JSC "Kirovogradoliya" and "Ekotrans" LLC, as the activities of these subsidiaries are carried out with a limited degree of autonomy. Following the changes in measurement and presentation currency, reclassification in the Statement of Cash Flows was effected to provide users of the financial statements with clearer and more detailed information. 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 (the "Subsidiaries") as of 30 June 2010. 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.

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

Minority interest at the balance sheet date represents the minority equity holders' 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.

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 initial 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 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 2010	Average rate for the 12 month ended 30 June 2010	Closing rate as of 30 June 2009	Average rate for the 12 month ended 30 June 2009
USD/UAH	7.9070	7.9289	7.6303	6.5948
USD/EUR	0.8188	0.7203	0.7100	0.7348
USD/PLN	3.3946	2.9502	3.1733	2.9393

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; 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 gaining 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.



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

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.

Loans - Loans provided by the Group are financial assets, created by means of grant of money directly to a borrower or participating in provision of credit services, not including 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 at a rate and on terms which are different from market terms and conditions, the difference between the par value of the resources provided and the fair value of the amount lent is reflected in the income statement in the period, when such amount was lent, as an adjustment to the loan amount. 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. Loans provided are reflected in the 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 noncurrent assets, except for those cases when the term of redemption expires within 12 month 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 month 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 issued 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 issued 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 2010 and 2009 there were no investments in non-consolidated subsidiaries and associates.

##### Issued 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 issued capital - When issued 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 (IFRS) 2 '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 equity holders 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 and reduced by appropriate allowances for estimated irrecoverable amounts.

Property, Plant and Equipment - Buildings and constructions (oil) and production machinery and equipment (oil), are shown at fair value, based on periodic valuations by external independent appraisal, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Except for land, all other property, plant and equipment is stated at historical cost less 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.

Increases in the carrying amount arising on revaluation of buildings (oil) and production machinery and equipment (oil) are recognized in other comprehensive income and accumulated in equity under the heading of revaluation reserve.

Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Decreases in the carrying amount as a result of a revaluation are recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

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
Other fixed assets	4-20 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.

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

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 effective interest 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.

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 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.

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

**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.

**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.

**Operating Segments** - Operating segments are reported in a manner consistent with the internal reporting as provided to the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The Management and the members of the Board of Directors of the Group are identified as the chief operating decision makers.

Segments in the consolidated financial statements are defined in accordance with the type of activity, products sold or services provided.

The operating segments' activities are as follows:

Operating Segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil in bulk	Production and sales of sunflower oil in bulk (crude and refined) and meal
Grain	Sourcing and merchandizing of wholesale grain.
Grain handling and transshipment services	Grain handling and transshipment services in the port of Ilyichevsk and Nikolayev.
Grain silo services	Provision of grain cleaning, drying and storage services.
Farming	Agricultural farming. Production of wheat, barley, corn, soybean and sunflower seed.

The measure of profit and loss and assets and liabilities is based on the Group Accounting Policies which are in compliance with IFRS.

In the financial statements as of 30 June 2010 the segment table reflects continuing operations only.

The reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments.

The segment data is calculated as follows:

- The intersegment sales reflect intergroup transactions effected on an arm's-length basis.
- Capital expenditures, amortization and depreciation related to property, plant and equipment and intangible assets are allocated to the segments when possible.

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

## 5. CASH

The balances of cash as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Cash with banks in USD	43 506	124 362
Cash with banks in UAH	15 754	4 656
Cash with banks in other currencies	186	241
Cash on transit bank account	30	-
Cash on hand	6	4
<b>Total</b>	<b>59 482</b>	<b>129 263</b>
Less restricted cash on Security bank account and blocked amount	(1 720)	(31 191)
<b>Cash for the purposes of cash flow statement</b>	<b>57 762</b>	<b>98 072</b>

As of 30 June 2010 cash on a bank account in the amount of USD 1 720 thousand (as of 30 June 2009: USD 31 191 thousand) was restricted in use based on short-term loan agreements with foreign banks and thus was excluded from cash item for the purpose of cash flow statement.

## 6. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Trade accounts receivable	66 906	33 229
Allowance for estimated irrecoverable amounts (Note 31)	(1 423)	(810)
<b>Total</b>	<b>65 483</b>	<b>32 419</b>

As of 30 June 2010 accounts receivable from one European customer accounted for approximately 22.9% of the total carrying amount of trade accounts receivable (as of 30 June 2009 approximately 13%).

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

The balances of prepayments to suppliers and other current assets as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Prepayments to suppliers	20 622	21 962
Other accounts receivable and other current assets (Note 29)	76 560	4 467
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(2 949)	(619)
<b>Total</b>	<b>94 233</b>	<b>25 810</b>



## 8. TAXES RECOVERABLE AND PREPAID, NET

The balances of taxes recoverable and prepaid as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
VAT («value-added tax») recoverable and prepaid	202 234	70 539
Other taxes recoverable and prepaid	3 350	2 332
Allowance for estimated irrecoverable amounts of VAT recoverable	-	-
<b>Total</b>	<b>205 584</b>	<b>72 871</b>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on domestic market in Ukraine. In the absence of previous impairment losses on the value added tax as of 30 June 2010 reserve on VAT is not charged (as of 30 June 2009 reserve on VAT was not charged) (Note 31).

## 9. INVENTORIES

The balances of inventories as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Raw materials	52 829	35 822
Finished products	53 199	35 270
Goods for resale	36 563	23 359
Packaging materials	379	208
Fuel	1 539	1 289
Products of agriculture	261	439
Other inventories	3 017	2 699
<b>Total</b>	<b>147 787</b>	<b>99 086</b>

As of 30 June 2010 inventories with the carrying amount of USD 91 234 thousand (as of 30 June 2009: USD 36 835 thousand) were pledged by the Group as collateral against short-term loans obtained from banks (Note 16).

## 10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2010 and 2009 were as follows:

Agricultural Farming	30 June 2010		30 June 2009	
	Hectares	Value	Hectares	Value
Wheat crops	22 443	6 387	26 572	5 579
Sunflower seed crops	17 059	6 047	14 604	3 397
Soya beans crops	18 062	4 845	14 145	2 764
Barley crops	6 645	1 812	9 507	1 442
Corn crops	8 377	2 349	8 994	2 594
Pea crops	10 551	3 721	9 377	2 333
Buckwheat	-	-	253	28
Rape seeds	2 213	970	609	185
Other crops	-	-	1 138	165
<b>Total</b>	<b>85 350</b>	<b>26 131</b>	<b>85 199</b>	<b>18 487</b>

## 10. BIOLOGICAL ASSETS (CONTINUED)

Breeding of cattle	30 June 2010		30 June 2009	
	Number of heads	Value	Number of heads	Value
Cattle	-	-	1 368	445
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1 368</b>	<b>445</b>

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2010 and 2009:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
<b>As of 30 June 2008</b>	<b>24 415</b>	<b>16 660</b>	<b>41 075</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2008)	9 808	-	9 808
Decrease due to harvest (harvest 2008)	(34 223)	(16 660)	(50 883)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2009)	19 871	-	19 871
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2009)	-	(1 384)	(1 384)
<b>As of 30 June 2009</b>	<b>19 871</b>	<b>(1 384)</b>	<b>18 487</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2009)	10 082	-	10 082
Decrease due to harvest (harvest 2009)	(29 953)	1 384	(28 569)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2010)	18 649	-	18 649
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2010)	-	7 482	7 482
<b>As of 30 June 2010</b>	<b>18 649</b>	<b>7 482</b>	<b>26 131</b>

## 11. PROPERTY PLANT AND EQUIPMENT, NET

As of 30 June 2010 property, plant and equipment with the carrying amount of USD 253 370 thousand (as of 30 June 2009: USD 181 209 thousand) was pledged by the Group as collateral against short-term and long-term bank loans (Note 16, 17).

As of 30 June 2010 production equipment with the carrying amount of USD 13 051 thousand was held under finance lease (as of 30 June 2009: USD 16 461 thousand) (Note 18).

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

The following table represents movements in property, plant and equipment for the 12-month period ended 30 June 2010:

	Oil	Grain terminal	Farming	Inland silos	Other	Total
<b>Net Book Value as at 30 June 2009</b>	<b>108 467</b>	<b>61 476</b>	<b>24 137</b>	<b>20 456</b>	<b>7 234</b>	<b>221 770</b>
Land	700	-	2	678	-	1 380
Buildings and Constructions	34 013	5 796	5 868	16 022	2 162	63 861
Production machinery and equipment	21 475	55 648	400	2 979	3	80 505
Agricultural vehicles and equipment	121	-	17 800	75	-	17 996
Other fixed assets	-	-	-	-	5 054	5 054
CIP and uninstalled equipment	52 158	32	67	702	15	52 974
<b>Additions</b>	<b>139 745</b>	<b>15 534</b>	<b>4 642</b>	<b>43 696</b>	<b>9 844</b>	<b>213 461</b>
Land	1 584	3 371	-	483	47	5 485
Buildings and Constructions	54 236	10 041	550	33 813	1 393	100 033
Production machinery and equipment	42 878	1 810	6	7 787	69	52 550
Agricultural vehicles and equipment	-	-	1 513	-	-	1 513
Other fixed assets	-	-	-	-	7 820	7 820
CIP and uninstalled equipment	41 047	312	2 573	1 613	515	46 060
<b>Disposals (at NBV)</b>	<b>(27 213)</b>	<b>(290)</b>	<b>(2 757)</b>	<b>(2 641)</b>	<b>(1 040)</b>	<b>(33 941)</b>
Buildings and Constructions	(1 027)	-	(19)	(786)	-	(1 832)
Production machinery and equipment	(594)	(42)	(44)	(236)	-	(916)
Agricultural vehicles and equipment	-	-	(133)	(1)	-	(134)
Other fixed assets	-	-	-	-	(811)	(811)
CIP and uninstalled equipment	(25 592)	(248)	(2 561)	(1 618)	(229)	(30 248)
<b>Depreciation expense</b>	<b>(6 724)</b>	<b>(3 179)</b>	<b>(5 170)</b>	<b>(2 263)</b>	<b>(1 624)</b>	<b>(18 960)</b>
Buildings and Constructions	(2 802)	(213)	(928)	(1 574)	(170)	(5 687)
Production machinery and equipment	(3 919)	(2 966)	(73)	(673)	(3)	(7 634)
Agricultural vehicles and equipment	(3)	-	(4 169)	(16)	-	(4 188)
Other fixed assets	-	-	-	-	(1 451)	(1 451)

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

	<b>Oil</b>	<b>Grain terminal</b>	<b>Farming</b>	<b>Inland silos</b>	<b>Other</b>	<b>Total</b>
<b>Translation difference</b>	<b>(1 580)</b>	<b>36</b>	<b>(323)</b>	<b>(630)</b>	<b>(798)</b>	<b>(3 295)</b>
Land	5	9	-	(23)	(1)	(10)
Buildings and Constructions	(73)	24	(208)	(473)	(23)	(753)
Production machinery and equipment	(19)	4	(14)	(85)	(3)	(117)
Agricultural vehicles and equipment	(96)	-	(103)	(3)	-	(202)
Other fixed assets	-	-	-	-	(774)	(774)
CIP and uninstalled equipment	(1 397)	(1)	2	(46)	3	(1 439)
<b>Net Book Value as at 30 June 2010</b>	<b>212 695</b>	<b>73 577</b>	<b>20 529</b>	<b>58 618</b>	<b>13 616</b>	<b>379 035</b>
Land	2 289	3 380	2	1 138	46	6 855
Buildings and Constructions	84 347	15 648	5 263	47 002	3 362	155 622
Production machinery and equipment	59 821	54 454	275	9 772	66	124 388
Agricultural vehicles and equipment	22	-	14 908	55	-	14 985
Other fixed assets	-	-	-	-	9 838	9 838
CIP and uninstalled equipment	66 216	95	81	651	304	67 347

As of 30 June 2010 CIP and uninstalled equipment includes USD 3 136 thousand of capitalized interest on borrowing costs (as of 30 June 2009 USD 2 313 thousand calculated at a capitalization rate of 11.67 % per annum). Capitalization rate used to calculate the amount of capitalized interests as at 30 June 2010 is 7.1 % per annum.

Additions for the period also include gain on revaluation of property, plant and equipment in the amount of USD 15 154 thousand.

## 12. INTANGIBLE ASSETS, NET

The following table represents movements in intangible assets for the 12-month period ended 30 June 2010 and 2009:

<b>Cost as of 30 June 2009</b>	<b>41 039</b>	<b>Cost as of 30 June 2008</b>	<b>59 502</b>
Additions from acquisition of Subsidiaries	532	Additions from acquisition of Subsidiaries	2 252
Additions	347	Additions	1 216
Disposals	(284)	Disposals	(3)
Translation difference	(1 629)	Translation difference	(21 928)
<b>Cost as of 30 June 2010</b>	<b>40 005</b>	<b>Cost as of 30 June 2009</b>	<b>41 039</b>
<b>Accumulated depreciation as of 30 June 2009</b>	<b>(5 353)</b>	<b>Accumulated depreciation as of 30 June 2008</b>	<b>(1 421)</b>
Amortization charge	(3 580)	Amortization charge	(5 204)
Disposals	15	Disposals	-
Translation difference	755	Translation difference	1 272
<b>Accumulated depreciation as of 30 June 2010</b>	<b>(8 163)</b>	<b>Accumulated depreciation as of 30 June 2009</b>	<b>(5 353)</b>
<b>Net book value as of 30 June 2010</b>	<b>31 842</b>	<b>Net book value as of 30 June 2009</b>	<b>35 686</b>

Included in intangible assets of Subsidiaries are the "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks with the value of USD 4 617 thousand, USD 5 994 thousand, USD 8 661 thousand and USD 179 thousand respectively. These trademarks are used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market. As of 30 June 2010 and 2009 trade mark "Stozhar" was pledged as security for long-term loans (Note 16).

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 12-month period ended 30 June 2009 and 2010:

<b>As of 30 June 2008</b>	<b>45 319</b>
Goodwill arising on acquisition of Subsidiaries	33
Translation differences	(186)
<b>As of 30 June 2009</b>	<b>45 166</b>
Goodwill arising on acquisition of Subsidiaries	41 202
Translation differences	(310)
<b>As of 31 June 2010</b>	<b>86 058</b>



## 14. OTHER NON-CURRENT ASSETS

The balances of other non-current assets as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Grain elevators lease rights («DAK Asset») (Note 30)	452	733
Prepayments for property, plant and equipment	1 725	17 607
Other non-current assets	26 961	363
<b>Total</b>	<b>29 138</b>	<b>18 703</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 rescheduled 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 two 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:

Assets leased	Storage capacity of leased grain elevators	Maturity	Monthly rental payment
Property of two grain elevators	269 thousand tons of wheat (aggregated)	December 2012	USD 41 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%.

## 15. ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

The balances of advances from customers and other current liabilities as of 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Advances from customers	42 381	2 408
Obligation under finance lease payable within one year (Note 18)	5 255	4 970
Accrued payroll, payroll related taxes and bonuses	2 985	2 066
Accounts payable for property, plant and equipment	247	9 009
Provision for unused vacations and other provisions	1 491	1 062
Short-term promissory notes issued	-	1
Taxes payable and provision for tax liabilities	3 982	5 408
Other current liabilities (Note 29)	75 045	882
<b>Total</b>	<b>131 386</b>	<b>25 806</b>



## 16. SHORT-TERM BORROWINGS

The balances of short-term borrowings as of 30 June 2010 and 30 June 2009 were as follows:

	30 June 2010	30 June 2009
Bank credit lines	166 491	147 635
Interest accrued on short-term credits	1 213	502
Interest accrued on long-term credits	1 394	346
<b>Total</b>	<b>169 098</b>	<b>148 483</b>

The balances of short-term borrowings as of 30 June 2010 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 4.0%	USD	August 2010	15 000
European bank	Libor + 2.12%	USD	July 2010	11 273
European bank	Libor + 2%	USD	July 2010	9 438
European bank	Libor + 5%	USD	August 2010	77 000
Ukrainian subsidiary of European bank	Libor + 10.4%	USD	July 2010	30 682
Ukrainian subsidiary of European bank	11.25%	USD	July 2010	7 907
Ukrainian subsidiary of European bank	25%	UAH	October 2010	15 191
<b>Total bank credit lines</b>				<b>166 491</b>
Interest accrued on short-term loans				1 213
Interest accrued on long-term loans				1 394
<b>Total</b>				<b>169 098</b>

The balances of short-term borrowings as of 30 June 2009 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 2.6%	USD	August 2009	30 000
European bank	Libor + 2.75%	USD	September 2009	50 000
European bank	Libor + 2.0%	USD	July 2009	5 098
Ukrainian subsidiary of European bank	Libor + 4.5%	USD	September 2009	1 737
Ukrainian subsidiary of European bank	7.8%	USD	August 2009	30 400
Ukrainian subsidiary of European bank	15%	USD	July 2009	30 400
<b>Total bank credit lines</b>				<b>147 635</b>
Interest accrued on short-term loans				502
Interest accrued on long-term loans				346
<b>Total</b>				<b>148 483</b>

As of 30 June 2010 the overall maximum credit limit for short-term bank credit lines amounted to USD 350 473 thousand (as of 30 June 2009 USD 634 323 thousand).

As of 30 June 2010 and 2009 short-term loans from banks were secured as follows:

Assets pledged	30 June 2010	30 June 2009
Cash	-	30 400
Inventories	91 234	36 835
Property, plant and equipment (Note 11)	33 793	61 811
<b>Total</b>	<b>125 027</b>	<b>129 046</b>

## 17. LONG-TERM BORROWINGS

The balances of long-term borrowings as of 30 June 2010 and 2009 were as follows:

	<b>30 June 2010</b>	<b>30 June 2009</b>
Long-term bank loans	168 218	132 599
Current portion of long-term borrowings	(40 764)	(11 230)
<b>Total</b>	<b>127 454</b>	<b>121 369</b>

### Long-term bank loans

The balances of long-term borrowings as of 30 June 2010 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<b>Amount due</b>
European bank	Libor + 5.7%	USD	September 2013	15 081
European bank	Libor + 3.52%	USD	April 2015	32 220
European bank	Libor + 6.75%	USD	September 2012	32 000
European bank	Libor + 5.7%	USD	July 2011	45 000
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	33 288
Ukrainian subsidiary of European bank	25%	UAH	August 2012	10 629
<b>Total</b>				<b>168 218</b>

The balances of long-term borrowings as of 30 June 2009 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<b>Amount due</b>
Ukrainian subsidiary of European bank	11.25%	USD	July 2010	51 750
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	40 972
Ukrainian subsidiary of European bank	Libor + 3.75%	USD	September 2013	5 000
European bank	Libor + 3.52%	USD	April 2015	34 877
<b>Total</b>				<b>132 599</b>

Long-term loans as of 30 June 2010 include credit line from banks with the overall maximum credit limit of USD 210 000 thousand (as of 30 June 2009 USD 163 750 thousand).

<b>Assets pledged</b>	<b>30 June 2010</b>	<b>30 June 2009</b>
Property, plant and equipment (Note 11)	219 577	119 398
Intangible assets (Note 12)	5 994	6 211
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b>225 571</b>	<b>125 609</b>

## 17. LONG-TERM BORROWINGS (CONTINUED)

In addition, controlling stakes in the following Subsidiaries were pledged to secure the long-term bank loans of the Group as of 30 June 2010 and 2009:

	<b>Name of Subsidiary</b>
<b>30 June 2010</b>	<b>30 June 2009</b>
VJSC "Vovchansk VOEP"	CJSC "Poltava oil crushing plant-Kernel Group"
LLC "Reshetylivka Hliboproduct"	CJSC "Reshetylivka Hliboproduct"
LLC "Globynsky elevator HP"	CJSC "Globynsky elevator HP"
LLC "Gutnansky elevator"	CJSC "Gutnansky elevator"
JSC "Poltavske khlibopriemalne pidpriemstvo"	JSC "Poltavske khlibopriemalne pidpriemstvo"
LLC "Prykolotnjansky OEP"	CJSC "Prykolotnjansky OEP"
LLC "Velykoburlutske HPP"	CJSC "Velykoburlutske HPP"
LLC "Shevchenkisky KHP"	CJSC "Shevchenkisky KHP"
LLC "Kovyagivske KHP"	CJSC "Kovyagivske KHP"
CJSC "Poltavaavtotransservis"	CJSC "Poltavaavtotransservis"
LLC "Bandurskiy oil crushing plant "	LLC "Bandurskiy elevator"

## 18. OBLIGATIONS UNDER FINANCE LEASE

As of 30 June 2010 and 2009 the major components of finance lease liabilities were as follows:

	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
	<b>30 June 2010</b>	<b>30 June 2010</b>
Amounts payable due to the finance lease:		
Within one year (Note 15)	6 159	5 255
Later than one year and not later than five years	8 569	7 796
	14 728	13 051
Less future finance charges	(1 677)	-
<b>Present value of lease obligations</b>	<b>13 051</b>	<b>13 051</b>

	<b>Minimum lease payments</b>	<b>Present value of minimum lease payments</b>
	<b>30 June 2009</b>	<b>30 June 2009</b>
Amounts payable due to the finance lease:		
Within one year (Note 15)	6 089	4 970
Later than one year and not later than five years	12 754	11 491
	18 843	16 461
Less future finance charges	(2 382)	-
<b>Present value of lease obligations</b>	<b>16 461</b>	<b>16 461</b>

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 6.7 million was outstanding as at 30 June 2010. The finance lease liability is denominated in USD and bears interest rate of 8.0% per annum.



## 19. CORPORATE BONDS

As of 30 June 2009 corporate bonds issued were as follows:

Series	Amount due	Currency	Coupon	Maturity
Series C	1 993	USD	17%	18 September 2010
<b>Total</b>	<b>1 993</b>			

The corporate bonds were fully redeemed on 15 September 2009.

## 20. INCOME TAX

As of 30 June 2010 and 2009 the major components of deferred tax assets and liabilities were as follows:

	30 June 2010	30 June 2009
<b>Deferred tax assets arising from:</b>		
Tax losses carried forward	1 266	1 321
Valuation of advances from customers	8 568	6 401
Valuation of accounts receivable	296	658
Valuation of property, plant and equipment	967	690
Valuation of intangible assets	216	301
Valuation of inventories	27	1
Valuation of accrued expenses and other temporary differences	324	215
<b>Deferred tax asset</b>	<b>11 664</b>	<b>9 587</b>
Less: valuation allowance	-	(828)
<b>Net deferred tax asset after valuation allowance</b>	<b>11 664</b>	<b>8 759</b>
<b>Deferred tax liability arising from:</b>		
Valuation of property, plant and equipment	(31 904)	(11 644)
Valuation of prepayments to suppliers and prepaid expenses	(9 824)	(8 775)
Valuation of intangible assets	(2 285)	(2 511)
Valuation of inventories	(18)	(27)
Valuation of financial investments	(9)	(9)
<b>Deferred tax liability</b>	<b>(44 040)</b>	<b>(22 966)</b>
<b>Net deferred tax liability</b>	<b>(32 376)</b>	<b>(14 207)</b>

## 20. INCOME TAX (CONTINUED)

As of 30 June 2010 and 2009 all deferred taxes arose from temporary differences in value related to assets and liabilities of Subsidiaries. The corporate income tax rate in Ukraine was 25% as of 30 June 2010 and 2009.

The components of income tax expense for the year ended 30 June 2010 and 30 June 2009 were as follows:

	30 June 2010	30 June 2009
Current income tax expenses	(804)	(1 047)
Deferred tax benefit/(expense)	912	6 166
<b>Income tax benefit/(expenses)</b>	<b>108</b>	<b>5 119</b>

The income tax charge for the year ended 30 June 2010 and 2009 is reconciled to the profit before income tax per consolidated income statement as follows:

	30 June 2010	30 June 2009
Profit/(loss) before income tax:	151 593	126 863
Tax at the statutory income tax rate in Ukraine of 25%	(37 898)	(31 716)
Expenditures not allowable for income tax purposes and non-taxable income, net	37 178	37 369
Change in valuation allowance	828	(534)
<b>Income tax benefit /(expenses)</b>	<b>108</b>	<b>5 119</b>

## 21. REVENUE

Revenue for the 12-month period ended 30 June 2010 and 2009 was as follows:

	30 June 2010	30 June 2009
Revenue from bulk sunflower oil, cake and meal	400 698	256 871
Revenue from bottled sunflower oil	112 627	121 974
Revenue from farming	3 807	8 697
Revenue from grain trade	466 462	583 084
Revenue from grain silo services	12 791	30 635
Revenue from transshipment services	24 086	29 102
Other revenue	-	16 750
<b>Total</b>	<b>1 020 471</b>	<b>1 047 113</b>

For the above-stated period ended 30 June 2010 revenues from five European customers accounted for approximately 33% of the total revenue (for the 12 month ended 30 June 2009 revenue from five European customers accounted for 24.5% of the total revenue).



## 22. COST OF SALES

The cost of sales for the 12-month period ended 30 June 2010 and 2009 was as follows:

	30 June 2010	30 June 2009
Cost of goods for resale and raw materials used	652 177	672 532
Payroll and payroll related costs	17 813	20 518
Amortization and depreciation	21 454	22 967
Rental payments	7 059	2 513
Other operating costs	10 911	11 779
<b>Total</b>	<b>709 414</b>	<b>730 309</b>

## 23. OTHER OPERATING INCOME

Other operating income for the 12-month period ended 30 June 2010 and 2009 was as follows:

	30 June 2010	30 June 2009
Gain/(loss) arising from changes in fair value attributable to physical changes and to changes in the market price for biological assets (Note 10)	7 482	(1 384)
VAT and other farming related exemptions	5 759	4 945
Contracts wash-out (price difference settlement)	911	2 357
Premiums for quality	337	6 489
Other operating income	3 058	4 473
<b>Total</b>	<b>17 547</b>	<b>16 880</b>

## 24. DISTRIBUTION COSTS

The distribution costs for the 12-month period ended 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Carriage and freight	115 471	123 526
Marketing and advertising	8 233	8 254
Payroll and payroll related costs	1 078	953
Customs expenses	2 700	5 291
Certification	3 131	2 813
Sanitation services	793	1 248
Depreciation	79	50
Other expenses	2 903	1 166
<b>Total</b>	<b>134 388</b>	<b>143 301</b>

## 25. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the 12-month period ended 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Payroll and payroll related costs	11 023	9 936
Bank services	2 228	1 350
Bad debts expenses	1 717	96
Amortization and depreciation	1 007	391
Taxes other than income tax	1 047	1 566
Audit, legal and other professional fees	3 617	2 986
Rental payments	1 561	2 374
Repairs and material costs	836	544
Information expenses	-	131
Business trip expenses	427	628
Communication expenses	656	713
Insurance	670	929
Other expenses	1 943	2 091
<b>Total</b>	<b>26 732</b>	<b>23 735</b>

The fair value of the share based payments (Note 33) as of 30 June 2010 in amount of USD 1 407 thousand (30 June 2009: USD 1 407 thousand) is recognized as payroll and payroll related expenses for the period ended 30 June 2010. The auditors remuneration for the period ended 30 June 2010 in amount of USD 269 thousand is included in audit, legal and other professional fees (30 June 2009: USD 276 thousand).

## 26. FINANCE COSTS, NET

The finance costs for the 12-month period ended 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Interest expense on bank loans and corporate bonds	17 909	30 668
Other finance costs, net	4 875	1 571
<b>Total</b>	<b>22 784</b>	<b>32 239</b>

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

Other income/(expenses) for the 12-month period ended 30 June 2010 and 2009 were as follows:

	30 June 2010	30 June 2009
Income/(expenses) from "DAK Asset"	(94)	194
Gain on sale of equity investments (Note 28)	578	345
Gain/(Losses) on disposal of property, plant and equipment	(172)	302
Other income/(expenses), net	(4 376)	(5 292)
<b>Total</b>	<b>(4 064)</b>	<b>(4 451)</b>

Income from "DAK Asset" for the 12 month ended 30 June 2010 and 2009 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" (Note 14).

## 28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The following entities were acquired during the 12-month period ended 30 June 2010:

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of
			30 June 2010
Corolex Public Co.Limited	Holding company	Cyprus	94%
"Group Management", LLC		Ukraine	94%
CJSC "Grain Trading Company Allseeds-Ukraine"		Ukraine	94%
"Grain Trading Company", LLC	Trade of sunflower oil, meal and grain.	Ukraine	94%
JSC "Kirovogradoliya"	Production plants. Production of sunflower oil and meal.	Ukraine	93.2%
"Ekotrans", LLC		Ukraine	94%
"Skifiya-Zernotrada", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	94%
"Elevator - Grain Trading Company", LLC		Ukraine	94%
JSC "Trykratskiy GPC"		Ukraine	86.5%
"MTE-2004", LLC	Trucking company.	Ukraine	94%
"Oiltransterminal", LLC	Provision of oil handling and transshipment services, including services to the Group.	Ukraine	94%

## 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	1 853
Trade accounts receivable, net	38 758
Prepayments to suppliers and other current assets, net	3 175
Taxes recoverable and prepaid, net	33 623
Inventory	29 010
Property, plant and equipment, net	119 421
Intangible assets	532
Trade accounts payable	(21 687)
Advances from customers and other current liabilities	(24 155)
Short-term borrowings	(104 031)
Current portion of long-term borrowings	(20 326)
Long-term borrowings	(5 048)
Obligations under finance lease	(734)
Deferred tax liabilities	(16 208)
<b>Fair value of net assets of acquired Subsidiaries</b>	<b>34 183</b>
Minority interest of acquired Subsidiaries	(2 734)
<b>Fair value of acquired net assets</b>	<b>31 449</b>
Goodwill	41 202
<b>Total cash considerations due and payable</b>	<b>72 651</b>
Less: acquired cash	(1 853)
<b>Net cash outflow due to the acquisition of Subsidiaries</b>	<b>70 798</b>
Goodwill attributable to minority shareholders	(199)
<b>Net cash outflow from acquisition of Subsidiaries attributable to Kernel Holding S.A. shareholders</b>	<b>70 599</b>

In accordance with IFRS 3, the Group does not disclose revenue and profit or loss of the acquired subsidiaries for the 9 month period prior to 1 April 2010, as they formed part of a larger group and their financial statements for such period would not reflect the effective economic contribution to the Group.

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

The following entities were disposed of during the year ended 30 June 2010:

Subsidiary	Principal Activity	Country of Incorporation
"Orilske HPP", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services	Ukraine
"Galeschina-Agro", LLC		Ukraine
JSC "Reshetilovski elevator"		Ukraine
JSC "Globinsky elevator kliboproduktiv"		Ukraine
JSC "Horolskiy elevator"		Ukraine
CJSC "Agrofirma "Krasnopavlivska"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine
"C.F.C Ukraine" Ltd	Provision of grain handling and transshipment services, including services to the Group.	Ukraine

Subsidiaries, which have been disposed of, had been previously fully consolidated.

The Group consolidated the financial statements of "Orilske HPP", LLC, "Galeschina-Agro", LLC, JSC "Reshetilovski elevator", JSC "Horolskiy elevator", JSC "Globinsky elevator kliboproduktiv", LLC "Agrofirma "Krasnopavlivska" "C.F.C Ukraine" Ltd due to the fact that equity holders holding a majority share of the voting rights in these Subsidiaries are related parties of the Group.

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

Fair value of assets, liabilities and contingent liabilities disposed of during the 12-month period ended 30 June 2010 was as follows:

### Assets disposed of, net:

Cash	4
Trade accounts receivable	494
Prepayments to suppliers and other current assets	7 249
Provision for prepayments to suppliers	(1 349)
Taxes recoverable and prepaid, net	1 179
Inventory	43
Property, plant and equipment, net	44
Deferred tax assets	180
Trade payables	(129)
Other non-current liabilities	(99)
Advances from customers and other current liabilities	(7 904)
Short-term borrowings	(1)

### Fair value of assets of Subsidiaries disposed of, net

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**(289)**

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### Non-controlling interest

772

### Fair value of assets disposed of, net

**483**

### Gain on disposal of Subsidiaries

**578**

### Total cash consideration received

**1 061**

Less: cash from assets disposed of, net

(4)

Less: accounts receivable for Subsidiaries disposed of

(471)

### Net cash inflow from Subsidiaries disposed of

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**586**

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On 6 August 2009, in order to simplify its legal structure, and further to transferring their assets to other Subsidiaries, the Group relinquished operational control of JSC "Reshetilovski elevator", JSC "Horolskiy elevator", JSC "Globinsky elevator kliboproduktiv", LLC "Agrofirma "Krasnopavlivska and does not consolidate them further. On 28 October and 18 December 2009 operational control of "Orilske HPP" and LLC "Galeschina-Agro", LLC was also relinquished.

Prior to 15 January 2010, the Group consolidated "C.F.C Ukraine" Ltd due to the fact that equity holders holding a majority share of the voting rights in this Subsidiary are related parties of the Group. On 15 January 2010, following the transfer of assets and liabilities of "C.F.C Ukraine" Ltd to other Subsidiaries, operational control over "C.F.C Ukraine" Ltd was relinquished and the company not consolidate further.



## 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 2010 and 2009:

	<b>Related party balances as of</b>	<b>Total category as per consolidated balance sheet as of</b>	<b>Related party balances as of</b>	<b>Total category as per consolidated balance sheet as of</b>
	<b>30 June 2010</b>		<b>30 June 2009</b>	
Trade accounts receivable, net	476	65 483	-	32 419
Prepayments to suppliers and other current assets, net	78 271	94 233	6 327	25 810
Other non-current assets	-	29 138	16 300	18 703
Trade accounts payable	42	10 913	-	7 539
Advances from customers and other current liabilities	73 489	131 386	-	25 806

Prepayments to suppliers and other current assets include a USD 70 million loan provided by Kernel to a group of investors for the purchase of Allseeds. In the course of the reporting period, Kernel exercised its option to acquire Allseeds from the group of investors, resulting in USD 70 million owed to the group of investors, such amount due being accounted for under advances from customers and other current liabilities. In the course of the first quarter of FY 2011 mutual obligations of Kernel and the group of investors will be fully offset by the parties.

Transactions with related parties for the 12-month period ended 30 June 2010 and 2009 were as follows:

	<b>Amount of operations with related parties, for the</b>	<b>Total category per consolidated income statement for the</b>	<b>Amount of operations with related parties, for the</b>	<b>Total category per consolidated income statement for the</b>
	<b>12 month ended 30 June 2010</b>		<b>12 month ended 30 June 2009</b>	
Revenue	614	1 020 471	-	1 047 113
Cost of sales	(202)	(709 414)	-	(730 309)
General, administrative and distribution expenses	(54)	(161 120)	(2 631)	(167 036)
Finance costs	-	(22 784)	(1 173)	(32 239)
Other income/(expenses)	41	(4 064)	(168)	(4 451)

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.



### 30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, and 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 2010 and 30 June 2009 the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Capital commitments - As of 30 June 2010 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 4 989 thousand for supply of equipment and services required for the new solvent extraction plant under construction and for a total amount of USD 600 thousand for supply of equipment and services required for construction of a new silo.

As of 30 June 2009 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 11 000 thousand for supply of equipment and services required for the new solvent extraction plant under construction, and for a total amount of USD 4 500 thousand for supply of equipment and services required for increase in production capacity at CJSC "Poltava oil crushing plant-Kernel Group".

Contractual Commitments on Sales - As of 30 June 2010 the Group had entered into commercial contracts for export of 116 thousand tons of grain and 183 thousand tons of sunflower oil and meal, corresponding to an amount of USD 16 353 thousand and USD 96 573 thousand respectively in prices as of 30 June 2010.

As of 30 June 2009 the Group had entered into commercial contracts for export of 97 thousand tons of grain and 137 thousand tons of sunflower oil and meal, corresponding to an amount of USD 22 600 thousand and USD 56 000 thousand respectively, in prices as of 30 June 2009.

Operating Leases - As of 30 June 2010 and 30 June 2009 the Group had outstanding commitments under non-cancellable operating lease agreements with following maturities:

Lease term	Future minimum lease payment as of 30 June 2010 (with third parties)	Future minimum lease payment as of 30 June 2009 (with third parties)	With Companies of the Group as of 30 June 2010	With Companies of the Group as of 30 June 2009
Less than 1 year	5 340	4 669	1 286	1 937
From 1 to 5 years	13 905	10 753	-	-
More than 5 years	5 630	4 452	-	-
<b>Total</b>	<b>24 875</b>	<b>19 874</b>	<b>1 286</b>	<b>1 937</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 equity by USD 81 725 thousand as a result of a secondary offering of shares. In June 2010 Kernel increased equity by USD 81 104 thousand.

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 S.A. 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 the 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 2010	30 June 2009
Debt liabilities* (Note 16, 17, 18, 19)	350 367	299 536
Cash and cash equivalents (Note 5)	(59 482)	(129 263)
Net debts	290 885	170 273
Equity**	601 862	355 834
<b>Gearing ratio</b>	<b>48%</b>	<b>48%</b>

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

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

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.

### 31. FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of 30 June 2010 and 30 June 2009 were as follows:

	30 June 2010	30 June 2009
Cash (Note 5)	59 482	129 263
Trade accounts receivable, net (Note 6)	65 483	32 419
Taxes recoverable and prepaid, net (Note 8)	205 584	72 871
<b>Total</b>	<b>330 549</b>	<b>234 553</b>

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

	30 June 2010	30 June 2009
Domestic customers (accounts receivable, net)	9 002	10 392
International customers (accounts receivable, net)	56 481	22 027
<b>Total</b>	<b>65 483</b>	<b>32 419</b>

Almost all clients of the Group are wholesale customers. The Group's most significant customer, an international customer, accounted for USD 15 048 thousand of the trade receivables as of 30 June 2010 (as of 30 June 2009 one customer accounted for USD 8 000 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 33% 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 title documents via banking channels and uses payment instruments, such as letters of credit (LC) and bank guarantees.

#### Impairment losses

The aging of trade receivables as of 30 June 2010 and 30 June 2009 was as follows (Note 6):

	Gross carrying amount 30 June 2010	Impairment 30 June 2010	Gross carrying amount 30 June 2009	Impairment 30 June 2009
Current	46 303	-	31 350	-
Past due 0-30 days	17 564	-	803	-
Past due 31-180 days	1 743	(261)	152	(23)
Past due 181-365 days	268	(134)	274	(137)
More than one year	1 028	(1 028)	650	(650)
<b>Total</b>	<b>66 906</b>	<b>(1 423)</b>	<b>33 229</b>	<b>(810)</b>

### 31. FINANCIAL INSTRUMENTS (CONTINUED)

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 12-month ended 30 June 2010 and 30 June 2009 was as follows:

	30 June 2010	30 June 2009
Balance at 30 June	(810)	(1 378)
Impairment loss recognized	(613)	568
<b>Balance at 30 June</b>	<b>(1 423)</b>	<b>(810)</b>

#### VAT recoverable

For the 12-month period ended 30 June 2010 the amount of VAT returned was USD 19 619 thousand.

#### **Schedule of VAT return**

July 2009	2 145
September 2009	7 245
December 2009	5 807
January 2010	1 901
February 2010	2 521
<b>Total</b>	<b>19 619</b>

For the period 12-month ended 30 June 2009 the amount of VAT returned was USD 49 828 thousand.

#### **Schedule of VAT return**

July 2008	6 613
September 2008	1 706
December 2008	8 019
January 2009	5 251
March 2009	22 703
April 2009	1 718
May 2009	3 818
<b>Total</b>	<b>49 828</b>

As of 30 June 2010 Taxes recoverable and prepaid comprised VAT outstanding for a total amount of USD 202 234 thousand.

Resolution of the Cabinet of Ministers No 368 dated 12 May 2010 stated that the Government of Ukraine would issue bonds covering VAT refunds owed up to 1 May 2010 and confirmed by the Government. The bonds would carry an interest rate of 5.5 percent per annum, and be redeemed semi-annually in 10 equal principal amounts, the final repayment to occur five years following the issuance of the bond.

Following publication of the Resolution of the Cabinet of Ministers, Ukrainian subsidiaries of Kernel Holding S.A. applied to receive such bonds for a total amount of USD 135 549 thousand. The bonds, which had not been issued as of 30 June 2010, were finally issued by the Ministry of Finance of Ukraine in September 2010, and the Ukrainian subsidiaries of Kernel Holding S.A., which had applied for such bonds, received the bonds for the full amount of USD 135 549 thousand.

Currently, Management is defining the appropriate internal policy to apply in respect of the bonds and their further use. As an option available to the Company, the bonds would be held to maturity and provided as collateral, if and when required, to secure additional bank financing.

Management intends to establish the fair value of the bonds based on available market information and other relevant factors. As of 30 June 2010 the bonds had not been issued and, therefore, were not traded on the market. Currently, yields on debt issued by the State are volatile, with sovereign bonds denominated in hryvnia trading in a 12 to 16 % band.



### 31. FINANCIAL INSTRUMENTS (CONTINUED)

#### Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned (controlled) subsidiaries. As of 30 June 2010 as well as at 30 June 2009 no guarantees were outstanding in favour 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.

The contractual maturities of financial liabilities, including interest payments, as of 30 June 2010 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	10 913	(10 913)	(10 913)	-	-	-
Short-term borrowings (Note 16)	166 491	(167 421)	(167 421)	-	-	-
Long-term borrowings (Note 17)	168 218	(182 215)	(48 692)	(79 672)	(53 851)	-
Obligations under finance lease (Note 18)	13 051	(14 728)	(6 159)	(5 005)	(3 564)	-
<b>Total</b>	<b>358 673</b>	<b>(375 277)</b>	<b>(233 185)</b>	<b>(84 677)</b>	<b>(57 415)</b>	<b>-</b>

The contractual maturities of financial liabilities, including interest payments, as of 30 June 2009 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	7 539	(7 539)	(7 539)	-	-	-
Short-term borrowings (Note 16)	147 635	(148 067)	(148 067)	-	-	-
Long-term borrowings (Note 17)	132 599	(151 295)	(21 954)	(68 944)	(47 897)	(12 500)
Obligations under finance lease (Note 18)	16 461	(18 801)	(6 304)	(4 970)	(7 527)	-
Corporate bond issued (Note 19)	1 993	(2 049)	(2 049)	-	-	-
<b>Total</b>	<b>306 227</b>	<b>(327 751)</b>	<b>(185 913)</b>	<b>(73 914)</b>	<b>(55 424)</b>	<b>(12 500)</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 inventory 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 and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides The Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

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





### 31. FINANCIAL INSTRUMENTS (CONTINUED)

The Group's exposure to foreign currency risk as at 30 June 2010 was as follows:

	<u>UAH</u>	<u>USD</u>	<u>EUR</u>	<u>Other currencies</u>
Cash	15 790	43 506	143	43
Trade accounts receivable, net	9 002	56 481	-	-
Trade accounts payable	(8 853)	(2 060)	-	-
Short-term borrowings (Note 16)				
<i>Ukrainian subsidiary of European bank</i>	<i>(15 191)</i>	-	-	-
<i>European banks</i>	-	<i>(153 907)</i>	-	-
Long-term borrowings (Note 17)				
<i>Ukrainian subsidiary of European bank</i>	<i>(10 629)</i>	-	-	-
<i>European banks</i>	-	<i>(157 589)</i>	-	-
Obligations under finance lease (Note 18)	-	(7 796)	-	-
<b>Balance sheet gross exposure</b>	<b><u>(9 881)</u></b>	<b><u>(221 365)</u></b>	<b><u>143</u></b>	<b><u>43</u></b>
Estimated sales	-	112 926	-	-
Estimated purchases	-	-	-	-
<b>Gross exposure</b>	<b><u>-</u></b>	<b><u>112 926</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net exposure</b>	<b><u>(9 881)</u></b>	<b><u>(108 439)</u></b>	<b><u>143</u></b>	<b><u>43</u></b>

A 10 percent strengthening of UAH against USD as at 30 June 2010 would have increased equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	<u>USD</u>
USD	<b><u>(12 049)</u></b>

Conversely, a 10 percent fall of UAH against USD as at 30 June 2010 would have had the opposite effect, on the assumption that all other variables remain constant.

### 31. FINANCIAL INSTRUMENTS (CONTINUED)

The Group's exposure to foreign currency risk as at 30 June 2009 was as follows:

	UAH	USD	EUR
Cash	4 660	124 362	241
Trade accounts receivable, net	10 392	22 027	-
Inventory	98 423	663	-
Property, plant and equipment	159 530	62 240	-
Trade accounts payable	(7 406)	(133)	-
Short-term borrowings (Note 16)			
<i>Ukrainian subsidiary of European bank</i>	-	(63 039)	-
<i>European banks</i>	-	(85 444)	-
Long-term borrowings (Note 17)			
<i>Ukrainian subsidiary of European bank</i>	-	(97 722)	-
<i>European banks</i>	-	(34 877)	-
Obligations under finance lease (Note 18)	-	(11 491)	-
Corporate bonds issued (Note 19)	(1 993)	-	-
<b>Balance sheet gross exposure</b>	<b>263 606</b>	<b>(83 414)</b>	<b>241</b>
Estimated sales	-	78 600	-
Estimated purchases	-	-	-
<b>Gross exposure</b>	<b>-</b>	<b>78 600</b>	<b>-</b>
<b>Net exposure</b>	<b>263 606</b>	<b>(4 814)</b>	<b>241</b>

A 10 percent strengthening of UAH against USD as at 30 June 2009 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
USD	(458)

Conversely, a 10 percent fall of UAH against USD as at 30 June 2009 would have had the opposite effect, on the assumption 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 borrowings with fixed and with variable rates.

The interest rate profile of the Group's interest -bearing financial instruments as of 30 June 2010 and 2009 was as follows:

	Carrying amount	
	30 June 2010	30 June 2009
Fixed rate instruments (financial liabilities)	47 143	131 852
Variable rate instruments (financial liabilities)	303 224	167 684
<b>Total</b>	<b>350 367</b>	<b>299 536</b>

### 31. FINANCIAL INSTRUMENTS (CONTINUED)

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.

#### 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 2010 and 2009 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 2008, 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 2010 and 2009: 316 705 options out of 2 216 935 were not granted.

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

	Weighted average fair value in USD, per option			Number of options	
	30 June 2010	30 June 2009		30 June 2010	30 June 2009
Beginning of the year	2.2215	2.2215		1 900 230	1 900 230
Vested during the year	2.2215	2.2215		633 410	633 410
Outstanding at end of the 12-month period	2.2215	2.2215		1 750 230	1 900 230

	Number of options			Fair value recognized as an expense during the period	
	at beginning of the period	granted during the period	executed during the period	Outstanding at the end of the period	
Management	1 900 230	-	(150 000)	1 750 230	1 407

Options holders are three members of the management of Kernel Group.

The fair value of the share based transactions as of 30 June 2010 in amount of USD 1 407 thousand is recognized as an expense (part of the payroll and payroll related expenses) and a corresponding increase in equity over the vesting period (30 June 2009: USD 1 407 thousand).

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 behaviour. 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 2010

Expected option term (in years)	4
Expected dividend yield	0 %
Expected volatility	15%
Risk-free interest rate	5.25%

Remuneration of the Board (6 Directors) for the year ended 30 June 2010 amounted to USD 672 thousand (for the year ended 30 June 2009 USD 671 thousand).

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 earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of ordinary shares outstanding (69 070 178 for the period ended 30 June 2010 and 68 741 000 for the period ended 30 June 2009), excluding any dilutive effects of stock options. Diluted earnings per share is computed similar to basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such 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 73 891 365 ordinary shares are taken into account as the outstanding stock options were out of money based on the average market price during the reporting period (30 June 2009: 68 741 000).

### 35. DESCRIPTION OF SUBSEQUENT EVENTS

On 12 July 2010 4 450 000 new ordinary bearer shares of Kernel were registered by the National Depository for Securities (Krajowy Depozyt Papierow Wartościowych, "NDS") and admitted to trading on the main market of the Warsaw Stock Exchange ("WSE"), following which the total number of Kernel Holding S.A. shares outstanding is 73 191 000.

On 11 August 2010, a Syndicated Secured Financing Facility in favour of Kernel Trade LLC, a subsidiary of the Company, was signed with a banking syndicate led by ING Bank N.V and UniCredit Bank AG, together the Co-ordinating Mandated Lead Arrangers of the Financing Facility. The Financing Facility amounts to USD 260 million. The proceeds shall be used to finance the Borrower's sunflower seed purchases, their storage period and their processing into oil and sunflower meal, which are to be sold on the domestic market or exported.

On 2 September 2010, as the credit agreement was registered with the National Bank of Ukraine, the USD 260 000 thousand Financing Facility came into force and the security package related to the loan signed

In Resolution No 368 dated 12 May 2010, the Cabinet of Ministers of Ukraine stated that the State would issue bonds covering VAT refunds owed up to 1 May 2010 and confirmed by the Government. The bonds would carry an interest rate of 5.5 percent per annum, and be redeemed semi-annually in 10 equal principal amounts, the final repayment to occur five years following the issuance of the bond.

Following publication of the Resolution of the Cabinet of Ministers, Ukrainian subsidiaries of Kernel Holding S.A. applied to receive such bonds for a total amount of USD 135 549 thousand. The bonds, which had not been issued as of 30 June 2010, were finally issued by the Ministry of Finance of Ukraine in September 2010, and the Ukrainian subsidiaries of Kernel Holding S.A., which had applied for such bonds, received the bonds for the full amount of USD 135 549 thousand.

Currently, Management is defining the appropriate internal policy to apply in respect of the bonds and their further use. As an option available to the Company, the bonds would be held to maturity and provided as collateral, if and when required, to secure additional bank financing.

Management intends to establish the fair value of the bonds based on available market information and other relevant factors. As of 30 June 2010 the bonds had not been issued and, therefore, were not traded on the market. Currently, yields on debt issued by the State are volatile, with sovereign bonds denominated in hryvnia trading in a 12 to 16 % band.

# *Kernel Holding S.A.*

**Capital: USD 1,932,681.54**

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

**Annual accounts as at 30.06.2010**

**65, Boulevard Grange-Duchesse Charlotte**

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  
R.C.S. Luxembourg Section B n° 109.173

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To the Shareholders

KERNEL Holding S.A  
65, boulevard Grande Duchesse Charlotte.  
L-1331 LUXEMBOURG

## **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

### **Report on annual accounts**

Following our appointment, we have audited the accompanying financial statements of KERNEL Holding S.A, which comprise the balance sheet as at June 30, 2010, the income statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

### **Board of Managers' responsibility for the annual accounts**

The Board of Managers 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 financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that is 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 Réviseur d'entreprises agréé**

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 for Luxembourg by the Commission de Surveillance du Secteur Financier. 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 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 risks assessments, the réviseur d'entreprises agréé 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 of 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, 2010, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

Luxembourg, September 22nd, 2010



Jean Bernard ZEIMET  
Réviseur d'entreprises agréé  
TEAMAUDIT S.A.

JEAN BERNARD ZEIMET  
Réviseur d'Entreprises  
67, Rue Michel Welter  
**L-2730 Luxembourg**

This representation letter is provided in connection with your audit of the financial statements of KERNEL HOLDING S.A. for the year ended June 30, 2010 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of (present fairly, in all material respects) the financial position of KERNEL HOLDING S.A. as of June 30, 2010 and of the results of its operations then ended in accordance with Luxembourg Financial Reporting Standards (Lux Gap).

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

\* There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

\*We have made available to you all books of account and supporting documentation and all minutes of meetings of shareholders and the board of directors for the period July 1, 2009 to June 30, 2010.

\*We confirm the completeness of the information provided regarding the identification of related parties.

\*The financial statements are free of material misstatements, including omissions.

\*The Company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of noncompliance.

\*There has been no noncompliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of noncompliance.

\*The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

- The identity of, and balances and transactions with, related parties.
- Losses arising from sale and purchase commitments.
- Agreements and options to buy back assets previously sold.
- Assets pledged as collateral.

\*We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

\*We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realizable value.

\*The Company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets.

\*We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in the notes to the financial statements all guarantees that we have given to third parties.

\*There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or Notes thereto

\*There are no formal or informal compensating balance arrangements with any of our cash and investment accounts

\*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.

On behalf of the Management

Verevskiy Andrey  
Chairman of the Board

Usachova Anastasiia  
CFO

September 22, 2010

**Kernel Holding S.A.**

A public limited company  
 65, Boulevard Grande-Duchesse Charlotte  
 L-1331 Luxembourg  
 R.C.S. Luxembourg Section B n° 109.173

**BALANCE SHEET AS OF 30 JUNE 2010**

*(in US dollars and in thousands unless otherwise stated)*

	Notes	30 June 2010	30 June 2009
<b>ASSETS</b>			
Formation expenses		6 836	7 730
Financial Assets	4, 2	474 515	270 159
Other accounts receivable:	5		
Becoming due within one year		306	5 164
Becoming due after more than one year		41 118	50 073
Prepayments and accrued income	6	31	4
Cash	2	10 902	1 585
<b>TOTAL ASSETS</b>		<b>533 708</b>	<b>334 715</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Accounts payable:			
Becoming due within one year		74 505	5 927
Becoming due after more than one year	11	137 069	80 400
Provisions for liabilities and charges	10	833	857
<b>TOTAL LIABILITIES</b>		<b>212 407</b>	<b>87 184</b>
<b>CAPITAL AND RESERVES</b>			
Subscribed capital	7	1 933	1 815
Share premium reserve		329 639	247 316
Additional paid in capital	8	123	123
Retained earnings	9	(1 723)	12 461
Profit/(loss) for the year		(8 671)	(14 184)
<b>TOTAL CAPITAL</b>		<b>321 301</b>	<b>247 531</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>533 708</b>	<b>334 715</b>

On behalf of the Board

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

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

The notes on pages 107 to 114 form an integral part of these annual accounts.



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**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010**

*(in US dollars and in thousands unless otherwise stated)*

	Year ended 30 June 2010	Year ended 30 June 2009
Income derived from other transferable securities and from loans forming part of fixed assets	7	-
<b>GROSS PROFIT</b>	<b>-</b>	<b>-</b>
OPERATING EXPENSES:		
General and administrative expenses	(2 673)	(2 061)
Other operating expenses	(3 413)	(2 372)
<b>TOTAL OPERATING EXPENSES</b>	<b>(6 086)</b>	<b>(4 433)</b>
<b>OPERATING PROFIT (LOSS)</b>	<b>( 6 079 )</b>	<b>(4 433)</b>
Financial expenses, net	(2 442)	(9 156)
Other income/expenses, net	(150)	166
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>(8 671)</b>	<b>(13 423)</b>
Income tax	-	(761)
<b>NET PROFIT/(LOSS)</b>	<b>(8 671)</b>	<b>(14 184)</b>

On behalf of the Board

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

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

The notes on pages 107 to 114 form an integral part of these annual accounts.

## **Kernel Holding S.A.**

A public limited company  
65, Boulevard Grande-Duchesse Charlotte  
L-1331 Luxembourg  
R.C.S. Luxembourg Section B n° 109.173

### **APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010**

#### **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 Luxembourg law. Its registered office is established in Luxembourg, 65, Boulevard Grande-Duchesse Charlotte. The Company is registered at the Luxembourg company register under number B 109 173.

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.

The Company’s financial year runs from July 1 to June 30.

On the basis of the offering prospectus (the “Prospectus”) approved on October 25, 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.

NAMSEN Limited, a company registered in Cyprus, 13, Agiou Prokopiou Street holds 41.23% of the shares of the Company. As parent company to the Kernel Group, NAMSEN Ltd prepares consolidated annual accounts. These consolidated accounts are available at the registered office of NAMSEN Ltd.

#### **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 principles.

##### **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:

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.

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 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.

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R.C.S. Luxembourg Section B n° 109.173

**APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)****NOTE 2 – PRINCIPAL ACCOUNTING METHODS AND VALUATION RULES (CONTINUED)****Formation expenses**

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

**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.

**Cash at bank**

This item is valued at its nominal value.

**Assets: prepayments and accrued income**

This item consists of accrued income and charges paid or recorded in advance.

**Creditors**

Debts are valued at their nominal value.

**Kernel Holding S.A.**

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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)****NOTE 3 – FORMATION EXPENSES**

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

	2010 USD	2009 USD
<b>Acquisition cost at July 1, 2009</b>	<b>12,247,635.28</b>	<b>12,241,311.42</b>
Capital increase expenses	1,637,687.56	6,323.86
<b>Acquisition cost at June 30, 2010</b>	<b>13,885,322.84</b>	<b>12,247,635.28</b>
<b>Value adjustments at July 1, 2009</b>	<b>(4,517,596.25)</b>	<b>(2,455,840.82)</b>
Value adjustments of the period	(2,531,423.76)	(2,061,755.43)
<b>Value adjustments at June 30, 2010</b>	<b>(7,049,020.01)</b>	<b>(4,517,596.25)</b>
<b>Net value at June 30, 2010</b>	<b>6,836,302.83</b>	<b>7,730,039.03</b>

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**APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)**

**NOTE 4 – FINANCIAL ASSETS**

	Shares in affiliated companies <b>USD</b>	Loans to affiliated companies <b>USD</b>	<b>Total USD</b>
<b>Acquisition cost at July 1, 2009</b>	<b>270,158,993.87</b>	<b>-</b>	<b>270,158,993.87</b>
<i>Additions</i>	<i>165,556,107.62</i>	<i>38,800,000</i>	<i>204,356,107.62</i>
<i>Disposals</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Transfers</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Acquisition cost at June 30, 2010</b>	<b>435,715,101.49</b>	<b>38,800,000</b>	<b>474,515,101.49</b>
<b>Value adjustments at July 1, 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Provisions for the period</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Write-back for the period</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Value adjustments at June 30, 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net value at June 30, 2010</b>	<b>435,715,101.49</b>	<b>38,800,000</b>	<b>474,515,101.49</b>

**APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)**
**NOTE 4 – FINANCIAL ASSETS (CONTINUED)**

Company name + registered office	Shareholding held as % of the capital	Currency	Year End	Equity	Result	Shares in affiliated Companies
JERSTE B.V Prins Bernhardplein 200 1097 JB Amsterdam The Netherlands	100%	USD (EUR)	31/12/2009	24,717,380 17,149,365	222,449 154,339	29,912,730
INERCO TRADE S.A Genève, Switzerland	99,94%	USD (CHF)	30/06/2008	4,964,998 5,398,807	524,606 570,443	3,532,674
KERNEL CAPITAL LLC 35, Olesya Gonchara str 01034 Kiev, Ukraine	99,50%	USD (UAH)	31/12/2008	22,757,767 175,715,000	3,719,677 28,720,000	33,967,197
KERNEL TRADE 35, Olesya Gonchara str 01034 Kiev, Ukraine	99,83%	USD (UAH)	30/06/2009	8,094,701 62,500,000	(5,117,405) (39,512,000)	191,765,191
INERCO-UKRAINE LLC 17, Marshala Biruzova str. Poltava, Ukraine	99,91%	USD (UAH)	31/12/2009	50,841.22 40,596,700	1,802 1,439,300	5,380,000
UKRAGROBIZNES LL 35, Olesya Gonchara str 01034 Kiev, Ukraine	91,25%	USD (UAH)	30/06/2009	51,936 401,000	(518) (4,000)	67,290
INERCO COMMODITIES S.A. Route de Berne, 52 1010 Lausanne, Switzerland	100%	USD	30/06/2010	(191,846)	(227,008)	44,699
ESTRON CORPORATION LTD Annis Komninis, 29A,P.C. 1061 Nicosia, Cyprus	100%	USD	30/06/2010	7,468,253	1,138,533	97,526,716
CHOREX DEVELOPMENTS LTD Egypt Street 10, P.C.1097 Nicosia, Cyprus	100%	USD	30/06/2010	66,473	(484.16)	2,296
HAMALEX DEVELOPMENTS LTD Salaminas, 10 Lympia Nicosia, Cyprus	100%	USD	30/06/2010	(4,783)	22	2,292
ETRECOM INVESTMENTS Agiou Prokopiu 13 2406 Egkomi-Lefkosia Cyprus	100%	USD	30/06/2009	(5,851,000)	(6,369,000)	1.4
CHORNA KAMYANKA LLC Ukraine	1%	USD (UAH)	30/06/2009	16,049 12,815,000	22,564 18,017,000	101,398
TRANSBULTERMINAL LLC JV Ukraine	1%	UAH	30/06/2010	25,568	(3,116)	49

On June 22, 2010, the company acquired 94% of the Cyprus Company Corolex Public Co Limited.

Due to the various object and due to the specific role of each subsidiaries, the Company decided not make any value adjustments on the subsidiaries value.



## **APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)**

### **NOTE 5 – DEBTORS**

This item consists mainly of:

- Loan of USD 11,560,000 (initially USD 10,000,000) to INERCO TRADE S.A. bearing an interest of 0.01%, with a term of 8 years (31.12.2015)
- Loan of USD 29,558,000 (initially USD 250,000,000) to LANEN S.A. bearing an interest of 0.01% with a term of 3 years (18.11.2015)
- Interest receivable on loans from Inerco Trade and Lanen for USD 197,295.22
- Advance paid to the insurance company Zheleznodorozhnye for USD 100,000

### **NOTE 6 – PREPAYMENTS AND ACCRUED INCOME**

The prepayments and accrued incomes consist mainly of:

- Prepaid expenses for USD 30,746.97

### **NOTE 7 – SUBSCRIBED CAPITAL**

On the 30th of June 2009, the subscribed and fully paid-up capital of the company was of 1,815,174.84 USD represented by 68,741,000 shares without indication of a nominal value. The authorized capital, excluding the current issued capital was USD 172,086.1850 represented by 6,516,935 shares without indication of a nominal value.

By a circular resolution of the board of directors of the company dated 21 May, 2010; the board decided to increase the share capital by an amount of USD 117,506.70 so as to raise the share capital from its current amount of USD 1,815,174.84, by the issue of 4,450,000 new shares without indication of a nominal value.

As a consequence of such increase of the share capital of the Company on June 3, 2010, the share capital of the company is set at USD 1,932,681.54 divided into 73,191,000 shares without indication of a nominal value. The authorized share capital excluding the current issued share capital is fixed at USD 54,579.49 represented by 2,066,935 shares without indication of the nominal value with a share premium of USD 329,638,877.24.

### **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 dividend distribution.

No allocation to the legal reserve has been done for the year end 30.06.2010 as the result of the company is a loss.

## APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)

### NOTE 9 – RESULT BROUGHT FORWARD

	USD
Retained earnings at 01.07.2009	12,460,910.14
Loss for the financial year	(14,183,522.18)
Result brought forward at 30.06.10	1,722,612.04

The allocation of retained earnings was approved by the Resolution of the Sole Shareholder of November 16, 2009.

### NOTE 10 – PROVISIONS FOR RISKS AND CHARGES

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

- Net Wealth Tax provision 2008, 2009 and 2010 for an amount of USD 761,122.61 (EURO 542,649.50)
- Capital tax (taxe d'abonnement) provision previous years for an amount of USD 19,509.88
- Audit and advisory services fees for a total amount of USD 23,301.74

### NOTE 11 – CREDITORS

The creditors are mainly composed of:

- A long term borrowing Syndicate Loan of USD 32,000,000 to ABN AMRO Bank, BNP PARIBAS bank bearing a bank interest of 7.052810%.
- A long term loan of USD 7, 898, 862.95 due to LANEN S.A. bearing an interest of 0.01%.
- Long term borrowing loan to INERCO TRADE for an amount of USD 97,170,074.66 bearing an interest of 0.01%
- A short term payable to Namsen for the acquisition of 24.9% shares of Corolex Public Co for USD 29,138,283.98.
- Interests payable to the banks for USD 476,456.50.

No debt is covered by an actual surety,

### NOTE 12 - TAX STATUS

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

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

## APPENDIX TO THE ANNUAL ACCOUNTS AS AT JUNE 30, 2010 (CONTINUED)

### NOTE 13 – 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 in Vienna.

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 has provided 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 a margin of 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.

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

On the 12th of July, 2010, new ordinary bearer shares of Kernel Holding were registered in the National Depository for Securities (Krajowy Depozyt Papierow Wartosciowych, "NDS") and admitted to the trading on the main market of the Warsaw Stock Exchange ("WSE"), following which the total number of Kernel Holding S.A. shares is 73,191,000.

The shares were registered in the NDS pursuant to resolution no. 395/2010 of the Management Board of the NDS dated 5 July, 2010 and admitted to trading on the WSE pursuant to resolution no.642/2010, the Management Board of the WSE dated 7 July, 2010.