

**Chairman's opening statement**

Dear Shareholders:

Since publishing our first half-year report on 23 April, the main news item affecting our corporate life is the capital increase, the result of which was announced on 29<sup>th</sup> April. I am pleased to say that the offering of new shares was well received by our shareholders, giving us satisfaction with past performance of our Company and increased confidence in our future growth plans. The capital increase adds USD 80 million to the company's equity base, providing not only additional resources as the company enters the new 2010-2011 season with considerably larger oil production capacities, but also the necessary firepower in our negotiations for the acquisitions we target. As outlined in our first half-year report, we are in particular focusing on potential acquisitions of assets to expand our grain terminal and our oil businesses. We consider the grain terminal business in Ukraine not only as highly attractive and profitable on a stand-alone basis, but also offering considerable synergies with our grain originating and marketing segment. As to expansion of our oil production facilities, we view Ukraine as largely consolidated and are considering acquisition targets in Russia. Such an acquisition would be a stepping stone and a cautious approach to eventually developing in Russia a range of businesses as we operate in Ukraine.

The results of our 3<sup>rd</sup> quarter ending 31 March 2010 are mostly in line with management expectations. The 32.5% year-on-year increase in revenue reflects primarily our drive to increase volumes processed or handled by the company. Tonnage of executed bulk oil sales contracts increased year-on-year by 111% and executed grain sales contracts increased by 18.7%. Margins, on the one hand, fell significantly year-on-year. This should, however, be viewed primarily in the context of the dramatic fall in the value of the Hrivnia in October 2008, which had the effect of artificially increasing our margins in the third quarter of financial year 2009, as we shall explain further in the financial review. In comparison to margins achieved over the first half of the current year, the company has continued to perform in line with the previous two quarters and to deliver healthy margins.

With the current financial year coming to an end, we are now firmly focused on the new season. The Ministry of Agriculture of Ukraine has recently provided planting statistics and a crop forecast slightly higher than harvest volumes actually achieved in Ukraine in 2009. Monitoring by our farming department also assesses the planting process to be developing positively across Ukraine, and rainfall and temperatures to be adequate in most agricultural regions. Though we consider it is still early to provide a more confident crop forecast, all indicators presently point to a reasonable crop in 2010. This should enable the company to originate sizable grain volumes this season again, and also maximize utilization of our expanded oilseed crushing facilities. Pricewise, markets for agricultural commodities remain subdued: whereas commodity prices in the energy and metals sectors have clearly moved into positive territory in the course of the previous twelve months, soft commodities handled by the company are below levels seen a year ago. While the coming season might not yet bring higher prices in our commodities, we are reasonably confident that we should eventually see an uptrend, in line with the broad commodity complex.

**Financial highlights for the 3-month period ending 31 March 2010**

**Revenue** increased 32.5% year-on-year, from USD 203.4 million for the third quarter of financial year 2009 to USD 269.4 million for the third quarter of the current year;

**Operating profit** decreased 6.9% year-on-year, from USD 48.8 million for the third quarter of financial year 2009 to USD 45.4 million for the third quarter of the current year;

**Net profit attributable to equity holders** decreased 15.0% year-on-year, from USD 47.2 million for the third quarter of financial year 2009 to USD 40.0 million for the quarter under review;

**Available bank lines** and trade finance facilities totaled USD 530 million at 31 March 2010, of which USD 290 million were utilized;

**Return on shareholders' equity:** 43%

**Production, sales and throughput tonnage for the 3-month period ending 31 March**

	<b>3-month period ended 31 March 2009</b>	<b>3-month period ended 31 March 2010</b>
Sales of grain, tons	643 050	763 176
Sales of oil in bulk, tons	40 293	85 203
Sales of bottled oil, in thousand liters	23 487	26 260
Sunflower seed crush, tons	206 275	286 471
Production of refined oil, tons	25 727	26 903
Production of bottled oil, tons	20 250	26 426
Grain terminal throughput, tons	909 291	956 760

**Review of financial results for the 3-month period ending 31 March 2010**

**Revenue** increased year-on-year by 32.5% primarily as a consequence of the increase in crushing capacity and bulk oil contracts executed over the quarter, and also as a consequence of the increase in grain contracts executed over the period, versus third quarter of the previous financial year. The price of bulk oil contracts executed over the period increased moderately by 8% year-on-year, while price of grain contracts executed over the period remained flat.

**Gross profit** increased from USD 86.3 million for the three-month period to 31 March 2009 to USD 88.7 million for the three-month period under review. In relative terms, gross margin decreased year-on-year from 42.4% to 32.9%. The significantly higher margin achieved in the third quarter of financial year 2009 was a direct consequence of the October 2008 fall in the value of the Hrivnia: as the value of inventory bought prior to the third quarter of financial year 2009 was converted back from Hrivnia into USD at a new and lower exchange rate, the cost of goods delivered in the course of the 3rd quarter of financial year 2009, in execution of oil and grain export contracts, was correspondingly lower, leading to an artificially high gross margin.

**Distribution costs** have increased from USD 33.3 million for the three-month period to 31 March 2009 to USD 39.0 million for the three-month period under review, the 17% year-on-year increase resulting primarily from the 111% increase in bulk oil contracts and 18.7% increase in grain contracts executed over the period under review.

**General and administrative expenses** have decreased from USD 6.7 million for the three-month period to 31 March 2009 to USD 5.5 million for the three-month period under review, reflecting continued cost control of the company.

**Operating profit** decreased year-on-year from USD 48.8 million for the three-month period to 31 March 2009 to USD 45.4 million for the three-month period under review. In relative terms, operating margin decreased from 24.0% to 16.9% for the same reasons that led to a fall in gross margin, as explained above.

**Financial expenses** relative to turnover decreased year-on-year from 2.9% to 1.9%, reflecting continued easing of cash management policy initiated in the first-half of the current financial year.

**Net profit attributable to equity holders** decreased from USD 47.2 million for the three-month period to 31 March 2009 to USD 40.0 million for the three-month period under review. In relative terms, net margin decreased year-on-year from 23.2% to 14.9%.

**Inventories** have increased year-on-year from USD 102.6 million to USD 190.5 million, an 86% increase resulting primarily from the crushing capacity expansion of the company and the build-up in oilseed stock needed for processing.

**Taxes prepaid** have increased from USD 49.4 million for the three-month period to 31 March 2009 to USD 151.8 million for the three-month period under review as a result of the higher inventory level and continued difficulty exporters face with VAT refund due by the state. As discussed in our previous half-year report, the Ukrainian government is expected to issue state bonds, which can be paid for and offset against VAT refunds due to exporters. Kernel anticipates that the bond issue will be submitted to Parliament in June and issued in the course of the summer.

**Operating cash flow** for the three-month period under review was a net USD 111.0 million, primarily as a result of the decrease in inventory levels, as oilseed in stock is processed and grain in storage is progressively shipped.

**Segmental review*****Bottle oil***

Bottle oil sales achieved a strong performance over the third quarter, with sales increasing from USD 21.7 million for the three-month period to 31 March 2009 to USD 28.6 million for the three-month period under review. This 32.1% year-on-year increase in sales is the result of a 12% year-on-year increase in third-quarter sales volumes and an 18% year-on-year increase in the average price of bottle oil. Operating margin for the quarter remained healthy at 25% and at a 4% margin differential to bulk oil.

***Bulk oil***

Turnover in bulk oil sales increased from USD 50.5 million for the three-month period to 31 March 2009 to USD 87.6 million for the three-month period under review. This 73.5% year-on-year increase is primarily the result of the additional crushing capacities of the Group in Poltava and Illichevsk, and the 111% year-on-year increase in volume of bulk oil deliveries for the quarter. Operating margin for the quarter under review stands at 21.2%.

***Grain***

Turnover generated by the grain segment increased 23.4% year-on-year, from USD 118.7 million to USD 146.5 million for the quarter under review, primarily as a result of the 20% year-on-year increase in volume of grain delivered over the quarter under review. Operating margin remains strong at 10%.

***Silo services***

Group silos stored a total of 1.2 million tons of grain and oilseeds as of 31 March 2010, compared to 1.8 million tons as of March 2009. Operating profit decreased from USD 2,5 million for the 3rd quarter of financial year 2009 to USD 2.0 million for the 3rd quarter of the current year, primarily reflecting the lower 2009 harvest and crop intake by company grain silos .

***Grain terminal (grain handling and transshipment services in port)***

Total grain throughput through the company terminal in Illichevsk increased 5% year-on-year from 909 thousand tons to 957 thousand tons for the quarter under review. Turnover increased year-on-year from USD 11,8 million to USD 15.3 million for the quarter under review. Quarterly operating margin remains strong at 45%.

***Farming***

Farming activity in the third quarter of the financial year is typically already geared towards the new season. As a result, farming turnover and results are not material to third quarter Group results.

**Outlook**

With the current financial year drawing to a close and our fourth quarter well under way, we feel confident to reiterate and maintain our guidance for our financial year 2010, with revenue at USD 1 050 million, EBITDA at USD 195 million and net profit at USD 155 million for the full year.

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

**Condensed Consolidated Financial Statements**

**For the 3 months ended 31 March 2010**

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**SELECTED FINANCIAL DATA AS AT 31 MARCH 2010 (unaudited)**
*(in thousands unless otherwise stated)*

SELECTED FINANCIAL DATA for the 3 months ended 31 March 2010	thousand USD		thousand PLN		thousand EUR	
	2010	2009	2010	2009	2010	2009
I. Revenue	269 449	203 391	777 118	700 072	194 650	155 908
II. Operating profit(loss)	45 394	48 762	130 921	167 839	32 793	37 378
III. Profit/(loss) before income tax	39 981	46 249	115 309	159 189	28 882	35 452
IV. Net profit/(loss)	40 056	47 172	115 526	162 366	28 936	36 159
V. Net cash flow from operating activity	111 029	58 907	320 219	202 758	80 207	45 155
VI. Net cash flow from investment activity	(54 643)	(19 894)	(157 596)	(68 475)	(39 474)	(15 250)
VII. Net cash flow from financial activity	(92 711)	(2 542)	(267 388)	(8 750)	(66 974)	( 1 949)
VIII. Total net cash flow	(36 325)	36 471	(104 765)	125 533	(26 241)	27 957
IX. Total assets	849 581	639 902	2 439 997	2 266 277	631 748	482 053
X. Current liabilities	197 011	189 344	565 816	670 581	146 497	142 637
XI. Non-current liabilities	160 871	135 564	462 021	480 113	119 624	102 124
XII. Issued capital	1 815	1 815	5 213	6 428	1 350	1 367
XIII. Total equity	491 699	314 994	1 412 160	1 115 583	365 627	237 292
XIV. Number of shares	68 741 000	68 741 000	68 741 000	68 741 000	68 741 000	68 741 000
XV. Profit/(loss) per ordinary share (in USD/PLN/EUR)	0,58	0,69	1,67	2,36	0,42	0,53
XVI. Diluted number of shares	69 512 754	68 741 000	69 512 754	68 741 000	69 512 754	68 741 000
XVII. Diluted profit/(loss) per ordinary share (in USD/PLN/EUR)	0,58	0,69	1,67	2,36	0,42	0,53
XVIII. Book value per share (in USD/PLN/EUR)	7,14	4,54	20,51	16,09	5,31	3,42
XIX. Diluted book value per share (in USD/PLN/EUR)	7,06	4,54	20,28	16,09	5,25	3,42

On behalf of the Board

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 Andrey Verevskiy  
 Chairman of the Board

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 Anastasiia Usachova  
 CFO

The notes on pages 10 to 33 form an integral part of these condensed consolidated financial statements

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010**
*(in US dollars and in thousands unless otherwise stated)*

	Notes	31 March 2010	31 December 2009	30 June 2009	31 March 2009
		(unaudited)	(reviewed)	(audited)	(unaudited)
<b>ASSETS</b>					
<i>CURRENT ASSETS:</i>					
Cash		14 789	50 308	129 263	124 019
Trade accounts receivable, net		42 404	58 594	32 419	35 679
Prepayments to suppliers and other current assets, net		29 666	25 906	25 810	35 250
Taxes recoverable and prepaid, net		151 802	137 951	72 871	49 383
Inventory		190 513	268 367	99 086	102 578
Biological assets		6 597	3 617	18 932	8 354
<b>Total current assets</b>		<b>435 771</b>	<b>544 743</b>	<b>378 381</b>	<b>355 263</b>
<i>NON-CURRENT ASSETS:</i>					
Property, plant and equipment, net	5	258 315	252 687	221 770	208 464
Intangible assets, net	6	32 288	32 957	35 686	35 936
Goodwill		44 836	44 772	45 166	28 727
Other non-current assets		78 371	32 597	18 703	11 512
<b>Total non-current assets</b>		<b>413 810</b>	<b>363 013</b>	<b>321 325</b>	<b>284 639</b>
<b>TOTAL ASSETS</b>		<b>849 581</b>	<b>907 756</b>	<b>699 706</b>	<b>639 902</b>
<b>LIABILITIES AND EQUITY</b>					
<i>CURRENT LIABILITIES:</i>					
Trade accounts payable		15 724	18 348	7 539	9 432
Advances from customers and other current liabilities		19 517	23 493	25 806	14 861
Short-term borrowings	7	131 128	217 162	148 483	154 824
Short-term corporate bonds		-	-	1 993	1 957
Current portion of long-term borrowings		30 642	31 994	11 230	8 270
<b>Total current liabilities</b>		<b>197 011</b>	<b>290 997</b>	<b>195 051</b>	<b>189 344</b>
<i>NON-CURRENT LIABILITIES:</i>					
Long-term borrowings	8	135 276	142 246	121 369	105 370
Obligations under finance lease		8 910	9 280	11 491	11 102
Deferred tax liabilities	9	16 367	16 012	14 207	18 966
Other non-current liabilities		318	-	125	126
<b>Total non-current liabilities</b>		<b>160 871</b>	<b>167 538</b>	<b>147 192</b>	<b>135 564</b>
<i>Equity attributable to Kernel Holding S.A. equity holders</i>					
Issued capital		1 815	1 815	1 815	1 815
Share premium reserve		236 637	236 637	236 637	236 637
Additional paid-in capital		39 944	39 944	39 944	39 944
Revaluation reserve		11 260	11 260	-	-
Translation reserve		(160 920)	(163 331)	(162 163)	(183 937)
Retained earnings		362 056	322 049	239 601	217 901
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>490 792</b>	<b>448 374</b>	<b>355 834</b>	<b>312 360</b>
<i>Non-controlling interest</i>		907	847	1 629	2 634
<b>Total equity</b>		<b>491 699</b>	<b>449 221</b>	<b>357 463</b>	<b>314 994</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>849 581</b>	<b>907 756</b>	<b>699 706</b>	<b>639 902</b>
Book value		490 792	448 374	355 834	312 360
Number of shares		68 741 000	68 741 000	68 741 000	68 741 000
<b>Book value per one share (in USD)</b>		<b>7,14</b>	<b>6,52</b>	<b>5,18</b>	<b>4,54</b>
Diluted number of shares		69 512 754	69 213 500	68 741 000	68 741 000
<b>Diluted book value per share (in USD)</b>		<b>7,06</b>	<b>6,48</b>	<b>5,18</b>	<b>4,54</b>

On behalf of the Board

 Andrey Verevskiy  
 Chairman of the Board

 Anastasiia Usachova  
 CFO

The notes on pages 10 to 33 form an integral part of these condensed consolidated financial statements



**CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE 3 MONTHS ENDED 31 MARCH 2010**  
*(in US dollars and in thousands unless otherwise stated)*

	<b>3 months</b>	<b>9 months</b>	<b>3 months</b>	<b>9 months</b>
	<b>ended 31 March 2010</b>		<b>ended 31 March 2009</b>	
<b>CONTINUING OPERATIONS</b>	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE	269 449	781 973	203 391	865 896
COST OF SALES	(180 714)	(538 181)	(117 067)	(598 002)
<b>GROSS PROFIT</b>	<b>88 735</b>	<b>243 792</b>	<b>86 324</b>	<b>267 894</b>
OTHER OPERATIONAL INCOME	1 108	7 951	2 427	13 205
OPERATING EXPENSES:				
Distribution costs	(38 966)	(106 747)	(33 306)	(117 507)
General and administrative expenses	(5 483)	(17 691)	(6 683)	(21 311)
<b>RESULT FROM OPERATING ACTIVITIES</b>	<b>45 394</b>	<b>127 305</b>	<b>48 762</b>	<b>142 281</b>
Finance costs, net	(5 094)	(13 973)	(5 862)	(29 197)
Foreign exchange (loss)/gain, net	969	10 778	4 076	(7 263)
Other (expenses)/income, net	(1 288)	(1 943)	(727)	(1 113)
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>39 981</b>	<b>122 167</b>	<b>46 249</b>	<b>104 708</b>
INCOME TAX	75	419	923	5 587
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>40 056</b>	<b>122 586</b>	<b>47 172</b>	<b>110 295</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO:</b>				
Equity holders of Kernel Holding S.A.	40 007	122 455	47 216	113 848
Non-controlling interest	49	131	(44)	(3 553)
<b>Net profit/(loss) attributable to equity holders of Kernel Holding S.A.</b>	<b>40 007</b>	<b>122 455</b>	<b>47 216</b>	<b>113 848</b>
Number of shares	68 741 000	68 741 000	68 741 000	68 741 000
Profit/(loss) per ordinary share (in USD)	0,58	1,78	0,69	1,66
Diluted number of shares	69 512 754	69 326 703	68 741 000	68 741 000
Diluted profit/(loss) per ordinary share (in USD)	0,58	1,77	0,69	1,66

On behalf of the Board

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE 3 MONTHS ENDED 31 MARCH 2010**
*(in US dollars and in thousands unless otherwise stated)*

	<b>3 months ended 31 March 2010 (unaudited)</b>	<b>9 months ended 31 March 2010 (unaudited)</b>	<b>3 months ended 31 March 2009 (unaudited)</b>	<b>9 months ended 31 March 2009 (unaudited)</b>
<b>NET PROFIT</b>	<b>40 056</b>	<b>122 586</b>	<b>47 172</b>	<b>110 295</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Exchange differences on translating foreign operations	2 417	1 236	4 713	(197 233)
Gain on property revaluation	-	15 154	-	-
Income tax related to components of other comprehensive income	-	(3 789)	-	-
<b>OTHER COMPREHENSIVE INCOME NET</b>	<b>2 417</b>	<b>12 601</b>	<b>4 713</b>	<b>(197 233)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>42 473</b>	<b>135 187</b>	<b>51 885</b>	<b>(86 938)</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Equity holders of Kernel Holding S.A.	42 418	134 963	51 902	(82 350)
Non-controlling interest	55	224	(17)	(4 588)

On behalf of the Board

 Andrey Verevskiy  
 Chairman of the Board

 Anastasiia Usachova  
 CFO

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 3 MONTHS ENDED 31 MARCH 2010**
*(in US dollars and in thousands unless otherwise stated)*

	Attributable to Kernel Holding S.A. equity holders						Total	Non-controlling interest	Total equity
	Issue capital	Share premium reserve	Additional paid-in capital	Retained earnings	Revaluation surplus	Translation reserve			
<b>Balance at 31 March 2009</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>217 901</b>	-	<b>(183 937)</b>	<b>312 360</b>	<b>2 634</b>	<b>314 994</b>
Profit for the period	-	-	-	21 700	-	-	21 700	(2)	21 698
Other comprehensive income	-	-	-	-	-	21 774	21 774	10	21 784
<b>Total comprehensive income for the period</b>	-	-	-	<b>21 700</b>	-	<b>21 774</b>	<b>43 474</b>	<b>8</b>	<b>43 482</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	(1 013)	(1 013)
<b>Balance at 30 June 2009</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>239 601</b>	-	<b>(162 163)</b>	<b>355 834</b>	<b>1 629</b>	<b>357 463</b>
Profit for the period	-	-	-	39 152	-	-	39 152	20	39 172
Other comprehensive income	-	-	-	-	11 260	(6 022)	5 238	92	5 330
<b>Total comprehensive income for the period</b>	-	-	-	<b>39 152</b>	<b>11 260</b>	<b>(6 022)</b>	<b>44 390</b>	<b>112</b>	<b>44 502</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	(933)	(933)
<b>Balance at 30 September 2009</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>278 753</b>	<b>11 260</b>	<b>(168 185)</b>	<b>400 224</b>	<b>808</b>	<b>401 032</b>
Profit for the period	-	-	-	43 296	-	-	43 296	62	43 358
Other comprehensive income	-	-	-	-	-	4 854	4 854	-	4 854
<b>Total comprehensive income for the period</b>	-	-	-	<b>43 296</b>	-	<b>4 854</b>	<b>48 150</b>	<b>62</b>	<b>48 212</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	(23)	(23)
<b>Balance at 31 December 2009</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>322 049</b>	<b>11 260</b>	<b>(163 331)</b>	<b>448 374</b>	<b>847</b>	<b>449 221</b>
Profit for the period	-	-	-	40 007	-	-	40 007	49	40 056
Other comprehensive income	-	-	-	-	-	2 411	2 411	6	2 417
<b>Total comprehensive income for the period</b>	-	-	-	<b>40 007</b>	-	<b>2 411</b>	<b>42 418</b>	<b>55</b>	<b>42 473</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	5	5
<b>Balance at 31 March 2010</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>362 056</b>	<b>11 260</b>	<b>(160 920)</b>	<b>490 792</b>	<b>907</b>	<b>491 699</b>

On behalf of the Board

 Andrey Verevskiy  
 Chairman of the Board

 Anastasiia Usachova  
 CFO

The notes on pages 10 to 33 form an integral part of these condensed consolidated financial statements

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE 3 MONTHS ENDED 31 MARCH 2010 (unaudited)**

<i>(in US dollars and in thousands unless otherwise stated)</i>	<b>3 months</b>	<b>9 months</b>
	<b>31 March 2010</b>	
	(unaudited)	(unaudited)
<b>OPERATING ACTIVITIES:</b>		
Profit/(loss) before income tax	39 981	122 167
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>		
Amortization and depreciation	4 852	14 753
Finance costs	5 094	13 973
Bad debt expenses and other accruals	117	783
Loss/(gain) on disposal of property, plant and equipment	51	191
Non-operating foreign exchange loss/(gain), net	(198)	5 853
Gain on sales of equity investments	-	(640)
<b>Operating profit before working capital changes</b>	<b>49 897</b>	<b>157 080</b>
<i>Changes in working capital:</i>		
Decrease/(increase) in trade accounts receivable	16 630	(9 741)
Decrease/(increase) in prepayments and other current assets	(5 117)	(7 796)
Decrease/(increase) in restricted cash balance	(806)	23 570
Decrease/(increase) in taxes recoverable and prepaid	(13 851)	(80 048)
Decrease/(increase) in biological assets	(2 980)	12 335
Decrease/(increase) in inventories	78 468	(86 455)
Increase/(decrease) in trade accounts payable	(2 624)	8 314
Increase/(decrease) in advances from customers and other current liabilities	(3 288)	(605)
<b>Cash obtained from/(used in) operations</b>	<b>116 329</b>	<b>16 654</b>
Finance costs paid	(5 094)	(13 973)
Income tax paid	(206)	(662)
<b>Net cash provided by/(used in) operating activities</b>	<b>111 029</b>	<b>2 019</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(8 877)	(37 764)
Proceeds from disposal of property, plant and equipment	37	205
Sales/(Purchase) of intangible and other non-current assets	(45 803)	(59 835)
Disposal of Subsidiaries	-	586
<b>Net cash used in investing activities</b>	<b>(54 643)</b>	<b>(96 808)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term and long-term borrowings	50 593	514 183
Repayment of short-term and long-term borrowings	(143 404)	(504 550)
Corporate bonds issued/(repaid)	-	(1 993)
<b>Net cash provided by financing activities</b>	<b>(92 811)</b>	<b>7 640</b>
TRANSLATION ADJUSTMENT	100	(3 755)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(36 325)	(90 904)
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>	<b>43 493</b>	<b>98 072</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<b>7 168</b>	<b>7 168</b>

On behalf of the Board

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE 3 MONTHS ENDED 31 MARCH 2009 (unaudited)**
*(in US dollars and in thousands unless otherwise stated)*

	<b>3 months</b>	<b>9 months</b>
	<b>31 March 2009</b>	
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>OPERATING ACTIVITIES:</b>		
Profit/(loss) before income tax	46 249	104 708
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>		
Amortization and depreciation	5 302	18 187
Finance costs	5 862	29 197
Bad debt expenses and other accruals	(390)	236
Loss/(gain) on disposal of property, plant and equipment	(31)	(319)
Foreign exchange loss/(gain), net	(4 076)	7 263
Income from "DAK asset"	92	266
Gain on sales of equity investments	(345)	(345)
<b>Operating profit before working capital changes</b>	<b>52 663</b>	<b>159 193</b>
<i>Changes in working capital:</i>		
Decrease/(increase) in trade accounts receivable	8 573	12 023
Decrease/(increase) in prepayments and other current assets	(901)	(15 859)
Decrease/(increase) in restricted cash balance	9 850	(4 136)
Decrease/(increase) in taxes recoverable and prepaid	6 139	(26 452)
Decrease/(increase) in biological assets	(3 085)	34 091
Decrease/(increase) in inventories	(2 520)	(10 615)
Increase/(decrease) in trade accounts payable	1 470	3 834
Increase/(decrease) in advances from customers and other current liabilities	(7 220)	(12 512)
<b>Cash obtained from/(used in) operations</b>	<b>64 969</b>	<b>139 567</b>
Finance costs paid	(5 862)	(29 197)
Income tax paid	(200)	(1 609)
<b>Net cash provided by/(used in) operating activities</b>	<b>58 907</b>	<b>108 761</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(20 076)	(55 554)
Proceeds from disposal of property, plant and equipment	182	2 777
Sales/(Purchase) of intangible and other non-current assets	-	(1 012)
Acquisition of Subsidiaries	-	(5 825)
<b>Net cash used in investing activities</b>	<b>(19 894)</b>	<b>(59 614)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term and long-term borrowings	51 532	476 063
Repayment of short-term and long-term borrowings	(54 074)	(435 012)
Corporate bonds issued/(repaid)	-	(29 027)
<b>Net cash provided by financing activities</b>	<b>(2 542)</b>	<b>12 024</b>
TRANSLATION ADJUSTMENT	-	(29 818)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>36 471</b>	<b>31 353</b>
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>	<b>53 695</b>	<b>58 813</b>
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<b>90 166</b>	<b>90 166</b>

On behalf of the Board

 Andrey Verevskiy  
Chairman of the Board

 Anastasiia Usachova  
CFO

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2010 (unaudited)**
*(in US dollars and in thousands unless otherwise stated)*
**1. KEY DATA BY OPERATING SEGMENT FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2010 (unaudited)**

	<b>Bottled sunflower oil</b>	<b>Sunflower oil in bulk</b>	<b>Grain handling and transshipment services</b>	<b>Farming</b>	<b>Grain</b>	<b>Silo services</b>	<b>Other</b>	<b>Reconciliation</b>	<b>Continuing Operations</b>
Revenue (external)	28 649	87 560	4 733	205	146 507	1 795	-	-	<b>269 449</b>
Intersegment sales	-	-	10 541	255	-	2 963	-	(13 759)	-
<b>Total</b>	<b>28 649</b>	<b>87 560</b>	<b>15 274</b>	<b>460</b>	<b>146 507</b>	<b>4 758</b>	<b>-</b>	<b>(13 759)</b>	<b>269 449</b>
Other operating income	-	576	-	38	238	39	217	-	<b>1 108</b>
<b>Operating profit (EBIT)</b>	<b>7 112</b>	<b>18 584</b>	<b>6 815</b>	<b>(618)</b>	<b>14 488</b>	<b>1 956</b>	<b>(2 943)</b>	<b>-</b>	<b>45 394</b>
Finance costs net									<b>(5 094)</b>
Foreign exchange (loss)/gain, net									<b>969</b>
Other (expenses)/ income, net									<b>(1 288)</b>
Income tax									<b>75</b>
<b>Net profit</b>									<b>40 056</b>
<b>Total assets</b>	<b>135 107</b>	<b>236 529</b>	<b>98 482</b>	<b>55 693</b>	<b>173 934</b>	<b>39 025</b>	<b>110 811</b>	<b>-</b>	<b>849 581</b>
Capital expenditures	463	14 402	539	1 097	12	691	1 067	-	<b>18 271</b>
Amortization and depreciation	359	1 030	774	2 162	70	324	133	-	<b>4 852</b>
Liabilities	3101	6 943	1 418	1 573	11 946	3 557	329 344	-	<b>357 882</b>

During the 3-month period ended 31 March 2010 none of the Group's customers accounted for more than 10% of the total external revenue. During the 3-month period ended 31 March 2010 export sales amounted to 81 % of total external sales revenue.

**KERNEL HOLDING S.A. AND SUBSIDIARIES**
**1. KEY DATA BY OPERATING SEGMENT (CONTINUED) FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2009 (unaudited)**

	<b>Bottled sunflower oil</b>	<b>Sunflower oil in bulk</b>	<b>Grain handling and transshipment services</b>	<b>Farming</b>	<b>Grain</b>	<b>Silo services</b>	<b>Other</b>	<b>Reconciliation</b>	<b>Continuing Operations</b>
Revenue (external)	21 695	50 451	5 842	561	118 698	4 142	2 002	-	<b>203 391</b>
Intersegment sales	-	-	5 923	872	-	3 031	-	(9 826)	-
<b>Total</b>	<b>21 695</b>	<b>50 451</b>	<b>11 765</b>	<b>1 433</b>	<b>118 698</b>	<b>7 173</b>	<b>2 002</b>	<b>(9 826)</b>	<b>203 391</b>
Other operating income	-	-	-	681	1 446	300	-	-	<b>2 427</b>
<b>Operating profit (EBIT)</b>	<b>5 542</b>	<b>17 630</b>	<b>7 181</b>	<b>(1 784)</b>	<b>24 365</b>	<b>2 512</b>	<b>(6 684)</b>	<b>-</b>	<b>48 762</b>
Finance costs, net									<b>(5 862)</b>
Foreign exchange (loss)/gain, net									<b>4 076</b>
Other (expenses)/ income, net									<b>(727)</b>
Income tax									<b>923</b>
<b>Net profit</b>									<b>47 172</b>
<b>Total assets</b>	<b>110 728</b>	<b>127 915</b>	<b>87 497</b>	<b>67 419</b>	<b>185 568</b>	<b>44 828</b>	<b>15 947</b>	<b>-</b>	<b>639 902</b>
Capital expenditures	2 088	996	3	220	624	301	-	-	<b>4 232</b>
Amortization and depreciation	1 122	1 323	791	1 890	65	369	2	-	<b>5 562</b>
Liabilities	2 260	2 849	1 609	1 321	4 716	5 507	306 646	-	<b>324 908</b>

During the 3-month period ended 31 March 2009 one of the Group's external customer accounts for more than 11% of the total external revenue. During the 3-month period ended 31 March 2009 export sales amount to near 85% 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 trans-shipment 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 31 March 2010, 31 December 2009, and 31 March 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		
			31 March 2010	31 December 2009	31 March 2009
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine.	Ukraine	100%	100%	100%
"Etrecom Investments", LLC	Holding company.	Cyprus	100%	100%	100%
"Yuzhtrans-Terminal", LLC	Dormant company.	Ukraine	Disposed of on 17 February, 2009	Disposed of on 17 February, 2009	Disposed of on 17 February, 2009
Inerco Trade S.A.	Trade of sunflower oil, meal and grain.	Switzerland	100%	100%	99.0%
Inerco Commodities S.A.		Switzerland	100%	100%	N/A
Restomon LTD		British Virgin Islands	100%	100%	N/A
Lanen S.A.		Panama	100%	100%	100%
"Kernel-Trade", LLC		Ukraine	100%	100%	100%
Jerste BV		Holding company	Netherlands	100%	100%
CJSC "Poltava oil crushing plant — Kernel Group"	Production plants. Production of sunflower oil and meal.	Ukraine	98.2%	98.2%	95.2%
JSC "Vovchansk OEP"		Ukraine	99.4%	99.4%	99.3%
CJSC "Prykolotne OEP"		Ukraine	100%	100%	100%
CJSC "Prykolotnyanska oliya"		Ukraine	Disposed of on 31 March 2009	Disposed of on 31 March 2009	Disposed of on 31 March 2009
"Bandurskiy oil crushing plant", LLC		Ukraine	100%	100%	100%
LLC JE "Inerco-Ukraine"	Holding company. No significant activity since the date of foundation.	Ukraine	100%	100%	100%
"Transagroinvest" LLC	No significant activity since the date of foundation.	Ukraine	Disposed of on 30 June 2009	Disposed of on 30 June 2009	100%



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

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of		
			31 March 2010	31 December 2009	31 March 2009
"Reshetylivka Hliboproduct", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100%	100%	100%
JSC "Reshetilovski elevator"		Ukraine	Control relinquished	Control relinquished	0.0%
"Horol-Elevator", LLC		Ukraine	100%	100%	100%
JSC "Horolskiy elevator"		Ukraine	Control relinquished	Control relinquished	0.0%
CJSC "Mirgorodsky elevator"		Ukraine	100%	100%	100%
"Globynsky elevator HP", LLC		Ukraine	100%	100%	100%
"Globinsky elevator kliboproductiv", LLC		Ukraine	Control relinquished	Control relinquished	0.0%
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	88.2%	88.2%	88.2%
"Galeschina-Agro", LLC		Ukraine	Disposed of on 18 December 2009	Disposed of on 18 December 2009	99.9%
"Gogoleve-Agro", LLC		Ukraine	99.9%	99.9%	99.9%
"Sagaydak-Agro", LLC		Ukraine	100%	100%	100%
"Karlivka-Agro", LLC		Ukraine	99.9%	99.9%	99.9%
CJSC "Lazorkovski Elevator"		Ukraine	99.9%	99.9%	99.9%
"Zhrebkivsky elevator ", LLC		Ukraine	99.9%	99.9%	99.9%
"Kononivsky elevator ", LLC		Ukraine	99.9%	99.9%	99.9%
"Semenivski elevator", LLC		Ukraine	99.9%	99.9%	100%
"Kobelyaki hleboproduct", LLC		Ukraine	100%	100%	100%
CJSC "Vlasivskiy KHP"		Ukraine	In process of liquidation	In process of liquidation	In process of liquidation
"Sahnovshina hleboproduct", LLC	Ukraine	100%	100%	100%	
"Velykoburlutske HPP", LLC	Ukraine	100%	100%	100%	

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

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of		
			31 March 2010	31 December 2009	31 March 2009
"Gutnansky elevator", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100%	100%	100%
"Lykhachivsky KHP", LLC		Ukraine	100%	100%	100%
"Shevchenkisky KHP", LLC		Ukraine	100%	100%	100%
"Orilske HPP", LLC		Ukraine	Disposed of on 28 October 2009	Disposed of on 28 October 2009	100%
"Kovyagivske KHP", LLC		Ukraine	100%	100%	100%
"Viktorovsky elevator, LLC		Ukraine	100%	100%	N/a
CJSC "Poltavaavtotransservis"		Trucking company.	Ukraine	100%	100%
"Ykragrobiznes", LLC	Holding company.	Ukraine	100%	100%	100%
"Agroservice", LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	100%	100%
"Zernoservice", LLC		Ukraine	100%	100%	100%
"Unigrain-Agro" (Globino), LLC		Ukraine	100%	100%	100%
"Unigrain-Agro" (Semenovka), LLC		Ukraine	100%	100%	100%
"Mrija-Agro", LLC		Ukraine	100%	100%	100%
CJSC "Lozivske HPP"		Ukraine	100%	100%	100%
CJSC "Krasnopavlivsky KHP"		Ukraine	100%	100%	100%
CJSC "Agrofirma "Krasnopavlivska"		Ukraine	Control relinquished	Control relinquished	0.0%
"Agrofirma "Arshitsa", LLC		Ukraine	100%	100%	100%

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

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of		
			31 March 2010	31 December 2009	31 March 2009
"Agrotera-Kolos", LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	100%	100%
"Chorna Kamyanka", LLC		Ukraine	100%	100%	100%
"Govtva", ALLC		Ukraine	100%	100%	100%
PRAC "Perebudova"		Ukraine	100%	100%	100%
"Manjurka", LLC		Ukraine	100%	100%	100%
"Krutenke", LLC		Ukraine	100%	100%	100%
"Promin", LLC		Ukraine	100%	100%	100%
PRAC "Brovarki"		Ukraine	100%	100%	100%
PRAC by the name of Shorsa		Ukraine	100%	100%	100%
"Troyanske", ALLC		Ukraine	100%	100%	100%
"Zorya", ALLC		Ukraine	100%	100%	100%
"Hleborob", ALLC		Ukraine	100%	100%	100%
AC by the name of T. Shevchenko		Ukraine	100%	100%	100%
PRAC "Drugba"		Ukraine	100%	100%	100%
"Agrofirma "Chkalova", LLC		Ukraine	100%	100%	100%
"Agrofirma "Vitchizna", LLC	Ukraine	100%	100%	100%	

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

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of		
			31 March 2010	31 December 2009	31 March 2009
"Transbulk Terminal", LLC	Provision of grain handling and transshipment services, including services to the Group.	Ukraine	100%	100%	100%
C.F.C Ukraine Ltd		Ukraine	100%	100%	100%
Estron Corporation Ltd		Cyprus	100%	100%	100%
Chorex Developments Limited		Cyprus	100%	100%	100%
Hamalex Developments LTD		Cyprus	100%	100%	100%

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 14 May 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 31 March 2010 consisted of 68 741 000 (sixty eight million seven hundred and forty one thousand) ordinary bearer shares without indication of a nominal value, providing 68 741 000 voting rights (as of 31 March 2009 – 68 741 000 shares).

The shares were distributed as follows:

**EQUITY HOLDERS**

	<b>Shares allotted and fully paid as of 31 March 2010</b>	<b>Share owned as of</b>	<b>Shares allotted and fully paid as of 31 March 2009</b>	<b>Share owned as of</b>
Namsen LTD (limited company registered under the legislation of Cyprus) (hereinafter the "Majority Equity holder")	37 074 250	53.93%	40 574 250	59.03%
Free-float	31 666 750	46.07%	28 166 750	40.97%
<b>Total</b>	<b>68 741 000</b>	<b>100.00%</b>	<b>68 741 000</b>	<b>100.00%</b>

As of 31 March 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.

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 31 March 2010, unchanged from 31 March 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 31 March 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.

*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, Chorex Developments Limited, Hamalex Developments LTD, Restomon LTD (British Virgin Islands), Inerco Commodities S.A. (Switzerland) and Etrecom(Cyprus). Management has utilized USD as the measurement currency for Inerco Trade SA, Lanen SA, Estron Corporation Ltd, Chorex Developments Limited, Hamalex Developments LTD, Restomon LTD and Inerco Commodities S.A. 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. Starting from 01 July 2009 Management adopted USD as the measurement currency of: "Kernel-Trade" LLC, based on IAS No. 21 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 USD.

CJSC "Poltava oil crushing plant — Kernel Group", JSC "Vovchansk OEP" and CJSC "Prykolotne OEP" under IAS 21 as the activities of these subsidiaries are carried out with limited degree of autonomy.

The reclassification in the Statement of Cash Flows was done for the purpose of 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 ("its Subsidiaries") made up as of 31 March 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 primary cost. Amortization of intangible assets except for the "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks is calculated on a straight-line basis over 2-10 years, and is included in "General and administrative expenses". The "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks have indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually and whenever there is an indication that the trademarks may be impaired.

*Foreign Currencies Translation* - Transactions in currencies other than the measurement currencies of the Group companies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Subsequently, monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date.

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

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

Currency	Closing rate	Average rate	Average rate	Closing rate	Average rate	Average rate
	as of 31 March 2010	for the 3 months ended 31 March 2010	for the 9 months ended 31 March 2010	as of 31 March 2009	for the 3 months ended 31 March 2009	for the 9 months ended 31 March 2009
USD/UAH	7.9250	7.9877	7.9311	7.7000	7.7000	6.2423
USD/EUR	0.7436	0.7224	0.6991	0.7533	0.7665	0.7349
USD/PLN	2.8720	2.8841	2.8835	3.5416	3.4420	2.8311

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

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

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

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

Borrowing costs - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Investments in Non-consolidated Subsidiaries and Associates - Investments in corporate shares where the Group owns more than 20% of 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 31 March 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 (FRS) 20 'Share-based Payment' during the financial year 2008.

The cost of equity-settled transactions with employees are measured by reference to the fair value at the grant date and are recognized as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Fair value is calculated using the Black-Scholes model. No expense is recognized for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognized in the income statement, with a corresponding entry in equity.



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

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.

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

Biological Assets - The Group classifies wheat, barley, corn, soy, sunflower seeds and other crops, which it produces, and cattle as biological assets. In accordance with IAS No. 41 "Agriculture", biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs, except for the case where the fair value cannot be measured reliably. Biological assets, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the sale of an asset discounted at a current market-determined pre-tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

The Group classifies biological assets as current or non-current depending upon the average useful life of the particular group of biological assets. All of the Group's biological assets, except cattle, were classified as current as their average useful life is less than one year.

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

Property, Plant and Equipment - 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 surplus.

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 surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

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:

<b>Operating Segments</b>	<b>Activities</b>
<b><i>Bottled sunflower oil</i></b>	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
<b><i>Sunflower oil in bulk</i></b>	Production and sales of sunflower oil in bulk (crude and refined) and meal
<b><i>Grain</i></b>	Sourcing and merchandizing of wholesale grain.
<b><i>Grain handling and transshipment services</i></b>	Grain handling and transshipment services in the port of Ilyichevsk.
<b><i>Grain silo services</i></b>	Provision of grain and oilseed cleaning, drying and storage services.
<b><i>Farming</i></b>	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 31 March 2010 the segment table reflects continuing operations only. The prior-year figures have been reclassified to ensure comparability.

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

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. PROPERTY, PLANT AND EQUIPMENT, NET**

The following table represents movements in property, plant and equipment for the 9 months ended 31 March 2010:

	<b>Oil</b>	<b>Grain terminal</b>	<b>Farming</b>	<b>Inland silos</b>	<b>Other</b>	<b>Total</b>
<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>59 442</b>	<b>880</b>	<b>1 484</b>	<b>2 295</b>	<b>4 035</b>	<b>68 136</b>
Land	2	-	-	-	47	49
Buildings and Constructions	13 477	201	134	531	1 013	15 356
Production machinery and equipment	11 335	458	-	856	-	12 649
Agricultural vehicles and equipment	-	-	1 145	-	-	1 145
Other fixed assets	70	-	-	-	1 566	1 636
CIP and uninstalled equipment	34 558	221	205	908	1 409	37 301
<b>Disposals (at NBV)</b>	<b>(11 073)</b>	<b>(170)</b>	<b>(313)</b>	<b>(2 339)</b>	<b>(1 866)</b>	<b>(15 761)</b>
Buildings and Constructions	(943)	-	(14)	(782)	-	(1 739)
Production machinery and equipment	(457)	-	(44)	(182)	-	(683)
Agricultural vehicles and equipment	-	-	(48)	(1)	-	(49)
Other fixed assets	-	-	-	-	(457)	(457)
CIP and uninstalled equipment	(9 673)	(170)	(207)	(1 374)	(1 409)	(12 833)
<b>Depreciation expense</b>	<b>(4 161)</b>	<b>(2 300)</b>	<b>(3 872)</b>	<b>(861)</b>	<b>(896)</b>	<b>( 12 090)</b>
Buildings and Constructions	(1 840)	(96)	(709)	(579)	(125)	(3 349)
Production machinery and equipment	(2 319)	(2 204)	(56)	(270)	-	(4 849)
Agricultural vehicles and equipment	(2)	-	(3 107)	(12)	-	(3 121)
Other fixed assets	-	-	-	-	(771)	(771)

**KERNEL HOLDING S.A. AND SUBSIDIARIES**
**5. 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>(1 758)</b>	<b>(5)</b>	<b>(341)</b>	<b>(802)</b>	<b>(834)</b>	<b>(3 740)</b>
Land	(1)	-	-	(25)	(1)	(27)
Buildings and Constructions	(90)	(4)	(219)	(597)	(26)	(936)
Production machinery and equipment	(31)	-	(14)	(110)	(3)	(158)
Agricultural vehicles and equipment	(97)	-	(109)	(2)	-	(208)
Other fixed assets	-	-	-	-	(797)	(797)
CIP and uninstalled equipment	(1 539)	(1)	1	(68)	(7)	(1 614)
<b>Net Book Value as at 31 March 2010</b>	<b>150 917</b>	<b>59 881</b>	<b>21 095</b>	<b>18 749</b>	<b>7 673</b>	<b>258 315</b>
Land	701	-	2	653	46	1 402
Buildings and Constructions	44 617	5 897	5 060	14 595	3 024	73 193
Production machinery and equipment	30 003	53 902	286	3 273	-	87 464
Agricultural vehicles and equipment	22	-	15 681	60	-	15 763
Other fixed assets	70	-	-	-	4 595	4 665
CIP and uninstalled equipment	75 504	82	66	168	8	75 828

As of 31 March 2010 amount of CIP and uninstalled equipment includes USD 2 435 thousand of capitalized interest on borrowed costs (as of 30 June 2009 USD 2 783 thousand). Capitalization rate used to calculate the amount of capitalized interests is 11.67 % per annum.

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

**6. INTANGIBLE ASSETS, NET**

The following table represents movements in intangible assets for the 9 months ended 31 March 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	-	Additions from acquisition of Subsidiaries	2 252
Additions	274	Additions	1 201
Disposals	(122)	Disposals	(2)
Translation difference	(1 610)	Translation difference	(22 737)
<b>Cost as of 31 March 2010</b>	<b>39 581</b>	<b>Cost as of 31 March 2009</b>	<b>40 216</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	(2 663)	Amortization charge	(4 176)
Disposals	15	Disposals	-
Translation difference	708	Translation difference	1 317
<b>Accumulated depreciation as of 31 March 2010</b>	<b>(7 293)</b>	<b>Accumulated depreciation as of March 2009</b>	<b>(4 280)</b>
<b>Net book value as of 31 March 2010</b>	<b>32 288</b>	<b>Net book value as of 31 March 2009</b>	<b>35 936</b>

Included in intangible assets of Subsidiaries are the "Schedry Dar", "Stozhar", "Zolota" and "Domashnya" trademarks with the value of USD 4 606 thousand, USD 5 980 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 31 March 2010 and 2009 trade mark "Stozhar" was pledged as security for long-term loans (Note 8).

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.

**7. SHORT-TERM BORROWINGS**

The balances of short-term borrowings as of 31 March 2010 and 31 March 2009 were as follows:

	<u>31 March 2010</u>	<u>31 March 2009</u>
Bank credit lines	129 546	153 871
Interest accrued on short-term credits	375	609
Interest accrued on long-term credits	1 207	344
<b>Total</b>	<b><u>131 128</u></b>	<b><u>154 824</u></b>

The balances of short-term borrowings as of 31 March 2010 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<u><b>Amount due</b></u>
Ukrainian subsidiary of European bank	11.25%	USD	July 2010	7 890
European bank	Libor + 4.0%	USD	August 2010	15 000
European bank	Libor + 2%	USD	July 2010	55 656
European bank	Libor + 5%	USD	August 2010	51 000
<b>Total bank credit lines</b>				<b><u>129 546</u></b>
Interest accrued on short-term loans				375
Interest accrued on long-term loans				1 207
<b>Total</b>				<b><u>131 128</u></b>

The balances of short-term borrowings as of 31 March 2009 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<u><b>Amount due</b></u>
European bank	Libor + 2.6%	USD	August 2009	30 400
European bank	Libor + 2.2%	USD	July 2009	908
European bank	Libor + 2.75%	USD	July 2009	50 000
European bank	Libor + 2.75%	USD	August 2009	5 900
European bank	Libor + 2.0%	USD	July 2009	4 126
Ukrainian subsidiary of European bank	Libor + 4.5%	USD	November 2009	1 737
Ukrainian subsidiary of European bank	7.8%	USD	June 2009	30 400
Ukrainian subsidiary of European bank	15%	USD	May 2009	30 400
<b>Total bank credit lines</b>				<b><u>153 871</u></b>
Interest accrued on short-term loans				609
Interest accrued on long-term loans				344
<b>Total</b>				<b><u>154 824</u></b>

As of 31 March 2010 the overall maximum credit limit for short-term bank credit lines amounted to USD 334 600 thousand (as of 31 March 2009 USD 618 375 thousand).

As of 31 March 2010 and 2009 short-term loans from banks were secured as follows:

<b>Assets pledged</b>	<u><b>31 March 2010</b></u>	<u><b>31 March 2009</b></u>
Cash	-	30 400
Inventories	153 578	52 171
Property, plant and equipment (Note 5)	6 736	572
<b>Total</b>	<b><u>160 314</u></b>	<b><u>83 143</u></b>

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

In August 2009 Kernel Trade LLC signed a loan agreement with a syndicate of European banks for a total amount of USD 170 000 thousand. The loan to Kernel Trade LLC is secured by guarantees provided by Kernel-Capital, CJSC "Volchanskiy oil extraction plant" LLC "Prikolotnjansky oil extraction plant" LLC and CJSC "Poltava Oil Crushing Plant – Kernel Group".

**8. LONG-TERM BORROWINGS**

The balances of long-term borrowings as of 31 March 2010 and 2009 were as follows:

	<u>31 March 2010</u>	<u>31 March 2009</u>
Long-term bank loans	165 918	113 640
Current portion of long-term borrowings	(30 642)	(8 270)
<b>Total</b>	<b><u>135 276</u></b>	<b><u>105 370</u></b>

Long-term bank loans

The balances of long-term borrowings as of 31 March 2010 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<u><b>Amount due</b></u>
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	35 209
European bank	Libor + 5.7%	USD	September 2013	16 161
European bank	Libor + 3.52%	USD	2015	33 548
European bank	Libor + 6.75%	USD	September 2012	36 000
European bank	Libor + 5.75%	USD	July 2011	45 000
<b>Total</b>				<b><u>165 918</u></b>

The balances of long-term borrowings as of 31 March 2009 were as follows:

	<b>Interest rate</b>	<b>Currency</b>	<b>Maturity</b>	<u><b>Amount due</b></u>
Ukrainian subsidiary of European bank	11.25%	USD	July 2010	51 750
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	42 890
Ukrainian subsidiary of European bank	Libor + 3.75%	USD	September 2013	5 000
European bank	Libor + 3.52%	USD	2015	14 000
<b>Total</b>				<b><u>113 640</u></b>

Long-term loans as of 31 March 2010 from banks with the overall maximum credit limit of USD 195 000 thousand (as of 31 March 2009 USD 180 750 thousand).

<b>Assets pledged</b>	<u><b>31 March 2010</b></u>	<u><b>31 March 2009</b></u>
Cash	4 580	388
Property, plant and equipment (Note 5)	205 665	111 742
Intangible assets (Note 6)	5 980	6 155
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b><u>216 225</u></b>	<b><u>118 285</u></b>



**8. 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 31 March 2010 and 2009:

31 March 2010	Name of Subsidiary	31 March 2009
CJSC "Poltava oil crushing plant-Kernel Group"		CJSC "Poltava oil crushing plant-Kernel Group"
CJSC "Reshetylivka Hliboproduct"		CJSC "Reshetylivka Hliboproduct"
LLC "Globynsky elevator HP"		CJSC "Globynsky elevator HP"
CJSC "Gutnansky elevator"		CJSC "Gutnansky elevator"
JSC "Poltavske khlibopriemalne pidpriemstvo"		JSC "Poltavske khlibopriemalne pidpriemstvo"
CJSC "Prykolotne OEP"		CJSC "Prykolotne OEP"
LLC "Velykoburlutske HPP"		CJSC "Velykoburlutske HPP"
CJSC "Shevchenkisky KHP"		CJSC "Shevchenkisky KHP"
LLC "Kovyagivske KHP"		CJSC "Kovyagivske KHP"
CJSC "Poltavaavtotransservis"		CJSC "Poltavaavtotransservis"
LLC "Bandurskiy oil crushing plant "		LLC "Bandurskiy elevator"

**9. INCOME TAX**

As of 31 March 2010 and 2009 the major components of deferred tax assets and liabilities were as follows:

	31 March 2010	31 March 2009
<b>Deferred tax assets arising from:</b>		
Valuation of advances from customers	7 431	6 686
Tax losses carried forward	1 070	525
Valuation of accounts receivable	452	354
Valuation of property, plant and equipment	693	728
Valuation of intangible assets	376	316
Valuation of accrued expenses and other temporary differences	215	263
<b>Deferred tax asset</b>	<b>10 237</b>	<b>8 872</b>
Less: valuation allowance	-	(317)
<b>Net deferred tax asset after valuation allowance</b>	<b>10 237</b>	<b>8 555</b>
<b>Deferred tax liability arising from:</b>		
Valuation of property, plant and equipment	(14 121)	(15 827)
Valuation of prepayments to suppliers and prepaid expenses	(10 174)	(9 159)
Valuation of intangible assets	(2 293)	(2 508)
Valuation of financial investments	(9)	(9)
Valuation of accounts receivable	(5)	-
Valuation of inventories	(2)	(18)
<b>Deferred tax liability</b>	<b>(26 604)</b>	<b>(27 521)</b>
<b>Net deferred tax liability</b>	<b>(16 367)</b>	<b>(18 966)</b>

**9. INCOME TAX (CONTINUED)**

As of 31 March 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 31 March 2010 and 2009.

The components of income tax expense for the 3 months ended 31 March 2010 and 2009 were as follows:

	<u>31 March 2010</u>	<u>31 March 2009</u>
Current income tax expenses	(206)	(60)
Deferred tax benefit/(expense)	281	983
<b>Income tax benefit/(expenses)</b>	<b>75</b>	<b>923</b>

The income tax charge for the 3 months ended 31 March 2010 and 2009 is reconciled to the profit before income tax per consolidated income statement as follows:

	<u>31 March 2010</u>	<u>31 March 2009</u>
Profit/(loss) before income tax:	39 981	46 249
Tax at the statutory income tax rate in Ukraine of 25%	(9 995)	(11 562)
Expenditures not allowable for income tax purposes and non-taxable income, net	10 070	12 520
Change in valuation allowance	-	(35)
<b>Income tax benefit /(expenses)</b>	<b>75</b>	<b>923</b>

**10. 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 31 March 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>
	<u>31 March 2010</u>		<u>31 March 2009</u>	
Trade accounts receivable, net	1 211	42 404	471	35 679
Prepayments to suppliers and other current assets, net	12 193	29 666	12 169	35 250
Other non-current assets	71 863	78 371	8 300	11 512
Trade accounts payable	909	15 724	-	9 432
Advances from customers and other current liabilities	76	19 517	-	14 861

Transactions with related parties for the 3-month period ended 31 March 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>3 months ended 31 March 2010</b>		<b>3 months ended 31 March 2009</b>	
Revenue	614	269 449	-	203 391
Cost of sales	(36)	(180 714)	-	(117 067)
General, administrative and distribution expenses	(11)	(44 449)	(351)	(39 989)
Finance costs	-	(5 094)	(72)	(5 862)
Other income/(expenses)	9	(1 288)	207	(727)

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

## 11. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

As of 31 March 2010 and 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.

*Legal Issues* - The Group is involved in litigation and other claims that are in the ordinary course of its business activities. During the period ended 30 June 2009 the Group received, in particular, notifications of claims and possible litigation in connection with cases of contaminated Ukrainian oil. Management of the Group believes that the resolution of such legal matters will not have a material impact on its financial position.

*Capital commitments* - As of 31 March 2010 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 10 500 thousand for supply of equipment and services required for the new solvent extraction plant under construction and for a total amount of USD 2 600 thousand for supply of equipment and services required for construction of a new silo.

As of 31 March 2009 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 9 000 thousand for supply of equipment and services required for the new solvent extraction plant under construction, and for a total amount of USD 4 000 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 31 March 2010 the Group had entered into commercial contracts for export of 134 thousand tons of grain and 226 thousand tons of sunflower oil and meal, corresponding to an amount of USD 28 861 thousand and USD 104 479 thousand respectively in prices as of 31 March 2010.

As of 31 March 2009 the Group had entered into commercial contracts for export of 365 thousand tons of grain and 178 thousand tons of sunflower oil and meal, corresponding to an amount of USD 61 838 thousand and USD 85 431 thousand respectively in prices as of 31 March 2009.

## 12. 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.

## 12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As of 31 March 2010 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.

## 13. DESCRIPTION OF SIGNIFICANT EVENTS FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2010

On 13 of January 2010 Kernel Holding S.A. entered into a call option agreement, providing Kernel the right to acquire a controlling interest in the Allseeds group of companies ("Allseeds"). Allseeds is operating mainly in Ukraine in the production and export of vegetable oil. The production assets of Allseeds are crushing plants, grain silos and an oil transshipment and export terminal, all located in Ukraine. Kernel shall pay a cash consideration of USD 42 million for such controlling interest, subject to the Antimonopoly Committee of Ukraine's approval of the transaction and subject to Kernel's agreement to the result and findings of the due diligence presently in process.

Following the call option agreement signed on 13 of January 2010 to acquire a controlling interest in Allseeds, Kernel has provided minority shareholders, on 18 of January 2010, a binding offer (the "Offer") to acquire a 37.6% minority shareholders interest in Allseeds on 12th February 2010, Kernel Holding S.A. signed a call option agreement to acquire the 37.6% minority shareholders interest in Allseeds, subject to approval of the transaction by the Antimonopoly Committee of Ukraine. Altogether, the call option agreements value Allseeds at an Enterprise Value (i.e. market value of all its shares and of its net interest bearing debt) of approximately USD 230 million.

On 25 February 2010 approval for the acquisition of Allseeds was granted by the Antimonopoly Committee of Ukraine, clearing the way for exercise of the option agreements signed by the company.

On 18 March 2010 the Management Incentive Plan dated 20 February 2008 was amended in respect of 1,900,230 option shares in order to change the option holders to the following companies: Apalax Investments Limited, Crouston Investments Limited and Sayfon Investments Limited. The beneficial owners of the said companies remain the same as the initial option holders indicated in section "Management and Corporate Governance" of the Kernel Holding S.A. Prospectus dated 25 October 2007.

On 26 March 2010, a Share Loan Agreement was concluded by and between Namsen Limited and Apalax Investments Limited in order to facilitate the exercise of the share option granted to Apalax Investments Limited. On 6 April 2010 in accordance with the terms and conditions of the Share Loan Agreement, Namsen Limited lent 150,000 shares in Kernel Holding S.A. to Apalax Investments Limited. The shares were transferred without any remuneration. Apalax Investments Limited will return to Namsen Limited shares of the same class and in the same number as the borrowed shares, after receipt of the shares issued upon exercise of the option in accordance with the Management Incentive Plan. The new shares will be issued within the authorized share capital approved at the Annual General Meeting of shareholders of Kernel Holding S.A. held on 16 November 2009.

#### **14. SUBSEQUENT EVENTS**

In the period from 1 April to 12 April 2010, Apalax Investments Limited (“Apalax”), a company controlled by a manager of the Kernel Holding S.A. group of companies, sold a total of 150 000 shares in Kernel Holding S.A. at an average price of PLN 55.13 per share. Pursuant to a share loan agreement by and between Apalax and Namsen Limited (“Namsen”), a company controlled by Andrey Verevskyy, Namsen lent 150 000 shares to Apalax in order to facilitate the exercise of share options granted to Apalax. Apalax will return to Namsen shares of the same class and in the same number as the borrowed shares, after receipt of 150 000 new shares to be issued within the authorized share capital of the Company and subscribed in May 2010 by Apalax at the exercise price as defined in the Management Incentive Plan. The shares were transferred from Namsen to Apalax without any remuneration.

On 28 April 2010, Kernel Holding S.A. raised gross proceeds of PLN 241 million (USD 81.4 million at a current rate) through an offering (the “Offering”) to institutional investors of 4 300 000 ordinary shares of the Company at a price of PLN 56 per share. The Offering represents approximately 6.25% of the issued share capital before the Offering. The Company intends to use the proceeds of the Offering (after deducting fees and expenses) in particular to finance its growth strategy, including potential acquisitions. To ensure that shares delivered were listed and tradable on the Warsaw Stock Exchange immediately after the settlement of the Offering on 5 May 2010, Namsen Limited (“Namsen”), a company controlled by Andrey Verevskyy and Kernel’s majority shareholder, lent 4 300 000 shares in Kernel (the “Loan of shares”) to ING Bank N.V., London Branch, to facilitate the settlement of the Offering of the Company’s shares to institutional investors. In connection with the Offering, the Company undertook to issue new shares in a number equal to the number of shares temporarily disposed of by Namsen, and to offer such new shares for subscription by Namsen. After subscription of 4 300 000 new shares, which is expected to occur in May 2010, following the Extraordinary General Meeting (“EGM”) to be held on 19 May 2010 for the purposes of issuing the new shares to Namsen, the number of shares held by Namsen will be the same as before the Loan of shares.