

KERNEL HOLDING S.A.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE 6 MONTHS ENDED  
31 DECEMBER 2010

KERNEL

# FOREWORD

## BY ANDREY VEREVSKYY, CHAIRMAN OF THE BOARD

### DEAR SHAREHOLDERS:

The review by our auditors of the first 6 months of the current year confirms our non-audited results for the 1<sup>st</sup> and 2<sup>nd</sup> quarter of the current fiscal year. I am therefore pleased to provide you with the following set of results for the 6-month period to 31 December 2010: Group revenue was USD 912.4 million, EBITDA USD 141.3 million and Net profit USD 86.2 million.

As our fiscal year draws to a close, I take this opportunity to review the important transactions, which have marked the 2<sup>nd</sup> half of the current financial year and will impact our next year. In March 2011, the Company entered into a call option to purchase a controlling stake in the company Ukrros. The rationale to enter into this transaction clearly lies in the extensive farming operations offered by Ukrros. Thanks to this acquisition, Kernel will expand its farming business

in regions where we can not only achieve synergies with existing farming operations of the Group, but also capitalize on our existing resources and assets, in particular our grain silo network, crucial to farming once the crops have been harvested, and our oilseed processing plants, located conveniently close to our farms in order to minimize transport cost of feedstock supplied by the Group. Apart from farming operations covering in excess of 90 000 hectares, Ukrros is also active in the sugar industry. Though our interest in this acquisition was not driven by this additional activity of the target, we view the sugar business as an attractive opportunity for our Company's future development. Ukrros will provide Kernel with the 2<sup>nd</sup> largest sugar beet processing capacity in Ukraine and enable the Company to produce in the range of 250 000 tons of sugar per year. As this activity in Ukraine typically requires a high level of vertical integration, we will capitalize on our large farming operations to achieve rapidly a high level of self-sufficiency in supply of sugar beet.

Towards the end of March 2011, Kernel offered investors to buy 5.4 million shares in the Company to finance partially through equity a pipeline of acquisitions under negotiation. The transactions Kernel is contemplating are expected to support the growth of the Company across all of its business segments. Own crop production will be increased by acquiring new farms, crushing activity should be expanded not only in Ukraine but also in Russia, and our service activity is expected to benefit from additional silo capacity inland and in port.

With the final quarter of our current financial year now well under way, we are of course increasing our focus on financial year 2012 and, in particular, on the size and quality of the next harvest. It is still early in the growing season, and much will depend on weather conditions from May until the harvest commences in July. A very preliminary estimate of the 2011 harvest shows, however, a grain crop between 42 and 49 million tons. Together with the expected large carry-over stocks from the previous season, such a harvest would enable Ukraine to export in the range of 22 to 24 million tons of wheat, barley and corn over the season 2011/2012 and, depending on the grain export policy adopted by the Ukrainian government, provide a 100% year-on-year increase in grain volumes exported. In respect of oil-bearing crops, the 2011 harvest of rapeseed, soy and sunflower seed is expected to deliver in total over 10 million tons, as in the previous season. Barring adverse weather conditions, the present state of the crop appears promising both for our grain related businesses and for our 2011/2012 crushing season.

### FINANCIAL HIGHLIGHTS FOR THE 6-MONTH PERIOD ENDED 31 DECEMBER 2010

Total revenue increased 78.0% year-on-year, from USD 512.5 million for the 1st half of financial year 2010 to USD 912.4 million for the 6-month period under review.

Result from operating activities increased 53.0% year-on-year, from USD 81.9 million for the 1st half of financial year 2010 to USD 125.3 million for the 6-month period under review.

Net profit attributable to equity holders of Kernel Holding S.A. increased 4.6% year-on-year, from USD 82.4 million for the 1st half of financial year 2010 to USD 86.2 million for the 6-month period under review.

Return on shareholders' equity was 27%.

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## Production, sales and throughput: Volume and tonnage for the 6-month period ended 31 December

	H1 FY2010	H1 FY2011	% change
Grain sales, tons	1 293 907	1 230 012	(4.94)%
Bulk oil sales, tons	141 602	379 511	168.01%
Bottled oil sales, '000 liters	65 340	61 421	(6.00)%
Sunflower seed crush, tons	426 065	821 714	92.86%
Refined oil production, tons	65 019	59 824	(7.99)%
Bottled oil production, tons	55 134	51 741	(6.15)%
Export terminals throughput, tons <sup>(1)</sup>	1 982 860	1 238 600	(37.53)%
Grain and oilseeds received in inland silos, tons	1 204 000	1 200 640	(0.28)%
Farm production, yearly harvest	269 000	218 354	(18.83)%

<sup>(1)</sup> H1 FY2010 tonnage reflects throughput at Illichevsk grain terminal; H1 FY2011 tonnage reflects total throughput at Illichevsk grain terminal, Nikolayev oil terminal and Nikolayev bulk cargo terminal for meal

## REVIEW OF FINANCIAL RESULTS FOR THE 6-MONTH PERIOD ENDED 31 DECEMBER 2010

### Total Revenue

Kernel reported total revenue of USD 912.4 million for the first 6 months of the current financial year, as compared to USD 512.5 million for the 1st half of FY2010. The 78.0% year-on-year revenue increase was first the result of the expanded crushing capacity of the Group, translating into a twofold increase in sunflower seed crushed over the period, and secondly the result of substantially higher soft commodity prices, increasing on average some 35% in grain and oil over the period.

### Gross Profit

Gross profit was USD 206.7 million for the 6-month period under review as compared to USD 155.1 million for the first half of FY2010, a 33.3% increase in absolute terms. In relative terms, gross profit margin decreased year-on-year from 30.3% to 22.7%, primarily as a result of the higher cost of oil delivered through the 2<sup>nd</sup> quarter of the current year.

### Distribution Costs

Distribution costs increased year-on-year from USD 67.8 million for the 1<sup>st</sup> half of FY2010 to USD 75.7 million for the 6-month period under review. This relatively modest increase is a consequence of the substantially higher volume of oil delivered over the period under review, mitigated, however, by the fact that most oil was sold on FOB basis, therefore not incurring sea freight expenses.

### General and Administrative Expenses

General and administrative expenses increased 23.8% year-on-year, from USD 12.2 million for the 1st half of financial year 2010 to USD 15.1 million for the 6-month period under review. The increase reflects primarily the additional expenses incurred by the Company following the acquisition of Allseeds productions assets. In relative terms, G&A expenses have decreased from 2.4% of sales to 1.7%.

### Profit from Operating Activities

Result from operating activities increased from USD 81.9 million for the 1<sup>st</sup> half of FY2010 to USD 125.3 million for the 6-month period under review, equivalent to a 53% year-

on-year increase. In relative terms, primarily as a result of the higher cost of oil delivered in 1<sup>st</sup> half FY2011, operating margin decreased year-on-year from 16.0% to 13.7%.

### Impairment charge on sale of Ukraine State bonds

Following the issuance in the course of the 1<sup>st</sup> half of FY2011 of Ukraine State bonds in reimbursement of VAT for a total face value of UAH 1 072 562 thousand, and the subsequent sale of the bonds in the course of the same period at a 12% discount to par value, a USD 16.8 million one-off impairment charge was booked.

### Finance costs, net

Net finance costs increased from USD 8.9 million for the 1<sup>st</sup> half of FY2010 to USD 20.3 million for the 6-month period under review. The USD 11.4 million increase reflects significantly higher financing costs as a result of the increase in working capital in the period under review and the additional long-term debt following the acquisition of the Allseeds production assets.

### Net profit

Net profit attributable to the shareholders of Kernel Holding S.A. increased modestly from USD 82.4 million for the 1<sup>st</sup> half of FY2010 to USD 86.2 million for the period under review, as the operating result for the period under review was negatively impacted by a USD 16.8 million one-off impairment charge following the sale of the Ukraine State bonds.

### Cash Flow

Cash used by operations in the six months ended 31 December 2010 was USD 380.1 million. The negative cash flow from operations was due to substantially higher requirements in working capital for the period under review, in particular a USD 399.2 million increase in inventory due to the twofold increase in Group crushing capacity and the significant year-on-year increase in soft commodity prices. Cash used by operations in the same period of the previous financial year was USD 99.7 million.

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## REVIEW OF SEGMENTAL RESULTS FOR THE 6-MONTH PERIOD ENDED 31 DECEMBER 2010

### *Bottled Oil*

Revenue from bottled oil sales for the 6-month period under review was USD 71.8 million, as compared to USD 62.9 million for the 1<sup>st</sup> half of financial year 2010. While the volume of bottled oil sold over the period decreased by 6% year-on-year, the average sale price for bottled oil increased year-on-year by 21.9% from USD 0.96 to USD 1.17 per liter, translating into a 14.2% increase in bottled oil revenue. Operating profit remained mostly flat at USD 11.2 million, with operating margin for the segment lower, as the government of Ukraine put pressure on producers and marketers of bottled oil to limit price increases and hindered their ability to pass on the rising cost of sunflower seed.

### *Bulk Oil*

Revenue from sales of bulk oil was USD 440.3 million for the 6-month period under review, compared to USD 143.9 million for the 1<sup>st</sup> half of financial year 2010. The 206% year-on-year increase in revenue is the result of the 168.0% percent increase in volume of bulk oil delivered over the period, together with a 25% increase in the average sale price for oil. While operating profit increased 157.5% year-on-year, from USD 21.0 million to USD 54.2 million, actual operating margin decreased from 14.6% percent to 12.3% as a result of the increased cost of oil delivered over the period under review: capitalizing on a record 2010 sunflower seed harvest, the Company bought and shipped significant volumes of sunflower seed directly from farm gate to crushing plants, while feedstock bought earlier in the season remained in silos, to be processed at a later stage. As a consequence of the continuous increase in the cost of sunflower seed, more expensive seed was processed first, leading to a relatively high cost of oil delivered in the 6-month period under review and a lower operating margin. With the Company now shipping to crushing plants sunflower seed bought early in the season, cost of oil delivered in our 2<sup>nd</sup> half has decreased and will translate into an improved operating margin.

### *Grain*

Revenue from grain sales was USD 387.3 million for the period under review as compared to USD 275.4 million for the 1<sup>st</sup> half of financial year 2010. The 40.6% year-on-year increase in revenue is primarily the result of the 48.0% increase in the average price of grain sales contracts executed over the period under review, increasing from USD 212.8 per ton in the 1<sup>st</sup> half of financial year 2010 to USD 315.0 per ton of grain delivered in the 6-month period under review. Notwithstanding grain export restrictions imposed by the government of Ukraine, the volume of grain export contracts executed in the period under review decreased only by 4.9%, from 1 293 thousand to 1 230 thousand tons. Operating profit on grain transactions increased year-on-year both in absolute terms, from USD 22.3 million to USD 44.9 million, a 101.4% year-on-year increase, and in relative terms, from 8.1% to 11.6% as a result of the price distortions created by the government's intervention.

### *Silo Services*

Revenue from silo services remained largely flat year-on-year, totaling USD 17.4 million for the 6-month period under review, including intersegment sales of USD 10.1 million, reflecting volume of grain and oilseeds received by the silos remaining unchanged year-on-year at 1.2 million tons. Operating profit from silo services decreased from USD 7.5 million to USD 4.3 million for the period under review, the 42.8% year-on-year decreased resulting primarily from higher operating expenses and amortization incurred due to the increased silo capacity of the Group.

### *Export Terminals*

Revenue generated by the export terminals fell from USD 30.6 million for the 1<sup>st</sup> half of financial year 2010 to USD 20.9 million for the 6-month period under review, including intersegment sales of USD 18.4 million, the 31.7% fall in revenue reflecting primarily the lower throughput at Company export terminals, decreasing from 2 million tons to 1.25 million tons for the 6-month period under review. While the decrease in throughput also resulted in operating result decreasing year-on-year by 35%, from USD 16.4 million to USD 10.7 million for the period under review, operating margin of the segment has remained steady at a level of 51.0%.

### *Farming*

Revenue from farming increased from USD 39.9 million for the 1<sup>st</sup> half of FY2010 to USD 50.8 million for the 6-month period under review, including intersegment sales of USD 47.7 million. Whereas 2010 harvest, affecting financial year 2011, was 18.8% lower than 2009 crop in volume terms, prices of produce sold increased on average by 57.1% year-on-year, translating into a 27.3% year-on-year increase in revenue. While operating profit remained mostly flat at USD 8.0 million, operating margin decreased year-on-year from 21.5% to 15.8%, reflecting rising production costs in farming.

## MANAGEMENT STATEMENT

This statement is provided to confirm that to the best of our knowledge the condensed consolidated financial statements for the six month period ended 31 December 2010 and the comparable information have been prepared in compliance with IFRS and give a true, fair and clear view of Kernel Holding S.A. assets, financial standing and net results and that the directors' report on the operations of Kernel Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that LLP BAKER TILLY UKRAINE and Re^viseur d'Entreprises TEAMAUDIT S.A. have been appointed in accordance with the applicable laws and performed the review of the condensed consolidated financial statements of Kernel Holding S.A. for the six month period ended 31 December 2010, and that the entities and the accountants performing the review met the conditions necessary to issue an impartial and independent report on the review in accordance with International Standards on Auditing.

April 27, 2011

On behalf of the Management

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Patrick Conrad  
Director

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Anastasiia Usachova  
Director



# BAKER TILLY UKRAINE

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## Review Report

To the board of Directors of

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

We have reviewed the accompanying Interim Condensed Consolidated Financial Statements of KERNEL HOLDING S.A. and its Subsidiaries (the Group hereinafter), which comprise the condensed consolidated statement of financial position as at December 31, 2010, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended December 31, 2010. These Financial Statements are the responsibility of the Group's management. Our responsibility is to issue a report on this Financial Statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400, (or refer to relevant national standards or practices applicable to review engagements). This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit, and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Financial Statements does not give a true and fair view in accordance with International Financial Reporting Standards.

Managing Partner  
"BAKER TILLY UKRAINE" LLP

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Alexander Pochkun

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27 April 2011  
Kiev, Ukraine

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an independent member of

**BAKER TILLY**  
INTERNATIONAL

## STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management of KERNEL HOLDING S.A. and its Subsidiaries (Kernel Group or Group) is responsible for preparing the condensed consolidated financial statements which reflect in all material aspects the financial position of the Kernel Group as at 31 December 2010, as well as the results of its activities, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*In preparing consolidated financial statements, the Kernel Group's Management is responsible for:*

- selecting appropriate accounting policies and their consistent application;
- making reasonable measurement and calculation;
- following principles of IFRS or disclosing all considerable deviations from IFRS in the notes to consolidated financial statements;
- preparing consolidated financial statements of the Kernel Group on the going concern basis, except for the cases when such assumption is illegal.
- accounting and disclosing in the consolidated financial statements all the relations and transactions between related parties;
- accounting and disclosing in the consolidated financial statements all subsequent events that need to be adjusted or disclosed;
- disclosing all claims related to previous or potential legal proceedings;
- disclosing in the consolidated financial statements all the loans or guarantees on behalf of the management.

*The Kernel Group 's Management is also responsible for:*

- development, implementation and control over effective and reliable internal control system in the Kernel Group;
- keeping accounting records in compliance with the legislation and accounting standards of the respective country of the Kernel Group's registration;
- taking reasonable steps within its cognizance to safeguard the assets of the Kernel Group;
- detecting and preventing from fraud and other irregularities.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that may require adjustment to or disclosure in the afore mentioned consolidated financial statements.

On behalf of the Management:

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Andrey Verevskiy  
Chairman of the Board

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Anastasiia Usachova  
CFO

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# SELECTED FINANCIAL DATA

for the 6-month period ended 31 December (in thousands unless otherwise stated)	thousand USD		thousand PLN		thousand EUR	
	2010	2009	2010	2009	2010	2009
I. Revenue	912 433	512 524	2 749 252	1 477 709	689 252	352 770
II. Profit from operating activities	125 255	81 911	377 406	236 166	94 618	56 379
III. Profit before income tax	85 487	82 186	257 581	236 959	64 577	56 569
IV. Profit from continuing operations	85 917	82 530	258 877	237 950	64 902	56 805
V. Net cash flow used in operating activity	(401 180)	(109 010)	(1 208 795)	(314 298)	(303 051)	(75 032)
VI. Net cash flow used in investment activity	(22 408)	(42 165)	(67 518)	(121 570)	(16 927)	(29 022)
VII. Net cash flow generated by financial activity	381 171	96 596	1 148 506	278 506	287 936	66 487
VIII. Total net cash flow	(42 417)	(54 579)	(127 807)	(157 362)	(32 042)	(37 567)
IX. Total assets	1 521 922	907 756	4 511 129	2 587 378	1 139 159	629 802
X. Current liabilities	622 734	290 997	1 845 846	829 429	466 116	201 894
XI. Non-current liabilities	208 274	167 538	617 345	477 534	155 893	116 238
XII. Issued capital	1 933	1 815	5 730	5 173	1 447	1 259
XIII. Total equity	690 914	449 221	2 047 938	1 280 415	517 150	311 670
XIV. Weighted average number of shares	73 191 000	68 741 000	73 191 000	68 741 000	73 191 000	68 741 000
XV. Profit per ordinary share (in USD/PLN/EUR)	1.18	1.20	3.55	3.46	0.89	0.83
XVI. Diluted number of shares	74 139 554	69 213 500	74 139 554	69 213 500	74 139 554	69 213 500
XVII. Diluted profit/(loss) per ordinary share (in USD/PLN/EUR)	1.16	1.19	3.50	3.43	0.88	0.82
XVIII. Book value per share (in USD/PLN/EUR)	9.39	6.52	27.83	18.59	7.03	4.53
XIX. Diluted book value per share (in USD/PLN/EUR)	9.27	6.48	27.47	18.46	6.94	4.49

On behalf of the Board

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

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Anastasiia Usachova  
CFO

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in US dollars and in thousands unless otherwise stated)	Notes	31 December 2010 reviewed	30 June 2010 audited	31 December 2009 reviewed
<b>ASSETS</b>				
<i>Current Assets</i>				
Cash	5	21 587	59 482	50 308
Trade accounts receivable, net	6, 28	127 663	65 483	58 594
Prepayments to suppliers and other current assets, net	7, 28	47 514	94 233	25 906
Taxes recoverable and prepaid, net	8	268 033	205 584	137 951
Inventory	9	547 012	147 787	268 367
Biological assets	10	4 236	26 131	3 617
<b>Total current assets</b>		<b>1 016 045</b>	<b>598 700</b>	<b>544 743</b>
<i>Non-Current Assets</i>				
Property, plant and equipment, net	11	387 805	379 035	252 687
Intangible assets, net	12	30 592	31 842	32 957
Goodwill	13	86 000	86 058	44 772
Other non-current assets	14, 28	1 480	29 138	32 597
<b>Total non-current assets</b>		<b>505 877</b>	<b>526 073</b>	<b>363 013</b>
<b>TOTAL ASSETS</b>		<b>1 521 922</b>	<b>1 124 773</b>	<b>907 756</b>
<b>LIABILITIES AND EQUITY</b>				
<i>Current Liabilities</i>				
Trade accounts payable	28	46 574	10 913	18 348
Advances from customers and other current liabilities	15, 28	28 967	131 386	23 493
Short-term borrowings	16	510 835	169 098	217 162
Current portion of long-term borrowings	17	36 358	40 764	31 994
<b>Total current liabilities</b>		<b>622 734</b>	<b>352 161</b>	<b>290 997</b>
<i>Non-Current Liabilities</i>				
Long-term borrowings	17	172 295	127 454	142 246
Obligations under finance lease	18	5 501	7 796	9 280
Deferred tax liabilities	19	30 413	32 376	16 012
Other non-current liabilities		65	95	-
<b>Total non-current liabilities</b>		<b>208 274</b>	<b>167 721</b>	<b>167 538</b>
<i>Equity attributable to Kernel Holding S.A. equity holders</i>				
Issued capital		1 933	1 933	1 815
Share premium reserve		317 741	317 741	236 637
Additional paid-in capital		39 944	39 944	39 944
Revaluation reserve		11 260	11 260	11 260
Translation reserve		(161 600)	(160 622)	(163 331)
Retained earnings		477 845	391 606	322 049
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>687 123</b>	<b>601 862</b>	<b>448 374</b>
Non-controlling interest		3 791	3 029	847
<b>Total equity</b>		<b>690 914</b>	<b>604 891</b>	<b>449 221</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 521 922</b>	<b>1 124 773</b>	<b>907 756</b>
Book value		687 123	601 862	448 374
Weighted average number of shares	34	73 191 000	69 070 178	68 741 000
Book value per share (in USD)		9.39	8.71	6.52
Diluted number of shares	34	74 139 554	73 891 365	69 213 500
Diluted book value per share (in USD)		9.27	8.15	6.48

On behalf of the Board

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

# CONDENSED CONSOLIDATED INCOME STATEMENT

(in US dollars and in thousands unless otherwise stated)	Notes	6 months ended 31 December 2010 reviewed	6 months ended 31 December 2009 reviewed
Revenue	20	912 433	512 524
Cost of sales	21, 28	(705 747)	(357 467)
<b>Gross profit</b>		<b>206 686</b>	<b>155 057</b>
Other operational income	22	9 312	6 843
<i>Operating expenses</i>			
Distribution costs	23, 28	(75 652)	(67 781)
General and administrative expenses	24, 28	(15 091)	(12 208)
<b>Profit from operating activities</b>		<b>125 255</b>	<b>81 911</b>
Write down of VAT receivable		(16 784)	-
Finance costs, net	25	(20 279)	(8 879)
Foreign exchange gain, net		2 672	9 809
Other expenses, net	26,28	(5 377)	(655)
<b>Profit before income tax from continuing operations</b>		<b>85 487</b>	<b>82 186</b>
Income tax benefit	19	430	344
<b>Profit from continuing operations</b>		<b>85 917</b>	<b>82 530</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
Equity holders of Kernel Holding S.A.		86 239	82 448
Non-controlling interest		(322)	82
Weighted average number of shares	34	73 191 000	68 741 000
Profit per ordinary share (in USD)		1.18	1.20
Diluted number of shares	34	74 139 554	69 213 500
Diluted profit per ordinary share (in USD)		1.16	1.19

On behalf of the Board

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

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Anastasiia Usachova  
CFO

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in US dollars and in thousands unless otherwise stated)	6 months ended 31 December 2010 reviewed	6 months ended 31 December 2009 reviewed
<b>Net Profit</b>	<b>85 917</b>	<b>82 530</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Exchange differences on translating foreign operations	(990)	(1 181)
Gain on property revaluation	-	15 154
Income tax related to components of other comprehensive income	-	(3 789)
<b>Other comprehensive income/(loss), net</b>	<b>(990)</b>	<b>10 184</b>
<b>Total comprehensive income</b>	<b>84 927</b>	<b>92 714</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:</b>		
Equity holders of Kernel Holding S.A.	85 261	92 545
Non-controlling interest	(334)	169

On behalf of the Board

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

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Anastasiia Usachova  
CFO

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in US dollars and in thousands unless otherwise stated)	Attributable To Kernel Holding S.A. shareholders								
	Issued capital	Share premium reserve	Additional paid-in capital	Revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance as at 30 June 2009 (audited)</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>-</b>	<b>(162 163)</b>	<b>239 601</b>	<b>355 834</b>	<b>1 629</b>	<b>357 463</b>
Profit for the period	-	-	-	-	-	82 448	82 448	82	82 530
Other comprehensive income	-	-	-	11 260	(1 168)	-	10 092	92	10 184
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11 260</b>	<b>(1 168)</b>	<b>82 448</b>	<b>92 540</b>	<b>174</b>	<b>92 714</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	(956)	(956)
<b>Balance as at 31 December 2009 (reviewed)</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>11 260</b>	<b>(163 331)</b>	<b>322 049</b>	<b>448 374</b>	<b>847</b>	<b>449 221</b>
Profit for the period	-	-	-	-	-	69 557	69 557	(386)	69 171
Other comprehensive income	-	-	-	-	2 709	-	2 709	4	2 713
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 709</b>	<b>69 557</b>	<b>72 266</b>	<b>(382)</b>	<b>71 884</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	2 564	2 564
Increase of share capital	118	-	-	-	-	-	118	-	118
Issued capital and IPO expenses	-	81 104	-	-	-	-	81 104	-	81 104
<b>Balance as at 30 June 2010 (audited)</b>	<b>1 933</b>	<b>317 741</b>	<b>39 944</b>	<b>11 260</b>	<b>(160 622)</b>	<b>391 606</b>	<b>601 862</b>	<b>3 029</b>	<b>604 891</b>
Profit for the period	-	-	-	-	-	86 239	86 239	(322)	85 917
Other comprehensive income	-	-	-	-	(978)	-	(978)	(12)	(990)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(978)</b>	<b>86 239</b>	<b>85 261</b>	<b>(334)</b>	<b>84 927</b>
Effect of changes on minority interest	-	-	-	-	-	-	-	1 096	1 096
<b>Balance as at 31 December 2010 (reviewed)</b>	<b>1 933</b>	<b>317 741</b>	<b>39 944</b>	<b>11 260</b>	<b>(161 600)</b>	<b>477 845</b>	<b>687 123</b>	<b>3 791</b>	<b>690 914</b>

On behalf of the Board

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in US dollars and in thousands unless otherwise stated)	Notes	6 months ended 31 December 2010 reviewed
<b>OPERATING ACTIVITIES:</b>		
Profit before income tax		85 487
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>		
Amortization and depreciation		16 073
Finance costs		20 279
Bad debt expenses and other accruals		(848)
Gain on disposal of property, plant and equipment		(160)
Non-operating foreign exchange loss, net		560
Write down of VAT receivable		16 784
Gain on sales of equity investments		(495)
<b>Operating profit before working capital changes</b>		<b>137 680</b>
<i>Changes in working capital:</i>		
Increase in trade accounts receivable		(61 199)
Decrease in prepayments and other current assets		49 521
Increase in restricted cash balance		(4 522)
Decrease in trading securities		119 598
Increase in taxes recoverable and prepaid		(199 060)
Decrease in biological assets		21 895
Increase in inventories		(399 225)
Increase in trade accounts payable		30 685
Decrease in advances from customers and other current liabilities		(75 522)
<b>Cash used in operations</b>		<b>(380 149)</b>
Finance costs paid		(20 279)
Income tax paid		(752)
<b>NET CASH (USED IN) OPERATING ACTIVITIES</b>		<b>(401 180)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment		(22 497)
Proceeds from disposal of property, plant and equipment		507
Purchase of intangible and other non-current assets		(418)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(22 408)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term and long-term borrowings		1 475 879
Repayment of short-term and long-term borrowings		(1 094 413)
<b>NET CASH GENERATED BY FINANCING ACTIVITIES</b>		<b>381 466</b>
Translation adjustment		(295)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(42 417)</b>
<b>Cash and cash equivalents, at the beginning of the period</b>		<b>57 762</b>
<b>Cash and cash equivalents, at the end of the period</b>	5	<b>15 345</b>

On behalf of the Board

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

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

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in US dollars and in thousands unless otherwise stated)	Notes	6 months ended 31 December 2009 reviewed
<b>OPERATING ACTIVITIES:</b>		
Profit before income tax		82 186
<i>Adjustments to reconcile profit before income tax to net cash used in operating activities:</i>		
Amortization and depreciation		9 901
Finance costs		8 879
Bad debt expenses and other accruals		666
Loss on disposal of property, plant and equipment		140
Non-operating foreign exchange loss, net		6 051
Gain on sales of equity investments		(640)
<b>Operating profit before working capital changes</b>		<b>107 183</b>
<i>Changes in working capital:</i>		
Increase in trade accounts receivable		(26 371)
Increase in prepayments and other current assets		(2 679)
Decrease in restricted cash balance		24 376
Increase in taxes recoverable and prepaid		(66 197)
Decrease in biological assets		15 315
Increase in inventories		(164 923)
Increase in trade accounts payable		10 938
Increase in advances from customers and other current liabilities		2 683
<b>Cash used in operations</b>		<b>(99 675)</b>
Finance costs paid		(8 879)
Income tax paid		(456)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(109 010)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment		(28 887)
Proceeds from disposal of property, plant and equipment		168
Purchase of intangible and other non-current assets		(14 032)
Disposal of Subsidiaries		586
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(42 165)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short-term and long-term borrowings		463 590
Repayment of short-term and long-term borrowings		(361 146)
Corporate bonds repaid		(1 993)
<b>Net cash generated by financing activities</b>		<b>100 451</b>
Translation adjustment		(3 855)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(54 579)</b>
<b>Cash and cash equivalents, at the beginning of the period</b>		<b>98 072</b>
<b>Cash and cash equivalents, at the end of the period</b>	5	<b>43 493</b>

On behalf of the Board

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 31 DECEMBER 2010

## 1. Key Data by Operating Segment

Key Data by Operating Segment for the 6 Months Ended 31 December 2010:									
(in US dollars and in thousands unless otherwise stated)	Bottled sunflower oil	Sunflower oil in bulk	Export terminals	Farming	Grain	Silo services	Other	Reconciliation	Continuing operations
Revenue (external)	71 828	440 274	2 509	3 190	387 349	7 283	-	-	912 433
Intersegment sales	-	-	18 419	47 654	-	10 096	-	(76 169)	-
<b>Total</b>	<b>71 828</b>	<b>440 274</b>	<b>20 928</b>	<b>50 844</b>	<b>387 349</b>	<b>17 379</b>	<b>-</b>	<b>(76 169)</b>	<b>912 433</b>
Other operating income	-	793	-	7 740	467	312	-	-	9 312
<b>Operating profit (EBIT)</b>	<b>11 161</b>	<b>54 172</b>	<b>10 681</b>	<b>8 020</b>	<b>44 914</b>	<b>4 332</b>	<b>(8 025)</b>	<b>-</b>	<b>125 255</b>
Write down of VAT receivable	-	-	-	-	-	-	-	-	(16 784)
Finance costs net	-	-	-	-	-	-	-	-	(20 279)
Foreign exchange gain, net	-	-	-	-	-	-	-	-	2 672
Other expenses, net	-	-	-	-	-	-	-	-	(5 377)
Income tax benefit	-	-	-	-	-	-	-	-	430
<b>Profit from continuing operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85 917</b>
<b>Total assets</b>	<b>136 513</b>	<b>775 537</b>	<b>118 135</b>	<b>46 643</b>	<b>318 422</b>	<b>83 770</b>	<b>42 902</b>	<b>-</b>	<b>1 521 922</b>
Capital expenditures	432	17 731	564	927	1	5 982	-	-	25 637
Amortization and depreciation	939	4 780	1 780	4 293	1 003	2 041	1 237	-	16 073
Liabilities	7 514	43 096	3 603	1 420	25 043	20 687	729 645	-	831 008

During the 6 months period ended 31 December 2010 two of the Group's external customers accounted for more than 10 % of total external revenue. Five subsidiaries of one international trading house accounted for 12 % of total external revenue. During the 6 months period ended 31 December 2010 export sales amounted to 87% of total external sales revenue.

**Key Data by Operating Segment for the 6 Months Ended 31 December 2009:**

(In US dollars and in thousands unless otherwise stated)	Bottled sunflower oil	Sunflower oil in bulk	Export terminals	Farming	Grain	Silo services	Other	Reconciliation	Continuing operations
Revenue (external)	62 914	143 914	17 168	2 783	275 449	10 296	-	-	512 524
Intersegment sales	-	-	13 392	37 087	-	7 357	-	(57 836)	-
<b>Total</b>	<b>62 914</b>	<b>143 914</b>	<b>30 560</b>	<b>39 870</b>	<b>275 449</b>	<b>17 653</b>	<b>-</b>	<b>(57 836)</b>	<b>512 524</b>
Other operating income	-	452	-	5 669	34	452	236	-	6 843
<b>Operating profit (EBIT)</b>	<b>11 333</b>	<b>21 041</b>	<b>16 423</b>	<b>8 589</b>	<b>22 263</b>	<b>7 476</b>	<b>(5 214)</b>	<b>-</b>	<b>81 911</b>
Finance costs net	-	-	-	-	-	-	-	-	(8 879)
Foreign exchange gain, net	-	-	-	-	-	-	-	-	9 809
Other expenses, net	-	-	-	-	-	-	-	-	(655)
Income tax benefit	-	-	-	-	-	-	-	-	344
<b>Profit from continuing operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82 530</b>
<b>Total assets</b>	<b>156 725</b>	<b>275 106</b>	<b>111 637</b>	<b>49 893</b>	<b>195 359</b>	<b>49 634</b>	<b>69 402</b>	<b>-</b>	<b>907 756</b>
Capital expenditures	10 620	34 584	463	581	1 386	1 753	752	-	50 139
Amortization and depreciation	1 426	1 351	1 572	4 530	111	667	244	-	9 901
Liabilities	5 707	9 060	858	1 213	12 680	3 894	425 123	-	458 535

During the 6-month period ended 31 December 2009 none of the Group's external customers accounted for more than 10% of total external revenue. During the 6-month period ended 31 December 2009 export sales amount to 78% of total external sales revenue.

## 2. Nature of the Business

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

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

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

The principal operating office of the Group is located at the following address: 92-94 Dmitrievskaya str., 01135 Kyiv, Ukraine.

**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 December 2010	31 December 2009
Kernel—Capital LLC	Holding companies.	Ukraine	100%	100%
Group Management LLC		Ukraine	100%	N/A
Etrecom Investments LLC		Cyprus	100%	100%
Chorex Developments Limited		Cyprus	100%	100%
Corolex Public Co. Limited		Cyprus	94%	N/A
Hamalex Developments LTD		Cyprus	100%	100%
Grain Trading Company "Allseeds—Ukraine" CJSC		Ukraine	94%	N/A
Jerste BV		Netherlands	100%	100%
Ukragrobiznes LLC		Ukraine	100%	100%
JE Inerco—Ukraine LLC	Holding company. No significant activity since the date of foundation.	Ukraine	100%	100%
Inerco Trade S.A.	Trade of sunflower oil, meal and grain.	Switzerland	100%	100%
Inerco Commodities S.A.		Switzerland	100%	100%
Restomon LTD		British Virgin Islands	100%	100%
Lanen S.A.		Panama	100%	100%
Grain Trading Company LLC		Ukraine	94%	N/A
Kernel—Trade LLC		Ukraine	100%	100%
Poltava oil crushing plant —Kernel Group PJSC	Production plants. Production of sunflower oil and meal.	Ukraine	99.7%	98.2%
Vovchansky OEP PJSC		Ukraine	99.4%	99.4%
Prykolotnjansky OEP LLC		Ukraine	100%	100%
Kirovogradoliya JSC		Ukraine	99.2%	N/A
Ekotrans LLC		Ukraine	100%	N/A
Bandurskiy oil crushing plant LLC		Ukraine	100%	100%
Transbulkterminal, LLC	Provision of grain handling and transshipment services, including services to the Group.	Ukraine	100%	100%
C.F.C Ukraine LTD		Ukraine	0*	100%
Estron Corporation LTD		Cyprus	100%	100%
Oiltransterminal, LLC		Ukraine	100%	N/A
Poltavaavtotransservis CJSC	Trucking companies.	Ukraine	100%	100%
MTE-2004 LLC		Ukraine	100%	N/A

\* Disposed of on 15 January 2010

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of	
			31 December 2010	31 December 2009
Reshetylivka Hliboproduct LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100%	100%
Horol—Elevator LLC		Ukraine	0*	100%
Mirgorodsky elevator LLC		Ukraine	100%	100%
Globynsky elevator HP LLC		Ukraine	100%	100%
Skifiya—Zernotrade LLC		Ukraine	94%	N/A
Poltavske khlibopriemalne pidpriemstvo JSC		Ukraine	88.2%	88.2%
Elevator—“Grain Trading Company” LLC		Ukraine	94%	N/A
Gogoleve—Agro LLC		Ukraine	100%	99.9%
Sagaydak—Agro LLC		Ukraine	100%	100%
Karlivka—Agro LLC		Ukraine	100%	99.9%
Trykratskiy GPC JSC		Ukraine	86.5%	N/A
Lazorkovsky Elevator LLC		Ukraine	0**	99.9%
Zherebkivsky elevator LLC		Ukraine	100%	99.9%
Kononivsky elevator LLC		Ukraine	100%	99.9%
Semenivsky elevator LLC		Ukraine	100%	99.9%
Kobelyaki Hliboproduct LLC		Ukraine	100%	100%
Sahnovshina Hliboproduct LLC		Ukraine	100%	100%
Velykoburlutske HPP LLC		Ukraine	100%	100%
Gutnansky elevator LLC		Ukraine	100%	100%
Lykhachivsky KHP LLC		Ukraine	100%	100%
Shevchenkisky KHP LLC		Ukraine	100%	100%
Kovyagivske KHP LLC		Ukraine	100%	100%
Viktorovsky elevator LLC		Ukraine	100%	100%
Agroservice LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	100%
Zernoservice LLC		Ukraine	100%	100%
Unigrain—Agro (Globino) LLC		Ukraine	100%	100%
Unigrain—Agro (Semenovka) LLC		Ukraine	100%	100%
Mrija— Agro LLC		Ukraine	100%	100%
Lozivske HPP PJSC		Ukraine	100%	100%
Krasnopavlivsky KHP PJSC		Ukraine	100%	100%
Agrofirma “Arshitsa” LLC		Ukraine	100%	100%
Agrotera—Kolos LLC		Ukraine	100%	100%
Chorna Kamyanka LLC		Ukraine	100%	100%
Govtva ALLC		Ukraine	100%	100%
Perebudova PRAC		Ukraine	100%	100%
Manjurka LLC		Ukraine	100%	100%
Krutenke LLC		Ukraine	100%	100%
Promin LLC		Ukraine	100%	100%
Brovarki PRAC		Ukraine	100%	100%
PRAC by the name of Shorsa		Ukraine	100%	100%
Troyanske ALLC		Ukraine	100%	100%
Zorya ALLC		Ukraine	100%	100%
Hleborob ALLC		Ukraine	100%	100%
AC by the name of T. Shevchenko		Ukraine	100%	100%
Drugba PRAC		Ukraine	100%	100%
Agrofirma “Chkalova” LLC		Ukraine	100%	100%
Agrofirma “Vitchizna”, LLC		Ukraine	100%	100%
Agrofirma “Vesna” LLC		Ukraine	0%	N/A

\* Merged with Semenivsky elevator LLC on 15 December 2010

\*\* Disposed of on 10 December 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 December 2010 consisted of 73 191 000 (seventy three million one hundred and ninety one thousand) ordinary bearer shares without indication of a nominal value, providing 73 191 000 voting rights (as of 31 December 2009 – 68 741 000 shares).

#### The shares were distributed as follows:

	as of 31 December 2010		as of 31 December 2009	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
<b>Equity holders</b>				
Namsen LTD (limited company registered under the legislation of Cyprus) (hereinafter the "Majority Equity holder")	30 174 250	41.23%	37 074 250	53.93%
Free-float	43 016 750	58.77%	31 666 750	46.07%
<b>Total</b>	<b>73 191 000</b>	<b>100.00%</b>	<b>68 741 000</b>	<b>100.00%</b>

As of 31 December 2010 and 2009 100% of the beneficial interest in the "Majority Equity holder" was held by Verevskiy Andrey Mikhaylovych (hereinafter the "Beneficial Owner").

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

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

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

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

Luxembourg companies are required to allocate to legal reserve a minimum of 5% of the annual net income until this reserve equals up to 10% of subscribed issued capital. This reserve of an amount of USD 125 thousand as of 31 December 2010, unchanged from 31 December 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.

### *Adoption of new and revised standards*

The Group has adopted the following new and amended standards:

#### IFRS 1 First-time adoption of International Financial Reporting standards

The Group has adopted IAS 1 Presentation of Financial Statements (revised), with effect from 1 July 2009. 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.

#### IFRS 2 Share based payment

The standard was amended in 2009 by “Amendments to IFRS 2 Group cash-settled share-based payment transactions” applicable to annual reporting periods beginning on or after 1 January 2010. The amendments expand IFRS 2 to bring group cash-settled share-based payment transactions into the scope of the standard. The adoption of this amendment did not have any impact on the reported results.

#### IFRS 3 Business combinations

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The Group has adopted IFRS 3 with effect from 1 July 2009. Changes affect the measurement of non-controlling interests at the date of acquisition, the accounting for transaction cost, the recognition and subsequent accounting for contingent consideration.

#### IAS 27 Consolidated and Separate Financial Statements

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The Group has adopted IAS 27 with effect from 1 July 2009.

#### IAS 28 Investment in associates

The revised standard was issued on 22 May 2008 and became effective for financial years beginning on or after 1 July 2009. **The principle adopted requires, in case the investor loses significant influence over an associate, that all amounts are recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.** Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. The adoption of this interpretation did not have any impact on the reported results.

#### IAS 32 Financial instruments: classification and measurement

The amendment to IAS 32 is effective for financial years periods beginning on or after 1 February, 2010 and addresses the accounting for rights issues (rights, options and warrants) that are denominated in a currency other than functional currency of the issuer. The adoption of this interpretation did not have any impact on the reported results.

#### IFRIC 17 Distribution of non-cash assets to owners

IFRIC 17 is effective for financial years beginning on or after 1 July 2009 and provides guidance on distribution of non-cash assets to owners, and distribution in which the owners are given the choice of receiving either non-cash assets or a cash alternative. The adoption of this interpretation did not have any impact on the reported results.

#### IFRIC 18 Transfers of assets from customers

IFRIC 18 is effective for financial years beginning on or after 1 July 2009 and provides guidance on transfer of property, plan and equipment for entities that receive such contribution from their customers. The adoption of this interpretation did not have any impact on the reported results.

#### IFRIC 19 Extinguishing financial liabilities with equity instruments

IFRIC 19 is effective for financial years beginning on or after 1 July 2010. The interpretation addresses the issue in respect of the accounting by the debtor in a debt for equity swap transaction. The adoption of this interpretation did not have any impact on the reported results.

#### Standards and Interpretations not yet adopted

The Group has not yet applied the following revised and amended standards, which are issued, but not yet effective

	<b>Effective for annual accounting period beginning on or after</b>
IAS 24 Related party disclosures	1 January 2011
IFRS 9 Financial instruments: classification and measurement	1 January 2013
IFRIC 14 Prepayment of a minimum funding requirement	1 January 2011

**Accounting Estimates** — The application of IFRS requires the use of reasonable assumptions and estimates. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from these estimates.

**Measurement and Presentation Currency** — Starting from 01 January 2007, and in accordance with the resolution of the shareholders dated 31 July 2007, the measurement currency of Kernel Holding S.A. is the United States dollar ("USD"). Management utilizes the USD as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates" as its major assets and sources of finance are denominated in USD. The measurement currencies for the Subsidiaries of the Group are mainly local currencies of the countries, where the Group Subsidiaries are incorporated and operate, with the exception of Inerco Trade S.A. (Switzerland), Lanen S.A. (Panama), Estron Corporation Ltd (Cyprus), Chorex Developments Limited (Cyprus), Hamalex Developments LTD (Cyprus), Restomon LTD (British Virgin Islands), Inerco Commodities S.A. (Switzerland), Jerste BV (Netherlands), Corolex Public Co. Limited (Cyprus) and Etrecom (Cyprus). Management has utilized USD as the measurement currency for Inerco Trade S.A., Lanen S.A., Estron Corporation Ltd, Chorex Developments Limited, Hamalex Developments LTD, Restomon LTD, Inerco Commodities S.A., Jerste BV, Corolex Public Co. Limited and Etrecom under IAS No. 21 as their major sources of finance, prices of sales contracts with customers and also prices of significant contracts for purchases of goods and services from suppliers are denominated in USD. From 1 July 2009 and on the basis of IAS No.21, management adopted USD as the measurement currency of "Kernel-Trade" LLC, as the major sources of finance, prices of sales contracts with customers and also prices of significant contracts for purchases of goods and services from suppliers are denominated in, or pegged to, the USD. On the basis of IAS No.21 USD was also adopted as the measurement currency for CJSC "Poltava oil crushing plant — Kernel Group", JSC "Vovchansky OEP", CJSC "Prykolotnjansky OEP", and from 1 April 2010 JSC "Kirovogradoliya" and "Ekotrans"

LLC, and from 1 July 2010 "Bandurskiy oil crushing plant " LLC, as the activities of these subsidiaries are carried out with a limited degree of autonomy. Following the changes in measurement and presentation currency, reclassification in the Statement of Cash Flows was effected to provide users of the financial statements with clearer and more detailed information. Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

**Basis of Consolidation** — The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group (the "Subsidiaries") as of 31 December 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.

Non-controlling 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.

**Discontinued operations** — In compliance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The result from discontinued operations is presented in the income statement of as a separate item after the profit from continuing operations.

If the criteria of classification of the disposal group held for sale are met after the balance sheet date, disposal group is not presented as held for sale in those financial statements when issued. However, when those criteria are met after the balance sheet date but before the authorization of the financial statements for issue, the Group discloses the respective information in notes to the financial statements.

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

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

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

Currency	Closing rate as of 31 December 2010	Average rate for the 6 months ended 31 December 2010	Closing rate as of 31 December 2009	Average rate for the 6 months ended 31 December 2009
USD/UAH	7.9617	7.9160	7.9850	7.9033
USD/EUR	0.7485	0.7554	0.6938	0.6883
USD/PLN	2.9641	3.0131	2.8503	2.8832

*Cash and cash equivalents* – cash and cash equivalents include cash on hand, cash with banks, deposits with a maturity date of three months or less from the date of acquisition.

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

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

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

*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.

*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 December 2010 and 2009 there were no investments in non-consolidated subsidiaries and associates.

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

*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.

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**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.

**Property, Plant and Equipment** — Buildings and constructions (oil) and production machinery and equipment (oil), accounted for at fair value, which is determined using external professional expert evaluation. 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.

If there is no data about the market value of property, plant and equipment due to the highly specialized nature of machinery and equipment, such objects are evaluated according to acquisition expenses under present-day conditions, adjusted by an ageing percentage.

Valuations are performed frequently enough to ensure that the fair value of a re-measured asset does not differ materially from its carrying amount.

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

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

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

Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Decreases in the carrying amount as a result of a revaluation are recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent

of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

Depreciation on revalued assets is charged to the profit or loss. On the subsequent sale or retirement of revalued assets, the revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

Property, plant and equipment are depreciated over the estimated 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.

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

**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.

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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.

*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. Financial liabilities, which do not have a fixed maturity, are subsequently carried at fair value.

*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 statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

*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.

*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 non-current assets, except for 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.

**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 statement of financial position 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.

*Issued capital and earnings per share*

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

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

**Equity-settled transactions** — The Group has adopted Financial Reporting Standard (IFRS) 2 'Share-based Payment' during the financial year 2008.

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

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

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

**Earnings per share** — Are calculated by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares outstanding during the period.

**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.

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

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

**The operating segments' activities are as follows:**

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

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

In the financial statements as of 31 December 2010 the segment table reflects continuing operations only.

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

The segment data is calculated as follows:

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

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

## 5. Cash

**The balances of cash were as follows:**

	as of 31 December 2010	as of 31 December 2009
Cash with banks in USD	13 164	32 616
Cash with banks in UAH	8 103	17 589
Cash with banks in other currencies	313	97
Cash on hand	7	6
<b>Total</b>	<b>21 587</b>	<b>50 308</b>
Less restricted cash on Security bank account and blocked amount	(6 242)	(6 815)
<b>Cash for the purposes of cash flow statement</b>	<b>15 345</b>	<b>43 493</b>

As of 31 December 2010 cash on a bank account in the amount of USD 6 242 thousand (as of 31 December 2009: USD 6 815 thousand) was restricted in use based on short-term loan agreements with foreign banks and thus was excluded from cash item for the purpose of cash flow statement.

As of 31 December 2009 cash on a bank account in the amount of USD 1 575 thousand (included in USD 6 815 thousand) was pledged by the Group as collateral against long-term bank loans obtained from foreign bank (Note 17).

## 6. Trade Accounts Receivable

6. Trade Accounts Receivable  
7. Prepayments to Suppliers and Other Current Assets  
8. Taxes Recoverable and Prepaid

### The balances of trade accounts receivable were as follows:

	as of 31 December 2010	as of 31 December 2009
Trade accounts receivable	129 048	59 578
Allowance for estimated irrecoverable amounts (Note 31)	(1 385)	(984)
<b>Total</b>	<b>127 663</b>	<b>58 594</b>

As of 31 December 2010 accounts receivable from one European customer accounted for approximately 19% of the total carrying amount of trade accounts receivable (as of 31 December 2009 approximately 14%).

## 7. Prepayments to Suppliers and Other Current Assets

### The balances of prepayments to suppliers and other current assets were as follows:

	as of 31 December 2010	as of 31 December 2009
Prepayments to suppliers	41 054	20 747
Other accounts receivable and other current assets	9 359	6 361
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(2 899)	(1 202)
<b>Total</b>	<b>47 514</b>	<b>25 906</b>

## 8. Taxes Recoverable and Prepaid

### The balances of taxes recoverable and prepaid were as follows:

	as of 31 December 2010	as of 31 December 2009
VAT ("value-added tax") recoverable and prepaid	264 187	135 697
Other taxes recoverable and prepaid	3 846	2 254
<b>Total</b>	<b>268 033</b>	<b>137 951</b>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on domestic market in Ukraine. Management expects that these balances will be recovered within twelve months after the balance sheet date in amount of USD 213 300 thousand (Note 31). In the absence of previous impairment losses on the value added tax as of 31 December 2010, reserve on VAT is not charged (as of 31 December 2009: reserve on VAT was not charged).

In November 2010, the Company sold the Ukraine State bonds issued to Ukrainian subsidiaries of the Company in reimbursement of VAT for a total face value of UAH 1 072 562 thousand, representing the entire position in State bonds held by the Company. The bonds were sold to third parties for a total amount of UAH 943 255 thousand, representing a 12 % discount to par value.

## 9. Inventories

The balances of inventories were as follows:

	as of 31 December 2010	as of 31 December 2009
Raw materials	421 135	139 193
Finished products	43 114	17 096
Goods for resale	73 527	108 866
Packaging materials	604	390
Fuel	953	883
Products of agriculture	1 097	618
Other inventories	6 582	1 321
<b>Total</b>	<b>547 012</b>	<b>268 367</b>

As of 31 December 2010 inventories with the carrying amount of USD 350 599 thousand (as of 31 December 2009: USD 184 640 thousand) were pledged by the Group as collateral against short-term loans obtained from banks (Note 16).

## 10. Biological Assets

The balances of biological assets were as follows:

Agricultural Farming	as of 31 December 2010		as of 31 December 2009	
	Hectares	Value	Hectares	Value
Wheat	30 181	2 286	26 425	1 821
Sunflower seed	13 626	167	16 020	335
Soya beans	18 047	232	13 852	190
Barley	2 382	194	9 800	448
Corn	11 923	122	7 293	176
Peas	1 832	32	9 667	274
Rape seeds	9 037	1 203	-	-
Other crops	-	-	2 772	373
<b>Total</b>	<b>87 028</b>	<b>4 236</b>	<b>85 829</b>	<b>3 617</b>

The following table represents the changes in the carrying amounts of biological assets during the 6 months ended 31 December 2010 and 2009:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
<b>As of 31 December 2009</b>	<b>3 617</b>	<b>-</b>	<b>3 617</b>
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2010)	15 032	-	15 032
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, harvest 2010)	-	7 482	7 482
<b>As of 30 June 2010</b>	<b>18 649</b>	<b>7 482</b>	<b>26 131</b>
Decrease due to harvest (harvest 2010)	(18 649)	(7 482)	(26 131)
Increase due to purchases and subsequent expenditures capitalized in biological assets (harvest 2011)	4 236	-	4 236
<b>As of 31 December 2010</b>	<b>4 236</b>	<b>-</b>	<b>4 236</b>

## 11. Property Plant and Equipment, Net

As of 31 December 2010 property, plant and equipment with the carrying amount of USD 231 761 thousand (as of 31 December 2009: USD 212 504 thousand) was pledged by the Group as collateral against short-term and long-term bank loans (Note 16, 17).

As of 31 December 2010 production equipment with the carrying amount of USD 10 185 thousand was held under finance lease (as of 31 December 2009: USD 13 651 thousand) (Note 18).

The following table represents movements in property, plant and equipment for the 6-month period ended 31 December 2010:

	Oil	Export terminals	Farming	Inland Silos	Other	Total
<b>Net Book Value as at 1 July 2010</b>	<b>212 695</b>	<b>73 577</b>	<b>20 529</b>	<b>58 618</b>	<b>13 616</b>	<b>379 035</b>
Land	2 289	3 380	2	1 138	46	6 855
Buildings and Constructions	84 347	15 648	5 263	47 002	3 362	155 622
Production machinery and equipment	59 821	54 454	275	9 772	66	124 388
Agricultural vehicles and equipment	22	-	14 908	55	-	14 985
Other fixed assets	-	-	-	-	9 838	9 838
CIP and uninstalled equipment	66 216	95	81	651	304	67 347
<b>Additions</b>	<b>16 654</b>	<b>545</b>	<b>255</b>	<b>5 958</b>	<b>1 479</b>	<b>24 891</b>
CIP and uninstalled equipment	16 654	545	255	5 958	1 479	24 891
<b>Transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Buildings and Constructions	39 062	9	799	83	10	39 963
Production machinery and equipment	29 455	503	82	63	5	30 108
Agricultural vehicles and equipment	-	-	273	-	-	273
Other fixed assets	451	-	-	-	1 109	1 560
CIP and uninstalled equipment	(68 968)	(512)	(1 154)	(146)	(1 124)	(71 904)

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The following table represents movements in property, plant and equipment for the 6-month period ended 31 December 2010:

	Oil	Export terminals	Farming	Inland Silos	Other	Total
<b>Disposals (at NBV)</b>	<b>(99)</b>	<b>-</b>	<b>(75)</b>	<b>(596)</b>	<b>(227)</b>	<b>(997)</b>
Buildings and Constructions	(73)	-	(53)	(500)	(3)	(629)
Production machinery and equipment	(26)	-	-	(95)	(8)	(129)
Agricultural vehicles and equipment	-	-	(22)	(1)	-	(23)
Other fixed assets	-	-	-	-	(216)	(216)
<b>Depreciation expense</b>	<b>(5 498)</b>	<b>(1 780)</b>	<b>(2 602)</b>	<b>(2 855)</b>	<b>(1 517)</b>	<b>(14 252)</b>
Buildings and Constructions	(2 185)	(238)	(377)	(2 027)	(91)	(4 918)
Production machinery and equipment	(3 302)	(1 542)	(41)	(820)	(3)	(5 708)
Agricultural vehicles and equipment	(2)	-	(2 184)	(8)	-	(2 194)
Other fixed assets	(9)	-	-	-	(1 423)	(1 432)
<b>Translation difference</b>	<b>(623)</b>	<b>8</b>	<b>856</b>	<b>(505)</b>	<b>(608)</b>	<b>(872)</b>
Land	(8)	(23)	-	(8)	-	(39)
Buildings and Constructions	(260)	(68)	(38)	(299)	(8)	(673)
Production machinery and equipment	(191)	(9)	(1)	(8)	(1)	(210)
Agricultural vehicles and equipment	-	-	(15)	(1)	-	(16)
Other fixed assets	(2)	-	-	-	(55)	(57)
CIP and uninstalled equipment	(162)	108	910	(189)	(544)	123
<b>Net Book Value as at 31 December 2010</b>	<b>223 129</b>	<b>72 350</b>	<b>18 963</b>	<b>60 620</b>	<b>12 743</b>	<b>387 805</b>
Land	2 281	3 357	2	1 130	46	6 816
Buildings and Constructions	120 891	15 351	5 594	44 259	3 270	189 365
Production machinery and equipment	85 757	53 406	315	8 912	59	148 449
Agricultural vehicles and equipment	20	-	12 960	45	-	13 025
Other fixed assets	440	-	-	-	9 253	9 693
CIP and uninstalled equipment	13 740	236	92	6 274	115	20 457

As of 31 December 2010 amount of property plant and equipment includes USD 3 214 thousand and amount of CIP and uninstalled equipment includes USD 160 thousand of capitalized interest on borrowing costs (as of 31 December 2009: USD 2 783 thousand calculated at a capitalization rate of 11.67 % per annum). Capitalization rate used to calculate the amount of capitalized interests as at 31 December 2010 is 5.27 % per annum.

The fair value of Buildings and constructions (oil) and production machinery and equipment (oil) has been revalued as at 1 July 2009 by an external independent appraiser.

In order to determine the fair value of buildings and constructions (oil) and production machinery and equipment (oil), the Group retained the services of an independent appraiser FDI "Bureau VERITAS Ukraine" (ODS Certificate No.7100/08 dated 26.05.2008 State Property Fund of Ukraine), who holds a recognized and relevant professional qualification and has recent experience in valuation of assets of similar location and category.

The assessment was conducted in accordance with International Valuation Standards for property. The assessment procedure was carried out for all buildings and constructions and production machinery and equipment used in oil production. Due to the nature of highly specialized buildings and constructions (oil), such objects were evaluated using replacement cost basis under present-day conditions, adjusted by an ageing percentage. Several items of highly specialized production machinery and equipment (oil) were appraised using replacement cost basis, fair values of other production machinery and equipment (oil) items were estimated using market value comparative approach.

The replacement cost approach involves the definition of present value of costs of reconstruction or replacement of the assessment item with their further adjustment by the ageing percentage.

The market value comparative approach is based on an analysis of sales prices and offers of similar items of property, plant and equipment, taking into account the appropriate adjustments for differences between the objects of comparison and assessment item.

## 12. Intangible Assets, Net

The following table represents movements in intangible assets for the 6-month period ended 31 December 2010 and 2009:

<b>Cost as of 30 June 2010</b>	<b>40 005</b>	<b>Cost as of 30 June 2009</b>	<b>41 039</b>
Additions from acquisition of Subsidiaries	632	Additions from acquisition of Subsidiaries	-
Additions	114	Additions	221
Disposals	(28)	Disposals	(95)
Translation difference	(142)	Translation difference	(1 835)
<b>Cost as of 31 December 2010</b>	<b>40 581</b>	<b>Cost as of 31 December 2009</b>	<b>39 330</b>
<b>Accumulated depreciation as of 30 June 2010</b>	<b>(8 163)</b>	<b>Accumulated depreciation as of 30 June 2009</b>	<b>(5 353)</b>
Amortization charge	(1 821)	Amortization charge	(1 795)
Disposals	6	Disposals	12
Translation difference	(11)	Translation difference	763
<b>Accumulated depreciation as of 31 December 2010</b>	<b>(9 989)</b>	<b>Accumulated depreciation as of 31 December 2009</b>	<b>(6 373)</b>
<b>Net book value as of 31 December 2010</b>	<b>30 592</b>	<b>Net book value as of 31 December 2009</b>	<b>32 957</b>

Included in intangible assets of Subsidiaries are the “Schedry Dar”, “Stozhar”, “Zolota” and “Domashnya” trademarks with the value of USD 4 585 thousand, USD 5 952 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 December 2010 and 2009 trade mark “Stozhar” was pledged as security for long-term loans (Note 17).

Management of the Group expects the demand for bottled sunflower oil to be stable in the foreseeable future. The Group believes that, as a result of further promotion of

the “Schedry Dar”, “Stozhar”, “Zolota” and “Domashnya” trademarks sales of bottled oil under these trademarks and the current bottled oil market share enjoyed by the Group will be stable and thus the Group will obtain economic benefits from them during an indefinite period of time. Accordingly, the trademarks which belong to the Group are considered to have indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually and whenever there is an indication that the trademarks may be impaired.

## 13. Goodwill

The following table represents movements in goodwill for the 6-month period:

	2010	2009
<b>As of 30 June</b>	<b>86 058</b>	<b>45 166</b>
Translation differences	(58)	(394)
<b>As of 31 December</b>	<b>86 000</b>	<b>44 772</b>

## 14. Other Non-Current Assets

The balances of other non-current assets were as follows:

	as of 31 December 2010	as of 31 December 2009
Grain elevators lease rights ("DAK Asset") (Note 26)	202	571
Prepayments for property, plant and equipment	534	821
Prepayments for subsidiaries	-	26 863
Other non-current assets	744	4 342
<b>Total</b>	<b>1 480</b>	<b>32 597</b>

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

As "DAK" failed to settle in cash its debt on the last re-scheduled maturity date on 31 January 2003 the parties

agreed that the "DAK Debt" would be recovered by granting to the Group the right for operating lease of the property of two grain elevators owned by "DAK" and by set-off of the related rentals payable against the "DAK Debt" for the total nominal amount of USD 4 872 thousand.

In January 2011 a lease agreement with the State Joint Stock Company "DAK" Khib Ukrainy" (hereinafter referred to as the "DAK Debt" and Kobelyaki Hliboproduct LLC, Sahnovshina Hliboproduct LLC was terminated. Recovery of accounts receivable amounting to USD 202 thousand is under discussion between the parties.

## 15. Advances from Customers and Other Current Liabilities

The balance of advances from customers and other current liabilities were as follows:

	as of 31 December 2010	as of 31 December 2009
Advances from customers	9 632	8 754
Obligation under finance lease payable within one year (Note 18)	4 684	4 371
Accrued payroll, payroll related taxes and bonuses	920	1 720
Accounts payable for property, plant and equipment	111	2 227
Provision for unused vacations and other provisions	1 556	971
Taxes payable and provision for tax liabilities	5 108	4 708
Other current liabilities	6 956	742
<b>Total</b>	<b>28 967</b>	<b>23 493</b>

# 16. Short-Term Borrowings

## The balances of short-term borrowings were as follows:

	as of 31 December 2010	as of 31 December 2009
Bank credit lines	508 339	215 055
Interest accrued on short-term credits	1 042	398
Interest accrued on long-term credits	1 454	1 709
<b>Total</b>	<b>510 835</b>	<b>217 162</b>

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 2.12%	USD	July 2011	76 850
European bank	Libor + 2%	USD	July 2011	33 746
European bank	Libor + 1%	USD	July 2011	2 061
European bank	Libor + 5.3%	USD	August 2011	260 000
European bank	7.95%	USD	September 2011	80 000
Ukrainian subsidiary of European bank	BBA + 4%	USD	June 2011	25 000
Ukrainian subsidiary of European bank	Libor + 8.41%	USD	September 2011	30 682
<b>Total bank credit lines</b>				<b>508 339</b>
Interest accrued on short-term loans				1 042
Interest accrued on long-term loans				1 454
<b>Total</b>				<b>510 835</b>

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

	Interest rate	Currency	Maturity	Amount due
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 + 2.0%	USD	July 2010	87 165
European bank	Libor + 5.0%	USD	August 2010	105 000
<b>Total bank credit lines</b>				<b>215 055</b>
Interest accrued on short-term loans				398
Interest accrued on long-term loans				1 709
<b>Total</b>				<b>217 162</b>

As of 31 December 2010 the overall maximum credit limit for short-term bank credit lines amounted to USD 661 812 thousand (as of 31 December 2009: USD 334 600 thousand).

## Short-term loans from banks were secured as follows:

Assets pledged	as of 31 December 2010	as of 31 December 2009
Inventories (Note 9)	350 599	184 640
Property, plant and equipment (Note 11)	3 357	6 901
<b>Total</b>	<b>353 956</b>	<b>191 541</b>

# 17. Long-Term Borrowings

## The balances of long-term borrowings were as follows:

	as of 31 December 2010	as of 31 December 2009
Long-term bank loans	208 653	174 240
Current portion of long-term borrowings	(36 358)	(31 994)
<b>Total</b>	<b>172 295</b>	<b>142 246</b>

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

	Interest rate	Currency	Maturity	Amount due
European bank	Libor 3 m + 3.52%	USD	April 2015	29 691
European bank	Libor 3 m + 6.75%	USD	September 2012	26 664
Ukrainian subsidiary of European bank	Libor + 5.7%	USD	September 2013	57 927
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	29 445
Ukrainian subsidiary of European bank	Libor 3 m + 11.2%	USD	August 2015	5 418
Ukrainian subsidiary of European bank	25%	UAH	September 2012	10 523
Ukrainian subsidiary of European bank	13%	UAH	September 2013	48 985
<b>Total</b>				<b>208 653</b>

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

	Interest rate	Currency	Maturity	Amount due
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	37 127
European bank	Libor + 5.7%	USD	September 2013	17 236
European bank	Libor + 3.52%	USD	April 2015	34 877
European bank	Libor + 6.75%	USD	September 2012	40 000
European bank	Libor + 5.7%	USD	July 2011	45 000
<b>Total</b>				<b>174 240</b>

Long-term loans as of 31 December 2010 include credit line from banks with the overall maximum credit limit of USD 256 637 thousand (as of 31 December 2009: USD 195 000 thousand).

## Long-term loans from banks were secured as follows:

Assets pledged	as of 31 December 2010	as of 31 December 2009
Cash (Note 5)	-	1 575
Property, plant and equipment (Note 11)	228 404	205 603
Intangible assets (Note 12)	5 952	5 935
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b>234 356</b>	<b>213 113</b>

**In addition, controlling stakes in the following Subsidiaries were pledged to secure the long-term bank loans of the Group:**

as of 31 December 2010	as of 31 December 2009
Vovchansky OEP VJSC	Poltava oil crushing plant-Kernel Group CJSC
Gutnansky elevator LLC	Reshetylivka Hliboproduct CJSC
Prykolotnjansky OEP LLC	Globynsky elevator HP CJSC
Velykoburlutske HPP LLC	Gutnansky elevator CJSC
Shevchenkisky KHP LLC	Poltavske khlibopriemalne pidpriemstvo JSC
Kovyagivske KHP LLC	Prykolotnjansky OEP CJSC
Bandurskiy oil crushing plant LLC	Velykoburlutske HPP CJSC
Transbulkterminal LLC	Shevchenkisky KHP CJSC
Kirovogradoliya JSC	Kovyagivske KHP CJSC
	Poltavaavtotransservis CJSC
	Bandurskiy elevator LLC

## 18. Obligations Under Finance Lease

**The major components of finance lease liabilities were as follows:**

	as of 31 December 2010		as of 31 December 2009	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
<i>Amounts payable due to the finance lease:</i>				
Within one year (Note 15)	5 358	4 684	5 284	4 371
Later than one year and not later than five years	5 995	5 501	10 145	9 280
<b>Total</b>	<b>11 353</b>	<b>10 185</b>	<b>15 429</b>	<b>13 651</b>
Less future finance charges	(1 168)	-	(1 778)	-
<b>Present value of lease obligations</b>	<b>10 185</b>	<b>10 185</b>	<b>13 651</b>	<b>13 651</b>

On 12 May 2008 a Ukrainian Subsidiary of Kernel Holding S.A. signed a 4-year financial lease agreement with an overall total limit of USD 15 million, with the Ukrainian subsidiary of a European bank for financing of agricultural machinery and equipment. USD 4.3 million was outstanding as at 31 December 2010. The finance lease liability is denominated in USD and bears interest rate of 8.0% per annum.

# 19. Income Tax

## The major components of deferred tax assets and liabilities were as follows:

	as of 31 December 2010	as of 31 December 2009
<i>Deferred tax assets arising from:</i>		
Tax losses carried forward	1 988	1 058
Valuation of advances from customers	9 952	6 696
Valuation of accounts receivable	1 199	434
Valuation of property, plant and equipment	9 716	727
Valuation of intangible assets	214	191
Valuation of inventories	71	1
Valuation of accrued expenses and other temporary differences	328	183
<b>Deferred tax asset</b>	<b>23 468</b>	<b>9 290</b>
<b>Net deferred tax asset after valuation allowance</b>	<b>23 468</b>	<b>9 290</b>
<i>Deferred tax liability arising from:</i>		
Valuation of property, plant and equipment	(38 932)	(14 334)
Valuation of prepayments to suppliers and prepaid expenses	(12 619)	(8 676)
Valuation of intangible assets	(2 319)	(2 277)
Valuation of inventories	(2)	(2)
Valuation of accounts receivable	-	(4)
Valuation of financial investments	(9)	(9)
<b>Deferred tax liability</b>	<b>(53 881)</b>	<b>(25 302)</b>
<b>Net deferred tax liability</b>	<b>(30 413)</b>	<b>(16 012)</b>

As of 31 December 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 December 2010 and 2009.

The new Tax Code of Ukraine, which was enacted on 2 December 2010, introduced gradual decreases in income tax rates from 23% effective 1 April 2011 to 16% effective

1 January 2014, as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The Group has treated the respective change in tax legislation as a non-adjusting event for the current financial statements. The deferred income tax assets and liabilities as of 31 December 2010 were measured based on the tax rates and tax legislation enacted on the report date.

## The components of income tax benefit were as follows:

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Current income tax expenses	(752)	(456)
Deferred tax benefit	1 182	800
<b>Income tax benefit</b>	<b>430</b>	<b>344</b>

**The income tax benefit is reconciled to the profit before income tax per consolidated income statement as follows:**

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Profit before income tax from continuing operations	85 487	82 186
Tax at the statutory income tax rate in Ukraine of 25%	(21 372)	(20 547)
Expenditures not allowable for income tax purposes and non-taxable income, net	21 802	20 063
Change in valuation allowance	-	828
<b>Income tax benefit</b>	<b>430</b>	<b>344</b>

## 20. Revenue

**Revenue was as follows:**

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Revenue from bulk sunflower oil, cake and meal	440 274	143 914
Revenue from bottled sunflower oil	71 828	62 914
Revenue from farming	3 190	2 783
Revenue from grain trade	387 349	275 449
Revenue from grain silo services	7 283	10 296
Revenue from transshipment services	2 509	17 168
<b>Total</b>	<b>912 433</b>	<b>512 524</b>

For the 6-month period ended 31 December 2010 revenue from five European customers accounted for approximately 39% of the total revenue (for the 6-months period ended 31

December 2009 revenue from five European customers accounted for 29.9% of the total revenue).

## 21. Cost of Sales

**Cost of sales was as follows:**

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Cost of goods for resale and raw materials used	661 890	325 815
Payroll and payroll related costs	14 183	9 757
Amortization and depreciation	15 273	9 351
Rental payments	5 190	5 930
Other operating costs	9 211	6 614
<b>Total</b>	<b>705 747</b>	<b>357 467</b>

## 22. Other Operating Income

### Other operating income was as follows:

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
VAT and other farming related exemptions	7 740	5 669
Contracts wash-out (price difference settlement)	646	-
Other operating income	926	1 174
<b>Total</b>	<b>9 312</b>	<b>6 843</b>

## 23. Distribution Costs

### The distribution costs were as follows:

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Carriage and freight	68 326	58 075
Marketing and advertising	3 243	3 016
Payroll and payroll related costs	290	1 060
Customs expenses	281	1 505
Certification	1 546	1 700
Sanitation services	263	507
Depreciation	9	51
Other expenses	1 694	1 867
<b>Total</b>	<b>75 652</b>	<b>67 781</b>

## 24. General and Administrative Expenses

The general and administrative expenses were as follows:

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Payroll and payroll related costs	6 004	4 730
Bank services	2 333	1 168
Bad debts expenses	146	1 035
Amortization and depreciation	791	499
Taxes other than income tax	540	225
Audit, legal and other professional fees	1 396	1 619
Rental payments	627	946
Repairs and material costs	1 043	458
Business trip expenses	131	298
Communication expenses	443	330
Insurance	1 177	47
Other expenses	460	853
<b>Total</b>	<b>15 091</b>	<b>12 208</b>

The fair value of the share based payments (Note 33) as of 31 December 2010 in amount of USD 586 thousand (31 December 2009: USD 704 thousand) is recognized as payroll and payroll related expenses for the period ended 31 December 2010. The auditors' remuneration for the 6-month period ended 31 December 2010 in amount of USD 298 thousand is included in audit, legal and other professional fees (31 December 2009: USD 233 thousand).

## 25. Finance Costs

The finance costs were as follows:

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Interest expense on bank loans and corporate bonds	16 189	6 616
Other finance costs, net	4 090	2 263
<b>Total</b>	<b>20 279</b>	<b>8 879</b>

## 26. Other Expenses

### Other expenses were as follows:

	for the 6 months ended 31 December 2010	for the 6 months ended 31 December 2009
Income/(expenses) from "DAK Asset"	75	(73)
Gain on sale of equity investments (Note 27)	495	640
Gain/(Loss) on disposal of property, plant and equipment	160	(140)
Other expenses, net	(6 107)	(1 082)
<b>Total</b>	<b>(5 377)</b>	<b>(655)</b>

Income from "DAK Asset" for the 6 months ended 31 December 2010 and 2009 represents change in value of the "DAK Asset" as a result of passage of time and partial realization of the nominal amount of the "DAK Debt" (Note 14).

## 27. Acquisition and Disposal of Subsidiaries

The following entity was acquired during the 6-month period ended 31 December 2010:

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of 31 December 2010
Agrofirma "Vesna" LLC	Agricultural farm. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	0%

This acquisition has been fully consolidated starting from the date the Group obtained the operational control over the entity. The Group expect to finalize legal steps of the acquisition in the course of financial year ended 30 June 2011.

Fair value of assets, liabilities and contingent liabilities was as follows:

<i>Acquired net assets:</i>	
Cash	28
Prepayments to suppliers and other current assets, net	3
Inventory	69
Biological assets, current	112
Property, plant and equipment, net	1 173
Leasing land rights	631
Advances from customers and other current liabilities	(10)
<b>Fair value of net assets of acquired Subsidiary</b>	<b>2 006</b>
Non-controlling interest of acquired Subsidiary	(2 006)
<b>Fair value of acquired net assets</b>	<b>-</b>
Negative Goodwill attributable to minority shareholders	427
<b>Total cash considerations due and payable by minority shareholders</b>	<b>(1 579)</b>
Less: acquired cash	28
<b>Net cash outflow due to the acquisition of Subsidiary by minority shareholders</b>	<b>(1 551)</b>

The following entity was disposed of during the 6-month period ended 31 December 2010:

Subsidiary	Principal Activity	Country of Incorporation	Group's share on disposal date
Lazorkovski Elevator LLC	Grain elevator. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100 %

**Fair value of assets, liabilities and contingent liabilities disposed of during the 6 months ended 31 December 2010 was as follows:**

<i>Assets disposed of, net:</i>	
Trade accounts receivable	9
Prepayments to suppliers and other current assets, net	43
Taxes recoverable and prepaid, net	229
Deferred tax assets	16
Advances from customers and other current liabilities	(163)
<b>Fair value of assets of Subsidiary disposed of, net</b>	<b>134</b>
Non-controlling interest	-
<b>Net assets disposed</b>	<b>134</b>
Group's share in net assets disposed	134
Fair value of consideration receivable	134
Gain on disposal of Subsidiaries	495
<b>Total cash consideration receivable</b>	<b>629</b>
Less: cash from assets disposed of, net	-
Less: accounts receivable from Subsidiaries of	629
<b>Net cash inflow from Subsidiary disposed of</b>	<b>-</b>

On 10 December 2010 as a result of the optimization process of its legal structure, the Group relinquished operational control over "Lazorkovski Elevator", LLC and does not consolidate it further.

## 28. 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:**

	Related party balances as of	Total category as per consolidated statement of financial position as of	Related party balances as of	Total category as per consolidated statement of financial position as of
	31 December 2010		31 December 2009	
Trade accounts receivable, net	1 100	127 663	471	58 594
Prepayments to suppliers and other current assets, net	8 496	47 514	7 272	25 906
Other non-current assets	563	1 480	26 863	32 597
Trade accounts payable	1 112	46 574	-	18 348
Advances from customers and other current liabilities	146	28 967	76	23 493

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**Transactions with related parties 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>6 month ended 31 December 2010</b>		<b>6 month ended 31 December 2009</b>	
Cost of sales	(233)	(705 747)	(97)	(357 467)
General, administrative and distribution expenses	(948)	(90 743)	(4)	(79 989)
Other income/(expenses)(Note 26)	202	(5 377)	25	(655)

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

## 29. Commitments and Contingencies

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

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

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

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

In December 2010, the Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine became effective on 1 January 2011, while some of its provisions take effect later (such as, Section III dealing with corporate income tax, came into force from 1 April 2011). Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2018, the Tax Code also changes various other taxation rules.

As of the date these financial statements were authorized for issue, additional clarifications and guidance on application of the new tax rules were not published and certain revisions were proposed for consideration of the Ukrainian Parliament.

While the Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorized for issue management was in the process of assessing of effects of its adoption on the operations of the Group.

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

As of 31 December 2010 and 31 December 2009 the Group was not liable for any significant supplementary pen-

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sions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

*Capital commitments* — As of 31 December 2010 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 2 219 thousand for supply of equipment and services required for the new solvent extraction plant under construction and for a total amount of USD 623 thousand for supply of equipment and services required for construction of a new silo.

As of 31 December 2009 the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 13 700 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.

*Contractual Commitments on Sales* — As of 31 December 2010 the Group had entered into commercial contracts for export of 184 thousand tons of grain and 582 thousand tons of sunflower oil and meal, corresponding to an amount of USD 57 235 thousand and USD 529 475 thousand respectively in prices as of 31 December 2010.

As of 31 December 2009 the Group had entered into commercial contracts for export of 645 thousand tons of grain and 288 thousand tons of sunflower oil and meal, corresponding to an amount of USD 124 630 thousand and USD 124 129 thousand respectively, in prices as of 31 December 2009.

*Operating Leases* — As of 31 December 2010 and 31 December 2009 the Group had outstanding commitments under non-cancellable operating lease agreements with following maturities:

Lease term	Future minimum lease payment as of 31 December 2010 (with third parties)	Future minimum lease payment as of 31 December 2009 (with third parties)	With Companies of the Group as of 31 December 2010	With Companies of the Group as of 31 December 2009
Less than 1 year	5 549	3 858	2 383	2 547
From 1 to 5 years	16 089	11 504	-	-
More than 5 years	13 585	3 524	-	-
<b>Total</b>	<b>35 223</b>	<b>18 886</b>	<b>2 383</b>	<b>2 547</b>

Operating lease payments mainly represent rentals payable by the Group office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation.

## 30. Financial Instruments

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through a combination of debt and equity capital. In November 2007 the Group was listed on the Warsaw Stock Exchange (WSE). Net proceeds of additional capital from the placement constituted USD 152 367 thousand after deduction of total subscription cost. In April 2008 the Group increased equity by USD 81 725 thousand as a result of a secondary offering of shares. In June 2010 the Group increased equity by USD 81 104 thousand.

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

### Gearing ratio

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

	as of 31 December 2010	as of 31 December 2009
Debt liabilities* (Note 16, 17, 18)	729 673	405 053
Cash and cash equivalents (Note 5)	(21 587)	(50 308)
Net debts	708 086	354 745
Equity**	690 914	449 221
<b>Gearing ratio</b>	<b>102%</b>	<b>79%</b>

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

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

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

- credit risk
- liquidity risk
- market risk.

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

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

The risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate

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

### Credit risk

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

#### The maximum exposure to credit risk was as follows:

	as of 31 December 2010	as of 31 December 2009
Cash (Note 5)	21 587	50 308
Trade accounts receivable, net (Note 6)	127 663	58 594
Taxes recoverable and pre-paid, net (Note 8)	268 033	135 697
<b>Total</b>	<b>417 283</b>	<b>244 599</b>

#### The maximum exposure to credit risk for trade receivable by geographic region was:

	as of 31 December 2010	as of 31 December 2009
Domestic customers (accounts receivable, net)	31 205	15 139
International customers (accounts receivable, net)	96 458	43 455
<b>Total</b>	<b>127 663</b>	<b>58 594</b>

Almost all clients of the Group are wholesale customers. The Group's most significant customer, an international customer, accounted for USD 24 153 thousand of the trade receivables as of 31 December 2010 (as of 31 December 2009: one customer accounted for USD 7 948 thousand).

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Ap

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proximately 39% of the Group's revenue are attributable to sales transactions with 5 customers.

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

#### Impairment losses

##### The ageing of trade receivables was as follows(Note 6):

	Gross carrying amount	Impairment
	as of 31 December 2010	
Current	79 822	-
Past due 0-30 days	44 496	-
Past due 31-180 days	3 243	(486)
Past due 181-365 days	1 179	(591)
More than one year	308	(308)
<b>Total</b>	<b>129 048</b>	<b>(1 385)</b>

##### The ageing of trade receivables was as follows(Note 6):

	Gross carrying amount	Impairment
	as of 31 December 2009	
Current	46 637	-
Past due 0-30 days	10 596	-
Past due 31-180 days	1 294	(195)
Past due 181-365 days	525	(263)
More than one year	526	(526)
<b>Total</b>	<b>59 578</b>	<b>(984)</b>

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

##### The movement in the allowance for impairment in respect of trade receivables for the 6 months was as follows:

	31 December 2010	31 December 2009
Balance at 30 June	(1 423)	(810)
Impairment loss recognized	38	(174)
<b>Balance at 30 December</b>	<b>(1 385)</b>	<b>(984)</b>

##### VAT recoverable

##### Expected schedule of VAT refund

February 2011	25 094
March 2011	25 094
April 2011	25 094
May 2011	25 094
June 2011	25 094
July 2011	25 094
August 2011	25 094
September 2011	25 094
October 2011	12 548
<b>Total</b>	<b>213 300</b>

##### For the 6-month period ended 31 December 2009 the amount of VAT returned was USD 15 197 thousand.

##### Schedule of VAT return

July 2009	2 145
September 2009	7 245
December 2009	5 807
<b>Total</b>	<b>15 197</b>

As of 31 December 2010 Taxes recoverable and pre-paid comprised VAT outstanding for a total amount of USD 264 187 thousand (as of 31 December 2009: USD 135 697 thousand).

##### Guarantees

The Group's policy is to provide financial guarantees only to wholly owned (controlled) subsidiaries. As of 31 December 2010 as well as at 31 December 2009 no guarantees were outstanding in favour of third parties.

##### Liquidity risk

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

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

**The contractual maturities of financial liabilities, including interest payments, as of 31 December 2010 were as follows:**

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Trade accounts payable	46 574	(46 574)	(46 574)	-	-	-
Short-term borrowings (Note 16)	510 835	(517 206)	(517 206)	-	-	-
Long-term borrowings (Note 17)	208 653	(230 486)	(45 784)	(45 288)	(139 414)	-
Obligations under finance lease (Note 18)	10 185	(11 353)	(5 358)	(3 950)	(2 045)	-
<b>Total</b>	<b>776 247</b>	<b>(805 619)</b>	<b>(614 922)</b>	<b>(49 238)</b>	<b>(141 459)</b>	<b>-</b>

**The contractual maturities of financial liabilities, including interest payments, as of 31 December 2009 were as follows:**

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Trade accounts payable	18 348	(18 348)	(18 348)	-	-	-
Short-term borrowings (Note 16)	215 055	(220 349)	(220 349)	-	-	-
Long-term borrowings (Note 17)	174 240	(192 130)	(40 782)	(118 310)	(33 038)	-
Obligations under finance lease (Note 18)	15 429	(15 429)	(5 284)	(8 629)	(1 516)	-
<b>Total</b>	<b>423 072</b>	<b>(446 256)</b>	<b>(284 763)</b>	<b>(126 939)</b>	<b>(34 554)</b>	<b>-</b>

*Market risk*

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

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

*Currency risk*

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

Interest and principal on borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides The Group with a natural hedge against currency risk and no derivatives are required to cover such risk.

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

**The Group's exposure to foreign currency risk as at 31 December 2010 was as follows:**

	UAH	USD	EUR	Other currencies
Cash	8 110	13 164	-	313
Trade accounts receivable, net	31 205	96 458	-	-
Trade accounts payable	(41 706)	(4 153)	(244)	(471)
Short-term borrowings (Note 16)				
Ukrainian subsidiaries of European banks	-	(57 017)	-	-
European banks	-	(453 818)	-	-
Long-term borrowings (Note 17)				
Ukrainian subsidiaries of European banks	(59 508)	(92 790)	-	-
European banks	-	(56 355)	-	-
Obligations under finance lease (Note 18)	-	(10 185)	-	-
<b>Financial position gross exposure</b>	<b>(61 899)</b>	<b>(564 696)</b>	<b>(244)</b>	<b>(158)</b>
Estimated sales	-	586 710	-	-
Estimated purchases	-	-	-	-
<b>Gross exposure</b>	<b>-</b>	<b>586 710</b>	<b>-</b>	<b>-</b>
<b>Net exposure</b>	<b>(61 899)</b>	<b>22 014</b>	<b>(244)</b>	<b>(158)</b>

A 10 percent strengthening of UAH against USD as at 31 December 2010 would have increased equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Conversely, a 10 percent fall of UAH against USD as at 31 December 2010 would have had the opposite effect, on the assumption that all other variables remain constant.

	USD	EUR	Other currencies
USD	2 201	24	15

**The Group's exposure to foreign currency risk as at 31 December 2009 was as follows:**

	UAH	USD	EUR	Other currencies
Cash	17 595	32 616	56	41
Trade accounts receivable, net	15 139	43 455	-	-
Trade accounts payable	(16 806)	(1 542)		
Short-term borrowings (Note 16)				
Ukrainian subsidiaries of European banks	-	-	-	-
European banks	-	(217 162)	-	-
Long-term borrowings (Note 17)				
Ukrainian subsidiaries of European banks	-	-	-	-
European banks	-	(174 240)	-	-
Obligations under finance lease (Note 18)	-	(13 651)	-	-
<b>Financial position gross exposure</b>	<b>15 928</b>	<b>(330 524)</b>	<b>56</b>	<b>41</b>
Estimated sales	-	248 759	-	-
Estimated purchases	-	-	-	-
<b>Gross exposure</b>	<b>-</b>	<b>248 759</b>	<b>-</b>	<b>-</b>
<b>Net exposure</b>	<b>15 928</b>	<b>(81 765)</b>	<b>56</b>	<b>41</b>

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A 10 percent strengthening of UAH against USD as at 31 December 2009 would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	UAH	USD	EUR	Other currencies
USD	1 465	7 519	5	4

Conversely, a 10 percent fall of UAH against USD as at 31 December 2009 would have had the opposite effect, on the assumption that all other variables remain constant.

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

**The interest rate profile of the Group's interest-bearing financial instruments was as follows:**

	Carrying amount	
	31 December 2010	31 December 2009
Fixed rate instruments (financial liabilities)	139 508	21 541
Variable rate instruments (financial liabilities)	590 165	383 512
<b>Total</b>	<b>729 673</b>	<b>405 053</b>

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

*Other market price risk*

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

## 31. Fair Value of Financial Instruments

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

As of 31 December 2010 and 2009 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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

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

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

## 32. Share Based Payments and Management Remuneration

On 20 February 2008, in accordance with management and Corporate Governance information provided in the Prospectus dated 25 October 2007, Kernel Holding S.A. signed a Management Incentive Plan providing to the management an option to purchase in aggregate up to 2 216 935 shares of Kernel Holding S.A., such number being equal to 3.5% of the issued and outstanding stock of Kernel Holding S.A. as at the adoption date of such

plan, at IPO price (24 PLN). The management considers IPO date (23 November 2007) as the date of grant of the Management Incentive Plan. The option shall vest and become exercisable as to one third of the shares under option on 23 November 2008, as to a further one third of the shares under option on 23 November 2009, and as to the remaining shares under option on 23 November 2010, and is in force till 23 November 2018. There are no cash settlement alternatives. As of 30 June 2010 and 2009: 316 705 options out of 2 216 935 were not granted.

	Weighted average fair value in USD, per option		Number of options	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Beginning of the 6-month period	2.2215	2.2215	1 750 230	1 900 230
Vested during the 6-month period	2.2215	2.2215	633 410	633 410
Outstanding at end of the 6-month period	2.2215	2.2215	1 750 230	1 900 230

	Number of options				Fair value recognized as an expense during the period
	at beginning of the period	granted during the period	executed during the period	Outstanding at the end of the period	
Management	1 750 230	-	(150 000)	1 600 230	586

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

The fair value of the share based transactions as of 31 December 2010 in amount of USD 586 thousand is recognized as an expense (part of the payroll and payroll related expenses) and a corresponding increase in equity over the vesting period (31 December 2009: USD 704 thousand).

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

Assumptions:	31 December 2010
Expected option term (in years)	4
Expected dividend yield	0%
Expected volatility	15%
Risk-free interest rate	2.25%

The Board consists of 2 non-executive Directors and 4 executive Directors, including the Chairman of the Board.

Remuneration of non-executive Directors for the 6-month period ended 31 December 2010 amounted to USD 52.5 thousand (for the 6-month period ended 31 December 2009: USD 52.5 thousand).

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

Three executive directors are entitled to remuneration for their services as members of the Management Team of the Group. Remuneration of the Management Team of the Group, totalling 14 people, amounted to USD 749.4 thousand for the 6-month period ended 31 December 2010, and for the 6-month period ended 31 December 2009: 14 people, amounted to USD 606.4 thousand.

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

## 33. Earnings Per Share

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of ordinary shares outstanding (73 191 000 for the period ended 31 December 2010 and 68 741 000 for the period ended 31 December 2009), excluding any dilutive effects of stock options. Diluted earnings per share is computed similar to basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock

options. The number of additional shares is calculated by assuming that outstanding stock options, except those, which are not dilutive, were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period. For calculating diluted earnings per share an average number of 74 139 554 ordinary shares is taken into account as the outstanding stock options were out of money based on the average market price during the reporting period (31 December 2009: 69 213 500).

## 34. Description of Subsequent Events for the 6-Month Period Ended 31 December 2010

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

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

On 5 October 2010, Fitch Ratings assigned Kernel Long-term foreign and local currency Issuer Default Ratings (IDRs) of 'B' and 'B+', respectively. Fitch also assigned Kernel a National Long-term rating of 'AA+'(ukr). The Outlooks for the Long-term IDRs and National Long-term rating are Stable.

On 8 October 2010 a Subsidiary of Kernel Holding S.A. entered into a preliminary agreement to purchase a farming enterprise for a total consideration equivalent to USD 1 600 thousand. The assets of the farming enterprise include lease rights on 2 356 ha of land in the region of Kirovograd with lease tenor up to 7 years and value of the lease rights estimated at USD 265 per hectare, plus farming equipment, inventory and biological assets.

On 7 October 2010, ING Bank N.V. London Branch sold 696 920 shares in Kernel, constituting 0.95% of the share capital and representing 696 920 votes at the general meeting of the Company, such votes constituting 0.95 % of the overall number of votes. Prior to the sale of shares transaction, ING owned 4 335 575 shares in the Company, constituting 5.92% of the share capital and representing 4 335 575 votes at the general meeting of the Company, such votes constituting 5.92% of the overall number of votes. Following the sale of shares transaction, ING held 3 638 655 shares in the Company, constituting 4.97% of the

share capital and representing 3 638 655 votes at the general meeting of the Company, such votes constituting 4.97% of the overall number of votes.

Following the issuance to Ukrainian subsidiaries of the Company of State bonds for a total value of UAH 1 072 562 thousand, a new financing facility in favour of Kernel Trade LLC, a subsidiary of Kernel Holding S.A., was signed with a bank for a total maximum amount equivalent to USD 100 million. The facility has a 3-year tenor and is secured by a parent company guarantee and by the State government bonds issued in payment of VAT.

In November 2010, the Company sold the Ukraine State bonds issued to Ukrainian subsidiaries of the Company in reimbursement of VAT for a total face value of UAH 1 072 562 thousand, representing the entire position in State bonds held by the Company. The bonds were sold to third parties for a total amount of UAH 943 255 thousand, representing a 12 % discount to par value.

In the period from 1 December to 6 December 2010 Apalax Investments Limited, a company controlled by a manager of the Kernel group of companies, sold a total of 150 000 shares in Kernel Holding S.A. at an average price of 65.06 PLN per share.

On 2 December 2010 the new Tax Code of Ukraine was enacted, which introduced gradual decreases in income tax rates from 23% effective 1 April 2011 to 16% effective 1 January 2014, as well as certain changes to the rules of income tax assessment starting from 1 April 2011.

On 17 December 2010, the USD 260 million Syndicated Secured Financing Facility provided in August 2010 to KernelTrade LLC, was increased by USD 100 million and underwritten by the banking syndicate led by ING Bank N.V. and UniCredit Bank AG. Following the increase, the total amount available to Kernel under the Syndicated Secured Financing Facility was USD 360 million.

On 22 December 2010 a USD 80 million short-term loan facility was signed by Kernel Holding S.A. with a European bank. The loan facility was provided for general corporate purposes and secured against corporate guarantees of operational subsidiaries of the Group.

## 35. Subsequent Events

On 5 January 2011 Kernel Holding S.A. increased share capital by an amount of USD 12 764., that is, up to USD 1 945 446 46 (one million nine hundred forty five thousand four hundred forty six US Dollars and forty six Cents), by the issue of 483 410 new shares without indication of a nominal value. All the newly issued shares were subscribed by Apalax Investments Limited in connection with the exercise of options granted under the Management Incentive Plan. Issue price of 1 share was PLN 24. As a result of the increase, the Company's share capital is set at USD 1 945 446.46 divided into 73 674 410 shares without indication of a nominal value.

On 18 February 2011, a Share Loan Agreement was concluded by and between Namsen Limited, a company controlled by Andrey Verevskiy, Chairman of the Board, and Sayfon Investments Limited an option holder under the Management Incentive Plan. In accordance with the terms and conditions of the Share Loan Agreement, Namsen Limited will lend up to 200 000 shares in Kernel Holding S.A. to Sayfon Investments Limited in order to facilitate the exercise of the share option granted to Sayfon Investments Limited. Sayfon Investments Limited will return the borrowed shares to Namsen Limited upon exercise of the option in accordance with the Management Incentive Plan.

On 18 February 2011, a Share Loan Agreement was concluded by and between Namsen Limited, a company controlled by Andrey Verevskiy, Chairman of the Board and Crouston Investments Limited an option holder under the Management Incentive Plan. In accordance with the terms and conditions of the Share Loan Agreement, Namsen Limited will lend up to 200 000 shares in Kernel Holding S.A. to Crouston Investments Limited in order to facilitate the exercise of the share option granted to Crouston Investments Limited. Crouston Investments Limited will return the borrowed shares to Namsen Limited, after receipt of the shares issued upon exercise of the option in accordance with the Management Incentive Plan.

On 28 February 2011 and 1 March 2011 Apalax Investments Limited sold a total of 247 153 shares in Kernel Holding S.A. at an average price of 80.45 PLN per share.

On 4 March 2011 Apalax Investments Limited sold a total of 50 000 shares in Kernel Holding S.A. at an average price of 83.00 PLN per share.

During the period from 3 March 2011 to 11 March 2011 Crouston Investments Limited sold a total of 13 650 shares in Kernel Holding S.A. at an average price of 82.49 PLN per share.

During the period from 3 March 2011 to 11 March 2011 Sayfon Investments Limited sold a total of 17 050 shares in Kernel Holding S.A. at an average price of 82.39 PLN per share.

On 16 and 17 March 2011 Apalax Investments Limited sold a total of 36 257 shares in Kernel Holding S.A. at an average price of 80.90 PLN per share.

On 21 March 2011 the Company entered into a call option agreement for the purchase of a 71% controlling stake in Ukrros, a company with extensive farming operations, grain silos and sugar production facilities in Ukraine. Subject to exercise of the call option, the new acquisition will add in the range of 100 000 ha of farm land, 87 000 tons of grain storage capacity, and 22 000 tons/day of sugar beet processing capacity to Kernel. Subject to approval of the transaction by the Antimonopoly Committee of Ukraine, Kernel shall pay a cash consideration of USD 42 million for the acquisition of the 71% controlling interest in Ukrros.

During period from 21 March 2011 to 27 March 2011 Crouston Investments Limited, sold a total of 10 000 shares in Kernel Holding S.A. at an average price of 80.20 PLN per share.

On 1 April 2011 5 400 000 ordinary shares were placed with investors at a price of PLN 74.00 per share. The Offering raised gross proceeds of PLN 399.4 million. The Company intends to use the proceeds of the Offering principally to finance the Company's growth strategy, including potential acquisitions. Allottees in the Offering received shares on 6 April 2011. In order to effect this, Namsen Limited agreed to lend shares in Kernel for the purposes of settlement.