

An aerial view of an industrial plant. The main building is green with a corrugated metal roof. A tall blue tower stands in the center. Various pipes and structures are visible throughout the site.

Q2  
FY2011

KERNEL

## Foreword by Andrey Verevskyy, Chairman of the Board

### DEAR SHAREHOLDERS:

The second quarter of our current financial year has seen further growth in our activity, with revenue for the quarter under review increasing year-on-year by 108% to USD 556.4 million, EBITDA increasing by 25% to USD 70.3 million, and Net profit increasing by 14% to USD 49.4 million.

Top line growth exceeded our initial forecast for the quarter, as the continued expansion of our crushing capacity, translating into a 96.3% year-on-year increase in volume of sunflower seed crushed, and the record volume of grain exported over the period were both compounded by well supported prices in agricultural commodities.

While the increase of our crushing business and the bumper 2010 harvest in sunflower seed enabled the Company to process a record 529 000 tons over the period under review, operating margin in the bulk oil segment decreased year-on-year from 15% to 10%: due to the record size of the crop, we took the opportunity to ship significant volumes of sunflower seed directly from farm gate to crushing plants, while feedstock bought earlier in the season would remain in silos and be processed at a later stage. However, as a consequence of the continuous increase in the price of sunflower seed, the more expensive seed was therefore processed first, leading to a higher cost of oil delivered through the second quarter and lower oil margins for the period under review. Conversely, as we process relatively cheap feedstock in execution of oil contracts for delivery in our 3<sup>rd</sup> and 4<sup>th</sup> quarter, our cost of oil production decreases significantly and will translate into very strong operating margins in the oil segments in the second half of the financial year. To date, the Company has concluded export contracts and locked in margin on 748 000 tons of oil, covering 90% of total bulk oil export planned for the financial year.

Whereas our bulk oil business has strongly benefitted from tight supply and high international prices, such prices have negatively impacted our bottled oil segment, with volumes for the period under review decreasing by 22.7% year-on-year: As the government of Ukraine endeavors to keep inflation in check and exerts pressure on producers in the process, Kernel decided not to protect market share and sold, at least temporarily, lower volumes in Ukraine. Our strategy in such market circumstances, however, has not affected our results, as any balance of oil produced is immediately absorbed by the international market.

Our grain business has continued to perform strongly. On the back of an allocation to export 436 000 tons of grain, eventually received on 12 November 2010, Kernel succeeded in exporting 860 000 tons of grain over the quarter under review. In total, the Company exported 1 250 000 tons of grain in the first 6 months of the financial year, equivalent to our initial target for the full year. With another six months to operate, and with reasonable grain stocks in the country still available for export, we feel the Company will comfortably exceed its target in grain volume as well as operating income. Our estimate of volumes we will export over the 2<sup>nd</sup> half of the financial year will of course depend very much on the quota policy the government will adopt for that period. Grain operating margin for the quarter under review was 9%.

The export terminals segment showed robust results despite challenging conditions: in grain handling and transshipment, the Company took advantage of its strong performance in grain origination and exported over the quarter under review 600 000 tons of grain through its own terminal in Illichevsk. In oil and meal handling and transshipment, the new Nikolayev terminal of the Group handled over the quarter close to 200 000 tons of sunflower oil and meal. Altogether, and notwithstanding difficult operating conditions in grain related business, I am pleased to note the remarkable resilience of the export terminal business, this segment contributing USD 6.4 million to Group operating profit and achieving a healthy 51% operating margin.

Results from the silo services segment showed a marked improvement over the first quarter of the current year. Following a good harvest in corn and sunflower seed throughout the country, Kernel grain silos received an additional 500 000 tons of grain and oilseeds requiring significant drying and cleaning services. Furthermore, due to the relatively slow pace of sale and export of the goods in silo, we expect the silo segment to post good results also in the third quarter of the financial year.

As to farming, the contribution of the segment was marginal as most of the grain and oilseeds produced by our farms was sold on to the grain and oil segments in the course of the 1<sup>st</sup> quarter of the financial year.

### OUTLOOK

In conclusion, on the back of results in our grain business exceeding initial estimates, of very good visibility in our bulk oil segment, with oil operations now largely down to contract execution, and thanks to the significant price increases in both grain and oil over the previous 7 months, we feel confident in revising as follows our guidance for current financial year: Revenue is increased from USD 1 300 million to USD 1 800 million, EBITDA is increased from USD 255 million to USD 300 million, and Net profit is increased from USD 195 million to USD 225 million.

### FINANCIAL HIGHLIGHTS FOR THE 3-MONTH PERIOD ENDED 31 DECEMBER 2010

Total revenue increased 108% year-on-year, from USD 272.3 million for the 2<sup>nd</sup> quarter of financial year 2010 to USD 566.4 million for the 3-month period under review;

Result from operating activities increased 22.3% year-on-year, from USD 51.2 million for the 2<sup>nd</sup> quarter of financial year 2010 to USD 62.6 million for the 3-month period under review;

Net profit attributable to equity holders of Kernel Holding S.A. increased 14.1% year-on-year, from USD 43.3 million for the 2<sup>nd</sup> quarter of financial year 2010 to USD 49.4 million for the 3-month period under review.

### Production, sales and throughput: Volume and tonnage for the 3-month period ended 31 December

	Q2 FY2010	Q2 FY2011	% change
Grain sales, tons	703 787	<b>860 799</b>	22.3%
Bulk oil sales, tons	64 134	<b>195 200</b>	204.4%
Bottled oil sales, '000 liters	36 490	<b>28 208</b>	(22.7)%
Sunflower seed crush, tons	269 564	<b>529 244</b>	96.3%
Refined oil produc- tion, tons	38 335	<b>34 656</b>	(9.6)%
Bottled oil produc- tion, tons	31 758	<b>28 959</b>	(8.8)%
Export terminals throughput, tons (1)	1 095 860	<b>801 152</b>	(26.9)%
Grain and oilseeds received in inland silos, tons (2)	1 204 000	<b>1 200 000</b>	0%

- (1) Q2 FY2010 throughput tonnage through Illichevsk grain terminal; Q2 FY2011 throughput tonnage through Illichevsk grain terminal and through Nikolayev oil and meal terminals
- (2) Total grain and oilseeds tonnage received in inland silos over the 6-month period from 1 July to 31 December

### REVIEW OF FINANCIAL RESULTS FOR THE 3-MONTH PERIOD ENDED 31 DECEMBER 2010

#### Total revenue

Kernel reported total revenue of USD 566.4 million for the 3-month period ended 31 December 2010, as compared to USD 272.3 million for the second quarter of FY2010. The 108% year-on-year increase reflects first the 286.1% increase in bulk oil sales, resulting from the continuous growth in Group crushing capacity and the 40% year-on-year increase in average price of sunflower oil, and second the 75.4% increase in grain sales, due both to higher volumes exported and higher prices achieved on sales over the quarter under review.

#### Gross Profit

Gross profit was USD 108.9 million for the 3-month period under review as compared to USD 94.3 million for the second quarter of FY2010. While the 15.5% year-on-year increase reflects the strong sales achieved both in bulk oil and grain, gross margin for the quarter was under pressure and decreased year-on-year from 34.6% to 19.2% as a result of the increased cost of oil delivered in the 3-month period to 31 December 2010, as explained in the Foreword.

#### Distribution Costs

Distribution costs increased modestly year-on-year, from USD 40.1 million for the second quarter of FY2010 to USD 41.9 million for the quarter under review. While overall tonnage of grain, oil and meal increased substantially year-on-year, the only marginal increase in distribution costs reflects primarily the much larger share of bulk oil sales in overall revenue and the higher proportion of cargo delivered Free on Board Black Sea, therefore not incurring freight expenses to destination countries.

#### General and Administrative Expenses

General and administrative expenses increased 17.7% year-on-year, from USD 6.8 million for the second quarter of financial year 2010 to USD 8.0 million for the 3-month period under review, such increase reflecting mostly the additional expenses related to new plant and operations following the acquisition of Allseeds production assets.

#### Result from Operating Activities

Result from operating activities increased from USD 51.2 million for the second quarter of FY2010 to USD 62.6 million for the 3-month period under review. Operating margin for the quarter decreased year-on-year from 18.8% to 11.1% as a consequence of the higher cost of bulk oil delivered through the quarter under review, as explained in the Foreword.

### Finance costs, net

Net finance costs were USD 12.2 million for the quarter under review as compared to USD 5.8 million for the second quarter of FY2010. The USD 6.4 million increase in finance costs reflects first the significantly higher level of working capital and related bank financing required to accommodate the oilseed crushing expansion of the Group, and secondly the general increase in prices of agricultural commodities handled, held in stock or processed by the Company. In relation to sales, financing costs remain stable at 2% of revenue.

### Net profit

Net profit attributable to the shareholders of Kernel Holding S.A. was USD 49.4 million for the quarter under review as compared to USD 43.3 million for the second quarter of FY2010.

### Cash Flow

Cash used by operations in the three months ended 31 December 2010 was USD 219.7 million. The negative cash flow from operations was primarily due to a USD 183.2 million increase in inventory and USD 109.8 million increase in taxes recoverable and prepaid, both resulting essentially from the twofold increase in our crushing operations and to agricultural commodity prices up 50% year-on-year. Cash used by operations in the same period of the previous financial year was USD 20.5 million.

## REVIEW OF SEGMENTAL RESULTS FOR THE 3-MONTH PERIOD ENDED 31 DECEMBER 2010

### Bottled Oil

Revenue from bottled oil sales for the 3 months under review was USD 36.3 million, largely flat compared to second quarter of financial year 2010. In volume terms, however, bottled oil sales decreased year-on-year from 36.5 million liters to 28.2 million liters. While the fall in volume of bottled oil sales is of no immediate concern, with any available volumes of oil immediately picked up by strong demand from the international market, we believe bottled oil sales will eventually resume at previous levels once local market conditions improve and the consumer in Ukraine regains purchasing power.

### Bulk Oil

Revenue from sales of bulk oil was USD 258.1 million for the 3-month period under review, compared to USD 66.8 million for the second quarter of financial year 2010. The 286.1% year-on-year increase in revenue is the result of a 204.4% percent increase in volume of bulk oil delivered over the quarter, together with a 40% increase in average oil price, from 745 USD per ton of oil delivered in the 2<sup>nd</sup> quarter of financial year 2010 to 1044 USD per ton for the quarter under review. Operating margin decreased year-over-year from 14.6% percent to 10.3%, due to the increased cost of oil delivered over the quarter, as explained in the Foreword to the present financial statements.

### Grain

Revenue from grain sales was USD 266.4 million for the period under review as compared to USD 151.9 million for the second quarter of financial year 2010. The 75.4% year-on-year increase is the result of the higher volume of grain exported, increasing from 703 800 tons for the second quarter of financial year 2010 to 860 800 tons for the quarter under review, and from the 51% year-on-year increase in the average price of grain export contracts executed, increasing from USD 209 per ton in the 2<sup>nd</sup> quarter of financial year 2010 to USD 316 per ton of grain delivered in the quarter under review. Operating profit on grain transactions increased year-on-year from USD 13.4 million to USD 24.8 million, with operating margin at 9.3% for the quarter under review.

### Silo Services

Revenue from silo services remained largely flat year-on-year, totaling USD 11.1 million for the period under review, including intersegment sales totaling USD 6.9 million, as compared to USD 10.9 million for the second quarter of financial year 2010, of which USD 4.6 million were intersegment sales. Operating profit for the quarter under review was USD 5.4 million, translating into a healthy 49% operating margin, compared to USD 5.0 million profit and 46% margin for the 2<sup>nd</sup> quarter of the previous financial year.

### Export Terminals

Revenue generated by the export terminals fell from USD 18 million for the second quarter of financial year 2010 to USD 12.4 million for the quarter under review. Temporary grain export limitations reduced year-on-year the tonnage of grain throughput through the Company's Illichevsk terminal from 1.1 million tons to 600 000 tons for the period under review. This drop in tonnage was, however, partially compensated by the additional 200 00 tons of throughput handled by the new Nikolayev oil and meal terminals of the Group. Operating profit for the quarter under review was USD 6.4 million, translating into a 51.4% operating margin, compared to USD 9.8 million profit and 54.5% margin for the second quarter of the previous financial year.

### Farming

Revenue from farming was USD 14.6 million for the three-month period under review and was primarily composed of USD 13.8 million intersegment sales to the grain segment, corresponding to the remaining crops, mostly corn and sunflower seed, to be sold off by the farming business of the Group. The relatively low volume of goods still available for sale and the high amortization charges for the segment resulted in marginal farm income for the quarter under review.

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## Selected financial data

(in thousands unless otherwise stated)

	thousand USD		thousand PLN		thousand EUR	
	2010	2009	2010	2009	2010	2009
I. Revenue	566 423	272 269	1 653 955	771 576	416 774	184 654
II. Operating profit/(loss)	62 638	51 237	182 903	146 012	46 089	34 915
III. Profit/(loss) before income tax	48 918	43 378	142 841	122 898	35 994	29 413
IV. Net profit/(loss)	49 560	43 358	144 715	122 820	36 466	29 395
V. Net cash flow from operating activity	(232 284)	(26 588)	(678 269)	(72 051)	(170 915)	(17 358)
VI. Net cash flow from investment activity	(5 417)	(31 914)	(15 818)	(91 441)	(3 986)	(21 849)
VII. Net cash flow from financial activity	216 870	55 655	633 260	158 173	159 574	37 838
VIII. Total net cash flow	(20 831)	(2 847)	(60 827)	(5 319)	(15 327)	(1 369)
IX. Total assets	1 528 990	907 756	4 532 079	2 587 378	1 144 449	629 802
X. Current liabilities	633 717	290 997	1 878 401	829 429	474 337	201 894
XI. Non-current liabilities	206 871	167 538	613 186	477 534	154 843	116 238
XII. Share capital	1 933	1 815	5 730	5 173	1 447	1 259
XIII. Total equity	688 402	449 221	2 040 492	1 280 415	515 269	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/(loss) per ordinary share (in USD/PLN/EUR)	0,68	0,63	1,97	1,78	0,50	0,43
XVI. Diluted number of shares	74 154 172	69 213 500	74 154 172	69 213 500	74 154 172	69 213 500
XVII. Diluted profit/(loss) per ordinary share (in USD/PLN/EUR)	0,67	0,62	1,95	1,75	0,49	0,42
XVIII. Book value per share (in USD/PLN/EUR)	9,35	6,52	27,72	18,58	7,00	4,52
XIX. Diluted book value per share (in USD/PLN/EUR)	9,23	6,48	27,36	18,47	6,91	5,79

On behalf of the Board

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

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

## Condensed consolidated statement of financial position

(in US dollars and in thousands unless otherwise stated)	Notes	31 December 2010 (unaudited)	30 September 2010 (unaudited)	30 June 2010 (audited)	31 December 2009 (reviewed)
<b>ASSETS</b>					
<b>Current assets</b>					
Cash		21 649	44 534	59 482	50 308
Trade accounts receivable, net		128 082	53 825	65 483	58 594
Prepayments to suppliers and other current assets, net		47 682	46 099	94 233	25 906
Trading securities		-	119 598	-	-
Taxes recoverable and prepaid, net		268 173	159 064	205 584	137 951
Inventory		556 192	372 982	147 787	268 367
Biological assets		4 236	1 954	26 131	3 617
<b>Total current assets</b>		<b>1 026 014</b>	<b>798 056</b>	<b>598 700</b>	<b>544 743</b>
<b>Non-current assets</b>					
Property, plant and equipment, net	5	385 244	383 191	379 035	252 687
Intangible assets, net	6	30 614	30 990	31 842	32 957
Goodwill		86 000	86 111	86 058	44 772
Other non-current assets		1 118	12 177	29 138	32 597
<b>Total non-current assets</b>		<b>502 976</b>	<b>512 469</b>	<b>526 073</b>	<b>363 013</b>
<b>TOTAL ASSETS</b>		<b>1 528 990</b>	<b>1 310 525</b>	<b>1 124 773</b>	<b>907 756</b>

### Condensed consolidated statement of financial position (continued)

(in US dollars and in thousands unless otherwise stated)	Notes	31 December 2010 (unaudited)	30 September 2010 (unaudited)	30 June 2010 (audited)	31 December 2009 (reviewed)
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Trade accounts payable		47 357	43 628	10 913	18 348
Advances from customers and other current liabilities		39 167	89 632	131 386	23 493
Short-term borrowings	7	510 835	347 662	169 098	217 162
Current portion of long-term borrowings		36 358	30 642	40 764	31 994
<b>Total current liabilities</b>		<b>633 717</b>	<b>511 564</b>	<b>352 161</b>	<b>290 997</b>
<b>Non-current liabilities</b>					
Long-term borrowings	8	172 296	122 956	127 454	142 246
Obligations under finance lease		5 501	6 660	7 796	9 280
Deferred tax liabilities	9	29 009	30 642	32 376	16 012
Other non-current liabilities		65	64	95	-
<b>Total non-current liabilities</b>		<b>206 871</b>	<b>160 322</b>	<b>167 721</b>	<b>167 538</b>
<b>Equity attributable to Kernel Holding S.A. equity holders</b>					
Issued capital		1 933	1 933	1 933	1 815
Share premium reserve		317 741	317 741	317 741	236 637
Additional paid-in capital		39 944	39 944	39 944	39 944
Revaluation reserve		11 260	11 260	11 260	11 260
Translation reserve		(161 600)	(160 001)	(160 622)	(163 331)
Retained earnings		475 256	425 817	391 606	322 049
<b>Total equity attributable to Kernel Holding S.A. equity holders</b>		<b>684 534</b>	<b>636 694</b>	<b>601 862</b>	<b>448 374</b>
Non-controlling interest		3 868	1 945	3 029	847
<b>Total equity</b>		<b>688 402</b>	<b>638 639</b>	<b>604 891</b>	<b>449 221</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 528 990</b>	<b>1 310 525</b>	<b>1 124 773</b>	<b>907 756</b>
Book value		684 534	636 694	601 862	448 374
Weighted average number of shares		73 191 000	73 191 000	69 070 178	68 741 000
Book value per share (in USD)		9.35	8.70	8.71	6.52
Diluted number of shares		74 139 554	74 125 085	73 891 365	69 213 500
Diluted book value per share (in USD)		9.23	8.59	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	3 months ended 31 December 2010 (unaudited)	6 months ended 31 December 2010 (unaudited)	3 months ended 31 December 2009 (unaudited)	6 months ended 31 December 2009 (reviewed)
Revenue		566 423	911 780	272 269	512 524
Cost of sales		(457 501)	(709 580)	(177 959)	(357 467)
Gross profit		108 922	202 200	94 310	155 057
Other operational income		3 575	10 176	3 800	6 843
Operating expenses					
Distribution costs		(41 908)	(74 535)	(40 064)	(67 781)
General and administrative expenses		(7 951)	(15 472)	(6 809)	(12 208)
Result from operating activities		62 638	122 369	51 237	81 911
Write down of VAT receivable		(475)	(16 784)	-	-
Finance costs, net		(12 190)	(20 431)	(5 798)	(8 879)
Foreign exchange (loss)/gain, net		1 499	2 346	(1 707)	9 809
Other (expenses)/income, net		(2 554)	(5 944)	(354)	(655)
Profit/(loss) before income tax		48 918	81 556	43 378	82 186
Income tax	9	642	1 929	(20)	344
Profit from continuing operations		49 560	83 485	43 358	82 530
Net Profit		49 560	83 485	43 358	82 530
Attributable to:					
Equity holders of Kernel Holding S.A.		49 439	83 650	43 296	82 448
Non-controlling interest		121	(165)	62	82
Weighted average number of shares		73 191 000	73 191 000	68 741 000	68 741 000
Profit/(loss) per ordinary share (in USD)		0.68	1.14	0.63	1.20
Diluted number of shares		74 154 172	74 139 554	69 213 500	69 213 500
Diluted profit/(loss) per ordinary share (in USD)		0.67	1.13	0.63	1.19

On behalf of the Board

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

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

## Condensed consolidated statement of comprehensive income

(In US dollars and in thousands unless otherwise stated)	3 months ended 31 December 2010 (unaudited)	6 months ended 31 December 2010 (unaudited)	3 months ended 31 December 2009 (unaudited)	6 months ended 31 December 2009 (reviewed)
Net profit	49 560	83 485	43 358	82 530
Exchange differences on translating foreign operations	(1 611)	(990)	4 854	(1 181)
Gain on property revaluation	-	-	-	15 154
Income tax related to components of other comprehensive income	-	-	-	(3 789)
<b>Other comprehensive income, net</b>	<b>(1 611)</b>	<b>(990)</b>	<b>4 854</b>	<b>10 184</b>
<b>Total comprehensive income</b>	<b>47 949</b>	<b>82 495</b>	<b>48 212</b>	<b>92 714</b>

**Total comprehensive income attributable to:**

Equity holders of Kernel Holding S.A.	47 840	82 672	48 155	92 545
Non-controlling interest	109	(177)	57	169

On behalf of the Board

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

\_\_\_\_\_  
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								
	Issue capital	Share premium reserve	Additional paid-in capital	Retained earnings	Revaluation reserve	Translation reserve	Total	Non-controlling interest	Total equity
<b>Balance at 31 December 2009</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>322 049</b>	<b>11 260</b>	<b>(163 331)</b>	<b>448 374</b>	<b>847</b>	<b>449 221</b>
Profit for the period	-	-	-	40 007	-	-	40 007	49	40 056
Other comprehensive income	-	-	-	-	-	2 411	2 411	6	2 417
Total comprehensive income for the period	-	-	-	40 007	-	2 411	42 418	55	42 473
Effect of changes on minority interest	-	-	-	-	-	-	-	5	5
<b>Balance at 31 March 2010</b>	<b>1 815</b>	<b>236 637</b>	<b>39 944</b>	<b>362 056</b>	<b>11 260</b>	<b>(160 920)</b>	<b>490 792</b>	<b>907</b>	<b>491 699</b>
Profit for the period	-	-	-	29 550	-	-	29 550	(426)	29 124
Other comprehensive income	-	-	-	-	-	298	298	(2)	296
Total comprehensive income for the period	-	-	-	29 550	-	298	29 848	(428)	29 420
Effect of changes on minority interest	-	-	-	-	-	-	-	2 550	2 550
Increase of share capital	118	-	-	-	-	-	118	-	118
Issued capital and IPO expenses	-	81 104	-	-	-	-	81 104	-	81 104
<b>Balance at 30 June 2010</b>	<b>1 933</b>	<b>317 741</b>	<b>39 944</b>	<b>391 606</b>	<b>11 260</b>	<b>(160 622)</b>	<b>601 862</b>	<b>3 029</b>	<b>604 891</b>
Profit for the period	-	-	-	34 211	-	-	34 211	(286)	33 925
Other comprehensive income	-	-	-	-	-	621	621	-	621
Total comprehensive income for the period	-	-	-	34 211	-	621	34 832	(286)	34 546
Effect of changes on minority interest	-	-	-	-	-	-	-	(798)	(798)
<b>Balance at 30 September 2010</b>	<b>1 933</b>	<b>317 741</b>	<b>39 944</b>	<b>425 817</b>	<b>11 260</b>	<b>(160 001)</b>	<b>636 694</b>	<b>1 945</b>	<b>638 639</b>
Profit for the period	-	-	-	49 439	-	-	49 439	121	49 560
Other comprehensive income	-	-	-	-	-	(1 599)	(1 599)	(12)	(1 611)
Total comprehensive income for the period	-	-	-	49 439	-	(1 599)	47 840	109	47 949
Effect of changes on minority interest	-	-	-	-	-	-	-	1 814	1 814
<b>Balance at 31 December 2010</b>	<b>1 933</b>	<b>317 741</b>	<b>39 944</b>	<b>475 256</b>	<b>11 260</b>	<b>(161 600)</b>	<b>684 534</b>	<b>3 868</b>	<b>688 402</b>

On behalf of the Board

Andrey Verevskiy  
Chairman of the Board

Anastasiia Usachova  
CFO

## Condensed consolidated statement of cash flows

	Notes	3 months ended 31 December 2010	6 months ended 31 December 2010
(In US dollars and in thousands unless otherwise stated)		(unaudited)	(unaudited)
<b>Operating activities:</b>			
Profit/(loss) before income tax		48 918	81 556
Adjustments to reconcile profit before income tax to net cash used in operating activities:			
Amortization and depreciation	5, 6	7 653	15 398
Finance costs		12 190	20 431
Bad debt expenses and other accruals		(1 890)	(848)
Loss/(gain) on disposal of property, plant and equipment		(425)	(160)
Non-operating foreign exchange loss/(gain), net		419	560
Write down of VAT receivable		475	16 784
Gain on sales of equity investments		(495)	(495)
<b>Operating profit before working capital changes</b>		<b>66 845</b>	<b>133 226</b>
<b>Changes in working capital:</b>			
Decrease/(increase) in trade accounts receivable		(72 890)	(61 618)
Decrease/(increase) in prepayments and other current assets		319	48 706
Decrease/(increase) in restricted cash balance		2 054	(4 586)
Decrease/(increase) in trading securities		119 598	119 598
Decrease/(increase) in taxes recoverable and prepaid		(109 813)	(199 200)
Decrease/(increase) in biological assets		(2 282)	21 895
Decrease/(increase) in inventories		(183 210)	(408 405)
Increase/(decrease) in trade accounts payable		1 333	31 563
Increase/(decrease) in advances from customers and other current liabilities		(41 629)	(64 960)
<b>Cash obtained from/(used in) operations</b>		<b>(219 675)</b>	<b>(383 781)</b>
Finance costs paid		(12 190)	(20 431)
Income tax paid		(419)	(752)
<b>Net cash provided by/(used in) operating activities</b>		<b>(232 284)</b>	<b>(404 964)</b>

### Condensed consolidated statement of cash flows (continued)

Notes	3 months ended 31 December 2010	6 months ended 31 December 2010
(In US dollars and in thousands unless otherwise stated)	(unaudited)	(unaudited)
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(5 381)	(17 833)
Proceeds from disposal of property, plant and equipment	410	507
Sales/(purchase) of intangible and other non-current assets	(446)	(467)
Net cash used in investing activities	(5 417)	(17 793)
<b>Financing activities:</b>		
Proceeds from short-term and long-term borrowings	1 024 184	1 475 879
Repayment of short-term and long-term borrowings	(805 771)	(1 094 492)
Net cash provided by financing activities	218 413	381 387
<b>Translation adjustment</b>	(1 543)	(1 049)
Net increase/(decrease) in cash and cash equivalents	(20 831)	(42 419)
<b>Cash and cash equivalents, at the beginning of the period</b>	36 174	57 762
<b>Cash and cash equivalents, at the end of the period</b>	15 343	15 343

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	3 months ended 31 December 2009 (unaudited)	6 months ended 31 December 2009 (reviewed)
<b>Operating activities:</b>			
Profit/(loss) before income tax		43 378	82 186
Adjustments to reconcile profit before income tax to net cash used in operating activities:			
Amortization and depreciation	5, 6	4 811	9 901
Finance costs		5 798	8 879
Bad debt expenses and other accruals		582	666
Loss/(gain) on disposal of property, plant and equipment		189	140
Foreign exchange losses/(gain), net		678	6 051
Gain on sales of equity investments		(640)	(640)
<b>Operating profit before working capital changes</b>		<b>54 796</b>	<b>107 183</b>
<b>Changes in working capital:</b>			
Decrease/(increase) in trade accounts receivable		(15 888)	(26 371)
Decrease/(increase) in prepayments and other current assets		2 418	(2 679)
Decrease/(increase) in restricted cash balance		595	24 376
Decrease/(increase) in taxes recoverable and prepaid		(30 344)	(66 197)
Decrease/(increase) in biological assets		(1 682)	15 315
Decrease/(increase) in inventories		(45 465)	(164 923)
Increase/(decrease) in trade accounts payable		(9 738)	10 938
Increase/(decrease) in advances from customers and other current liabilities		24 792	2 683
<b>Cash obtained from/(used in) operations</b>		<b>(20 516)</b>	<b>(99 675)</b>
Finance costs paid		(5 798)	(8 879)
Income tax paid		(274)	(456)
<b>Net cash provided by operating activities</b>		<b>(26 588)</b>	<b>(109 010)</b>

### Condensed consolidated statement of cash flows (continued)

(In US dollars and in thousands unless otherwise stated)	Notes	3 months ended 31 December 2009 (unaudited)	6 months ended 31 December 2009 (reviewed)
<b>Investing activities:</b>			
Purchase of property, plant and equipment		(19 453)	(28 887)
Proceeds from disposal of property, plant and equipment		128	168
Sale/(purchase) of intangible and other non-current assets		(14 016)	(14 032)
Disposal of subsidiaries		586	586
Effect of changes on minority interest		841	-
<b>Net cash used in investing activities</b>		<b>(31 914)</b>	<b>(42 165)</b>
<b>Financing activities:</b>			
Proceeds from short-term and long-term borrowings		70 873	463 590
Repayment of short-term and long-term borrowings		(14 738)	(361 146)
Corporate bonds issued/(repaid)		-	(1 993)
<b>Net cash provided by financing activities</b>		<b>56 135</b>	<b>100 451</b>
<b>Translation adjustment</b>		<b>(480)</b>	<b>(3 855)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(2 847)</b>	<b>(54 579)</b>
<b>Cash and cash equivalents, at the beginning of the period</b>		<b>46 340</b>	<b>98 072</b>
<b>Cash and cash equivalents, at the end of the period</b>		<b>43 493</b>	<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

### 1. Key data by operating segment for the 3 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)	36 315	258 072	637	889	266 378	4 132	-	-	566 423
Intersegment sales	-	-	11 806	13 751	-	6 927	-	(32 484)	-
<b>Total</b>	<b>36 315</b>	<b>258 072</b>	<b>12 443</b>	<b>14 640</b>	<b>266 378</b>	<b>11 059</b>	<b>-</b>	<b>(32 484)</b>	<b>566 423</b>
Other operating income	-	1 581	-	1 793	94	107	-	-	3 575
Operating profit (EBIT)	4 578	26 461	6 397	98	24 797	5 402	(5 095)	-	62 638
Write down of VAT receivable									(475)
Finance costs net									(12 190)
Foreign exchange (loss)/gain, net									1 499
Other (expenses)/income, net									(2 554)
Income tax									642
<b>Net profit</b>									<b>49 560</b>
<b>Total assets</b>	<b>136 161</b>	<b>786 099</b>	<b>118 695</b>	<b>46 872</b>	<b>313 435</b>	<b>84 262</b>	<b>43 466</b>	<b>-</b>	<b>1 528 990</b>
Capital expenditures	264	76 205	408	2 050	43	5 706	-	-	84 676
Amortization and depreciation	449	2 646	892	2 190	18	1 050	408		7 653
Liabilities	7 235	50 143	3 625	1 469	30 964	20 254	726 898	-	840 588

During the 3 months ended 31 December 2010 none of the Group's external customers accounted for more than 10 % of total external revenue. During the 3 months ended 31 December 2010 export sales amounted to 84% of total external sales revenue.



## 1. Key data by operating segment (continued) for the 3 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)	35 856	66 835	10 547	953	151 903	6 300	(125)	-	272 269
Intersegment sales	-	-	7 477	19 878	-	4 606	-	(31 961)	-
<b>Total</b>	<b>35 856</b>	<b>66 835</b>	<b>18 024</b>	<b>20 831</b>	<b>151 903</b>	<b>10 906</b>	<b>(125)</b>	<b>(31 961)</b>	<b>272 269</b>
Other operating income	-	284	-	3 258	15	41	202	-	3 800
Operating profit (EBIT)	8 038	9 750	9 829	7 829	13 378	5 148	(2 735)	-	51 237
Finance costs net									(5 798)
Foreign exchange (loss)/gain, net									(1 707)
Other (expenses)/income, net									(354)
Income tax									(20)
<b>Net profit</b>									<b>43 358</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	5 371	12 121	412	252	219	912	589	-	19 876
Amortization and depreciation	630	572	794	2 228	45	341	201	-	4 811
Liabilities	5 707	9 060	858	1 213	12 680	3 894	425 123	-	458 535

During the 3 months ended 31 December 2009 none of the Group's external customers accounted for more than 10% of total external revenue. During the 3 months ended 31 December 2009 export sales amounted 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: 35 Olesya Gonchara str., 01034 Kyiv, Ukraine.

As of 31 December 2010, 30 September 2010 and 31 December 2009 the structure of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal Activity	Country	Group's Effective Ownership Interest as of		
			31 December 2010	30 September 2010	31 December 2009
“Kernel-Capital”, LLC	Holding company for grain elevators and other Subsidiaries in Ukraine.	Ukraine	100%	100%	100%
“Group Management”, LLC		Ukraine	100%	100%	N/A
“Etrecom Investments”, LLC		Cyprus	100%	100%	100%
Corolex Public Co. Limited	Holding company	Cyprus	94%	94%	N/A
CJSC “Grain Trading Company Allseeds-Ukraine”		Ukraine	94%	94%	N/A
Jerste BV		Netherlands	100%	100%	100%
Inerco Trade S.A.		Switzerland	100%	100%	100%
Inerco Commodities S.A.		Switzerland	100%	100%	100%
Restomon LTD	Trade of sunflower oil, meal and grain.	British Virgin Islands	100%	100%	100%
Lanen S.A.		Panama	100%	100%	100%
“Grain Trading Company”, LLC		Ukraine	94%	94%	N/A
“Kernel-Trade”, LLC		Ukraine	100%	100%	100%

Subsidiary	Principal Activity	Country	Group's Effective Ownership Interest as of		
			31 December 2010	30 September 2010	31 December 2009
PJSC "Poltava oil crushing plant – Kernel Group"	Production plants. Production of sunflower oil and meal.	Ukraine	99.7%	98.3%	98.2%
PJSC "Vovchansky OEP"		Ukraine	99.4%	99.4%	99.4%
"Prykolotnjansky OEP", LLC		Ukraine	100%	100%	100%
JSC "Kirovogradoliya"		Ukraine	99.2%	99.2%	N/A
"Ekotrans", LLC		Ukraine	100%	100%	N/A
"Bandurskiy oil crushing plant", LLC		Ukraine	100%	100%	100%
LLC JE "Inerco-Ukraine"	Holding company. No significant activity since the date of foundation.	Ukraine	100%	100%	100%
"Reshetylivka Hliboproduct", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100%	100%	100%
"Horol-Elevator", LLC		Ukraine	Merged with "Semenivski elevator LLC" 15 Dec 2010	100%	100%
"Mirgorodsky elevator", LLC		Ukraine	100%	100%	100%
"Globynsky elevator HP", LLC		Ukraine	100%	100%	100%
"Skifiya-Zernotrada", LLC		Ukraine	94%	94%	N/A
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	88.2%	88.2%	88.2%
"Elevator – Grain Tading Company", LLC		Ukraine	94%	94%	N/A
"Gogoleve-Agro", LLC		Ukraine	99.9%	99.9%	99.9%
"Sagaydak-Agro", LLC		Ukraine	100%	100%	100%
"Karlivka-Agro", LLC		Ukraine	99.9%	99.9%	99.9%
JSC "Trykratskiy GPC"		Ukraine	86.5%	86.5%	N/A
"Lazorkovski Elevator", LLC		Ukraine	Disposed of on 10 Dec 2010	99.9%	99.9%
"Zherebkivsky elevator", LLC		Ukraine	99.9%	99.9%	99.9%

Subsidiary	Principal Activity	Country	Group's Effective Ownership Interest as of		
			31 December 2010	30 September 2010	31 December 2009
"Kononivsky elevator", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	99.9%	99.9%	99.9%
"Semenivski elevator", LLC		Ukraine	99.9%	99.9%	99.9%
"Kobelyaki hleboproduct", LLC		Ukraine	100%	100%	100%
"Sahnovshina hleboproduct", LLC		Ukraine	100%	100%	100%
"Velykoburlutske HPP", LLC		Ukraine	100%	100%	100%
"Gutnansky elevator", LLC		Ukraine	100%	100%	100%
"Lykhachivsky KHP", LLC		Ukraine	100%	100%	100%
"Shevchenkisky KHP", LLC		Ukraine	100%	100%	100%
"Kovyagivske KHP", LLC		Ukraine	100%	100%	100%
"Viktorovsky elevator, LLC		Ukraine	100%	100%	100%
CJSC "Poltavaavtotransservis"	Trucking company.	Ukraine	100%	100%	100%
"MTE-2004", LLC		Ukraine	100%	100%	N/A
"Ukragrobiznes", LLC	Holding company.	Ukraine	100%	100%	100%
"Agroservis", LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	100%	100%
"Zernoservis", LLC		Ukraine	100%	100%	100%
"Unigrain-Agro" (Globino), LLC		Ukraine	100%	100%	100%
"Unigrain-Agro" (Semenovka), LLC		Ukraine	100%	100%	100%
"Mrija-Agro", LLC		Ukraine	100%	100%	100%
PJSC "Lozivske HPP"		Ukraine	100%	100%	100%
PJSC "Krasnopavlivsky KHP"		Ukraine	100%	100%	100%
"Agrofirma "Arshitsa", LLC		Ukraine	100%	100%	100%
"Agrotera-Kolos", LLC		Ukraine	100%	100%	100%
"Chorna Kamyanka", LLC		Ukraine	100%	100%	100%
"Govtva", ALLC		Ukraine	100%	100%	100%
PRAC "Perebudova"		Ukraine	100%	100%	100%

Subsidiary	Principal Activity	Country	Group's Effective Ownership Interest as of		
			31 December 2010	30 September 2010	31 December 2009
"Manjurka", LLC		Ukraine	100%	100%	100%
"Krutenske", LLC		Ukraine	100%	100%	100%
"Promin", LLC		Ukraine	100%	100%	100%
PRAC "Brovarki"		Ukraine	100%	100%	100%
PRAC by the name of Shorsa		Ukraine	100%	100%	100%
"Troyanske", ALLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	100%	100%	100%
"Zorya", ALLC		Ukraine	100%	100%	100%
"Hleborob", ALLC		Ukraine	100%	100%	100%
AC by the name of T. Shevchenko		Ukraine	100%	100%	100%
PRAC "Drugba"		Ukraine	100%	100%	100%
"Agrofirma "Chkalova", LLC		Ukraine	100%	100%	100%
"Agrofirma "Vitchizna", LLC		Ukraine	100%	100%	100%
"Agrofirma "Vesna", LLC		Ukraine	0%	N/A	N/A
"Transbulk Terminal", LLC		Ukraine	100%	100%	100%
C.FC Ukraine Ltd		Ukraine	Disposed of on 15 Jan 2010	Disposed of on 15 Jan 2010	100%
Estron Corporation Ltd	Provision of grain, oil and meal handling and transshipment services, including services to the Group.	Cyprus	100%	100%	100%
Chorex Developments Limited		Cyprus	100%	100%	100%
Hamalex Developments LTD		Cyprus	100%	100%	100%
"Oiltransterminal", LLC		Ukraine	100%	100%	N/A

### 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:**

EQUITY HOLDERS	31 December 2010		31 December 2009	
	Shares allotted and fully paid as of	Share owned as of	Shares allotted and fully paid as of	Share owned as of
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 is divided into 73 191 000 shares without indication of a nominal value, giving right to 73 191 000 votes at the General Meeting of the Company.

Luxembourg companies are required to allocate to the legal reserve a minimum of 5% of the annual net income until this reserve equals 10% of the 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.

The present financial statements have been prepared in accordance with amendments to IFRS which became effective on 31 December 2010. The Group has adopted IFRS 8 Operating Segments in advance of its effective date, with effect from 1 July 2008. From 1 July 2009 the Group has adopted IAS 1 Presentation of Financial Statements (revised). The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: presenting all items of income and expense recognized in the income statement, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group has chosen to present two statements. Additionally from 1 July 2009 Group has adopted IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised).

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

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

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

**Goodwill** – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses.

The goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

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

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

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

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

Currency	Closing rate as of 31 December 2010	Average rate for the 3 months ended 31 December 2010	Average rate for the 6 months ended 31 December 2010	Closing rate as of 31 December 2009	Average rate for the 3 months ended 31 December 2009	Average rate for the 6 months ended 31 December 2009
USD/UAH	7.9617	7.9314	7.9160	7.9850	7.9907	7.9033
USD/EUR	0.7485	0.7358	0.7554	0.6938	0.6767	0.6883
USD/PLN	2.9641	2.9200	3.0131	2.8503	2.8273	2.8832



**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.

**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.

**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.

### *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.

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

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

value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the sale of an asset discounted at a current market-determined pre-tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

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

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

**Property, Plant and Equipment** – Buildings and constructions (oil) and production machinery and equipment (oil), are shown at fair value, based on periodic valuations by external independent appraisal, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Except for land, all other property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

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

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

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

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

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.

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

**Impairment of Non-Current Assets** – At each balance sheet date the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

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

**Short-term and Long-term Borrowings** – Short-term and long-term borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including payments at

origination and settlement, are accounted for on an accrual basis and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

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

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

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

**Rendering of services** – Revenue is recognized when services are rendered.

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

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

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

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

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;

- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

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

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

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

**Provisions** – A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

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

Operating Segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil in bulk	Production and sales of sunflower oil in bulk (crude and refined) and meal
Grain	Sourcing and merchandizing of wholesale grain.
Export terminals	Grain, oil and meal 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. Property, plant and equipment, net

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
Net Book Value as at 1 July 2010	212 695	73 577	20 529	58 618	13 616	379 035
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>84 935</b>	<b>684</b>	<b>1 468</b>	<b>6 141</b>	<b>2 120</b>	<b>95 348</b>
Land	-	-	-	-	-	-
Buildings and Constructions	37 552	9	799	83	10	38 453
Production machinery and equipment	28 864	130	82	100	378	29 554
Agricultural vehicles and equipment	-	-	276	-	-	276
Other fixed assets	386	-	56	-	1 083	1 525
CIP and uninstalled equipment	18 133	545	255	5 958	649	25 540
<b>Disposals (at NBV)</b>	<b>(71 442)</b>	<b>(403)</b>	<b>(321)</b>	<b>(651)</b>	<b>(510)</b>	<b>(73 327)</b>
Buildings and Constructions	(2 051)	-	(53)	(221)	(3)	(2 328)
Production machinery and equipment	(940)	-	-	(122)	(74)	(1 136)
Agricultural vehicles and equipment	-	-	(25)	(10)	-	(35)
Other fixed assets	-	-	-	-	(246)	(246)
CIP and uninstalled equipment	(68 451)	(403)	(243)	(298)	(187)	(69 582)
<b>Depreciation expense</b>	<b>(5 425)</b>	<b>(1 771)</b>	<b>(2 596)</b>	<b>(2 272)</b>	<b>(1 513)</b>	<b>(13 577)</b>
Buildings and Constructions	(2 167)	(237)	(375)	(1 947)	(140)	(4 866)
Production machinery and equipment	(3 249)	(1 534)	(41)	(317)	(114)	(5 255)
Agricultural vehicles and equipment	(1)	-	(2 176)	(8)	-	(2 185)
Other fixed assets	(8)	-	(4)	-	(1 259)	(1 271)

## 5. Property, plant and equipment, net (continued)

	Oil	Export terminals	Farming	Inland silos	Other	Total
Translation difference	(1 326)	(296)	29	(2 755)	2 113	(2 235)
Land	(803)	(219)	-	(8)	77	(953)
Buildings and Constructions	(243)	(67)	(38)	(2 773)	1 993	(1 128)
Production machinery and equipment	(182)	(9)	(1)	44	1 487	1 339
Agricultural vehicles and equipment	(1)	-	70	-	-	69
Other fixed assets	(2)	-	(1)	19	(1 442)	(1 426)
CIP and uninstalled equipment	(95)	(1)	(1)	(37)	(2)	(136)
<b>Net Book Value as at 31 December 2010</b>	<b>219 437</b>	<b>71 791</b>	<b>19 109</b>	<b>59 081</b>	<b>15 826</b>	<b>385 244</b>
Land	1 486	3 161	2	1 130	123	5 902
Buildings and Constructions	117 438	15 353	5 596	42 144	5 222	185 753
Production machinery and equipment	84 314	53 041	315	9 477	1 743	148 890
Agricultural vehicles and equipment	20	-	13 053	37	-	13 110
Other fixed assets	376	-	51	19	7 974	8 420
CIP and uninstalled equipment	15 803	236	92	6 274	764	23 169

As of 31 December 2010 CIP and uninstalled equipment includes USD 2 223 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 for the 6-month period ended 31 December 2010 was 5.27 % per annum.

## 6. Intangible assets, net

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

Cost as of 30 June 2010	40 006	Cost as of 30 June 2009	41 039
Additions from acquisition of Subsidiaries	-	Additions from acquisition of Subsidiaries	-
Additions	858	Additions	221
Disposals	(146)	Disposals	(95)
Translation difference	(137)	Translation difference	(1 835)
Cost as of 31 December 2010	40 581	Cost as of 31 December 2009	39 330
Accumulated depreciation as of 30 June 2010	(8 163)	Accumulated depreciation as of 30 June 2009	(5 353)
Amortization charge	(1 821)	Amortization charge	(1 795)
Disposals	6	Disposals	12
Translation difference	11	Translation difference	763
Accumulated depreciation as of 31 December 2010	(9 967)	Accumulated depreciation as of 31 December 2009	(6 373)
<b>Net book value as of 31 December 2010</b>	<b>30 614</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 5 953 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 8).

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

## 7. Short-term borrowings

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

	31 December 2010	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>



## 7. Short-term borrowings (continued)

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%	USD	July 2010	87 165
European bank	Libor+5%	USD	August 2010	105 000
Total bank credit lines				215 055
Interest accrued on short-term loans				398
Interest accrued on long-term loans				1 709
Total				217 162

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).

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

Assets pledged	31 December 2010	31 December 2009
Inventories	350 599	184 640
Property, plant and equipment (Note 5)	3 161	6 901
Total	353 760	191 541

## 8. Long-term borrowings

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

	31 December 2010	31 December 2009
Long-term bank loans	208 654	174 240
Current portion of long-term borrowings	(36 358)	(31 994)
<b>Total</b>	<b>172 296</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 3m + 3,52%	USD	April 2015	29 691
European bank	Libor 3m+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	29 446
Ukrainian subsidiary of European bank	Libor 3m+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>208 654</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>

## 8. Long-term borrowings (continued)

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)

Assets pledged	31 December 2010	31 December 2009
Cash	-	1 575
Property, plant and equipment (Note 5)	221 573	205 603
Intangible assets (Note 6)	5 953	5 935
Controlling stakes in Subsidiaries	Not quantifiable	Not quantifiable
<b>Total</b>	<b>227 526</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 and 2009:

Name of Subsidiary	
31 December 2010	31 December 2009
VJSC "Vovchansk OEP"	CJSC "Poltava oil crushing plant-Kernel Group"
LLC "Gutnansky elevator"	CJSC "Reshetylivka Hliboproduct"
LLC "Prykolotnjansky OEP"	CJSC "Globynsky elevator HP"
LLC "Velykoburlutske HPP"	CJSC "Gutnansky elevator"
LLC "Shevchenkisky KHP"	JSC "Poltavske khibopriemalne pidpriemstvo"
LLC "Kovyagivske KHP"	CJSC "Prykolotnjansky OEP"
LLC "Bandurskiy oil crushing plant"	CJSC "Velykoburlutske HPP"
LLC "Transbulk Terminal"	CJSC "Shevchenkisky KHP"
JSC "Kirovogradoliya"	CJSC "Kovyagivske KHP"
	CJSC "Poltavaavtotransservis"
	LLC "Bandurskiy oil crushing plant"

## 9. Income tax

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

	31 December 2010	31 December 2009
Deferred tax assets arising from:		
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	10 413	727
Valuation of intangible assets	214	191
Valuation of inventories	71	1
Valuation of accrued expenses and other temporary differences	328	183
Deferred tax asset	24 165	9 290
Less: valuation allowance	-	-
Net deferred tax asset after valuation allowance	24 165	9 290
Deferred tax liability arising from:		
Valuation of property, plant and equipment	(38 225)	(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)
Deferred tax liability	(53 174)	(25 302)
Net deferred tax liability	(29 009)	(16 012)

## 9. Income tax (continued)

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 components of income tax expense for the 3-month period ended 31 December 2010 and 2009 were as follows:

	31 December 2010	31 December 2009
Current income tax expenses	(419)	(274)
Deferred tax benefit/(expense)	1 061	254
Income tax benefit/(expenses)	642	(20)

The income tax charge for the 3-month period ended 31 December 2010 and 2009 is reconciled to the profit before income tax per consolidated income statement as follows:

	31 December 2010	31 December 2009
Profit/(loss) before income tax:	48 918	43 378
Tax at the statutory income tax rate in Ukraine of 25%	(12 230)	(10 845)
Expenditures not allowable for income tax purposes and non-taxable income, net	12 872	10 609
Change in valuation allowance	-	216
Income tax benefit/(expenses)	642	(20)

## 10. Acquisition and disposal of subsidiaries

The following entities were acquired during the 3 months ended 31 December 2010:

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

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

Acquired net assets:	
Cash	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)
Fair value of net assets of acquired Subsidiaries	2 006
Non-controlling interest of acquired Subsidiaries	(2 006)
Fair value of acquired net assets	-
Negative Goodwill attributable to minority shareholders	427
Total cash considerations due and payable by minority shareholders	(1 579)
Less: acquired cash	28
Net cash outflow due to the acquisition of Subsidiaries by minority shareholders	(1 551)

## 10. Acquisition and disposal of subsidiaries (continued)

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

Subsidiary	Principal Activity	Country of Incorporation
"Lazorkovski Elevator", LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine

The Group consolidated the financial statements of "Lazorkovski Elevator", LLC, due to the fact that equity holders holding a majority share of the voting rights in this Subsidiary are related parties of the Group.

Fair value of assets, liabilities and contingent liabilities disposed of for the 3-month period ended 31 December 2010:

Assets disposed of, net:	
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
Fair value of assets of Subsidiaries disposed of, net	134
Non-controlling interest	-
Fair value of assets disposed of, net	134
Gain on disposal of Subsidiaries	495
Total cash consideration receivable	629
Less: cash from assets disposed of, net	-
Less: accounts receivable from Subsidiaries of	629
Net cash inflow from Subsidiaries disposed of	-

Starting with the 3-month period ended 31 December 2010, as a result of the optimization process of its legal structure; the Group relinquished on 10 December 2010 operational control over "Lazorkovski Elevator", LLC and does not consolidate it further.

## 11. Transactions with related parties

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

The Group had the following balances outstanding with related parties as of 31 December 2010 and 2009:

	31 December 2010		31 December 2009	
	Related party balances as of	Total category as per consolidated balance sheet as of	Related party balances as of	Total category as per consolidated balance sheet as of
Trade accounts receivable, net	1 100	128 082	471	58 594
Prepayments to suppliers and other current assets, net	7 797	47 682	7 272	25 906
Other non-current assets	563	1 118	26 863	32 597
Trade accounts payable, net	1 112	47 357	-	18 348
Advances from customers and other current liabilities	146	39 167	76	23 493

Transactions with related parties for the 3-month period ended 31 December 2010 and 2009 were as follows:

	31 December 2010		31 December 2009	
	Amount of operations with related parties, for the	Total category per consolidated income statement for the	Amount of operations with related parties, for the	Total category per consolidated income statement for the
Cost of sales	(123)	(457 501)	(51)	(177 959)
General, administrative and distribution expenses	(530)	(49 859)	(2)	(46 873)
Other income/(expenses)	202	(2 554)	19	(354)

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



## 12. Commitments and contingencies

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

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

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

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

*Retirement and Other Benefit Obligations* – Most employees of the Group receive pension benefits from the Pension Fund, and Ukrainian Government organization in accordance with the ap-

plicable 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 pensions, 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 2 219 USD thousand for supply of equipment and services required for the new solvent extraction plant under construction and for a total amount of 623 USD 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 13,7 million for supply of equipment and services required for the new solvent extraction plant under construction, and for a total amount of USD 2,6 million for supply of equipment and services required for construction of the 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 57 235 USD thousand and 529 475 USD 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.

## 13. Fair value of financial instruments

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

As of 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.

## **14. Description of significant events for the 3-month period ended 31 December 2010**

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 subsidi-

ary 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 17 December 2010, the USD 260 million Syndicated Secured Financing Facility provided in August 2010 to Kernel Trade 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 is 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 has been provided for general corporate purposes and secured against corporate guarantees of operational subsidiaries of the Group.

## 15. Subsequent events

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On 5 January 2011 Kernel Holding S.A increased the Company's share capital by an amount of USD 12 764.92 (twelve thousand seven hundred sixty four US Dollars and ninety-two Cents), 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 (four hundred eighty three thousand four hundred and ten) new shares without indication of a nominal value.

All the newly issued shares have been 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, giving right to 73 674 410 votes at the General Meeting of the Company.