

Scale
Synergy
Experience

Kernel Holding S.A.
Annual Report and Accounts 2011

Kernel Holding S.A. is a Luxembourg-registered holding company, listed on the Warsaw Stock Exchange since November 2007, which invests in agribusiness.

Our Operating Segments

Bulk Oil Page 14	Bottled Oil Page 16	Grain Page 18	Silo Services Page 20	Export Terminals Page 22	Farming Page 24
					

Overview

01	Financial Highlights
02	Kernel at a Glance
04	Our Markets:
04	Sunflower Oil
06	Grain
08	Strategic Overview
10	Chairman's Statement

Business Review

12	Overview
14	Bulk Oil
16	Bottled Oil
18	Grain
20	Silo Services
22	Export Terminals
24	Farming
26	Financial Review
32	Principal Risks and Uncertainties

Corporate Governance

34	Board of Directors
36	Corporate Governance
38	Statement of Management Responsibilities
39	Management Statement
40	Report of the Reviseur d'Entreprises Agree

Financial Statements

41	Selected Financial Data
42	Consolidated Statement of Financial Position
43	Consolidated Income Statement
44	Consolidated Statement of Comprehensive Income
45	Consolidated Statement of Changes in Equity
46	Consolidated Statement of Cash Flows
48	Notes to the Consolidated Financial Statements

We own and operate an extensive asset base primarily in Ukraine encompassing the production, processing, storage, transshipment and export of agricultural commodities. We are a major supplier to the international market of sunflower oil, sunflower meal and grain produced in Ukraine, a leading supplier of bottled oil to the Ukrainian market and a key provider of grain silo services to farmers. We own and operate major terminals on the Black Sea for transshipment of grain, oil and meal onto ocean-going bulk carriers and tankers.

Financial Highlights



Kernel Holding S.A. is a public limited holding company incorporated under the laws of Luxembourg and listed on the Warsaw Stock Exchange since 23 November 2007.

Kernel Holding S.A. subsidiaries employ 12,000 people, primarily in: farming, oilseed crushing and sugar production plants, grain silos and export terminals, as well as support and management functions responsible for the origination, logistics and merchandising of goods handled by the Group. The business of the Group is divided into six operating segments:

- Bulk Oil
- Bottled Oil
- Grain
- Silo Services
- Export Terminals
- Farming

Sugar

New operating segment for FY2012: sugar production and marketing

On 26 August 2011, Kernel announced the Group had exercised a call option to acquire a controlling stake in Ukrros. With this transaction, Kernel acquired not only a large farming business, but also substantial sugar production assets.

We believe the sugar production assets offer an attractive opportunity to expand into a business closely related to our existing portfolio and benefiting from integration with our growing farming business. Assets acquired include four sugar plants, totalling two million tons of sugar beet crushing capacity, and sugar production capacity of c. 250,000 tons per year.



Bulk Oil

Page 14



No.1 bulk oil producer and exporter in Ukraine:

Our bulk oil segment covers the full production and marketing cycle of oil sold in bulk, from procurement of sunflower seed and production of crude sunflower oil and meal, an animal feed component, to marketing and distribution, primarily on the international market. Competitive advantages include:

- Strategic location of crushing plants from Black Sea to Russian border
- Feedstock origination directly at farm gate
- Multiple feedstock processing option at Bandurka and BSI crushing plants
- Sunflower oil production boosted by efficient export logistics and oil terminal on the Black Sea

Expansion into Russia:

- Acquisition of 400,000 tons per year of sunflower seed crushing capacity, equivalent to 170,000 tons per year of oil production capacity



Bottled Oil

Page 16



Leading bottled oil producer and marketer in Ukraine:

Our bottled oil segment covers the full process of production, from procurement and seed crushing, to refining crude oil and packaging, followed by marketing and distribution of branded products to regional distributors and nationwide retailers. Our primary market is Ukraine, where we sell bottled oil mainly under the Group's own brands. Competitive advantages include:

- Nationwide distribution through 40 regional distributors
- Direct supply to largest nationwide retailers
- Three-brand strategy to maximise market penetration: Schedry Dar, Stozhar and Chumak
- 173,000 tons per year refining capacity
- 134,000 tons per year bottling capacity

Russian market opportunity:

- 100,000 tons per year of refining and bottling capacity



Grain

Page 18



Leading operator of grain supply pipeline:

Our grain export operations integrate origination, logistics, merchandising and delivery of grain and oil-bearing crops produced in Ukraine. Competitive advantages include:

- Origination effected directly at farm level through extensive Kernel regional office and silo network
- Large farmer supply base throughout Ukraine, with dominant position in Kharkov and Poltava regions
- Full logistics control from inland silo to delivery in customer home market



Silo Services

Page 20



Largest network of grain silos in Ukraine:

Kernel owns and operates silo capacity totalling 2.3 million tons of grain and oilseed storage capacity. Competitive advantages include:

- Strategic silo locations to provide services to farmers
- Strong synergies with production assets of the Group
- 400,000 tons of new silo capacity to be commissioned in FY2012 and FY2013



Export Terminals

Page 22



Leading provider of grain, oil and meal transshipment and export services:

Services are provided to the Group and to third parties through Transbulkterminal, the second largest grain export terminal in Ukraine, and through Oiltransterminal, an oil export terminal servicing the Group exclusively. Competitive advantages include:

Transbulkterminal:

- Located in Illichevsk, a major deep-water port on the Black Sea
- 200,000 tons of grain storage capacity
- 4,000,000 tons of grain throughput capacity per year
- Grain delivered to terminal by train and truck
- Loading at berth onto Handy-size and Panamax vessels

Oiltransterminal:

- Located on the estuary of Nikolayev, a major port opening on the Black Sea
- 30,000 tons oil storage capacity
- 500,000 tons of oil throughput capacity per year
- Oil delivered to terminal by train and truck
- Loading at berth of up to 25,000 tons oil per vessel



Farming

Page 24



Major farming operation in Ukraine:

Kernel leases 210,000 ha of prime farm land* for the production of crops exported or processed by the Group. Competitive advantages include:

- Strong expertise: over ten years of farming experience in Ukraine
- High quality fully farmed land located in grain and sunflower belt of Ukraine
- Short distances to storage and production assets of the Group
- Fast export routes through Black Sea export terminals

* As of October 2011.



Ukraine: Undisputed world leader in production and export of sunflower oil

- Ukraine is the world's largest exporter of sunflower oil, accounting for half of global sunflower oil exports
- Ukraine is well positioned to increase supply thanks to large agricultural resources and logistical advantages to supply EU, North Africa and Middle East markets
- Sunflower seed yield in Ukraine expected to increase to 2.0-2.5 tons/ha, driven by improvements in Ukrainian farming expertise and global demand for vegetable oils
- Global long-term demand for edible oil is well supported by population growth and changing dietary patterns
- CIS, and Ukraine in particular, will remain key consumer markets with sunflower oil a basic ingredient in the region's diet

Ukraine
Million tons sunflower oil export,
season 2011/2012 (projected)

2.7



The world sunflower oil market, season 2011/2012 (projected)

Ukraine

- 7.5 million tons sunflower seed production
- 2.8 million tons sunflower oil production
- 2.7 million tons sunflower oil export

Argentina

- 3.1 million tons sunflower seed production
- 1.3 million tons sunflower oil production
- 1.0 million tons sunflower oil export

European Union

- 7.8 million tons sunflower seed production
- 2.8 million tons sunflower oil production
- 1.5 million tons sunflower oil import

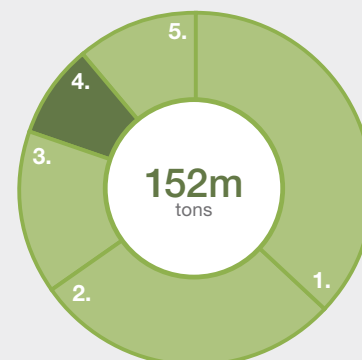
Russia

- 8.8 million tons sunflower seed production
- 3.0 million tons sunflower oil production
- 1.0 million tons sunflower oil export

Source: USDA, October 2011

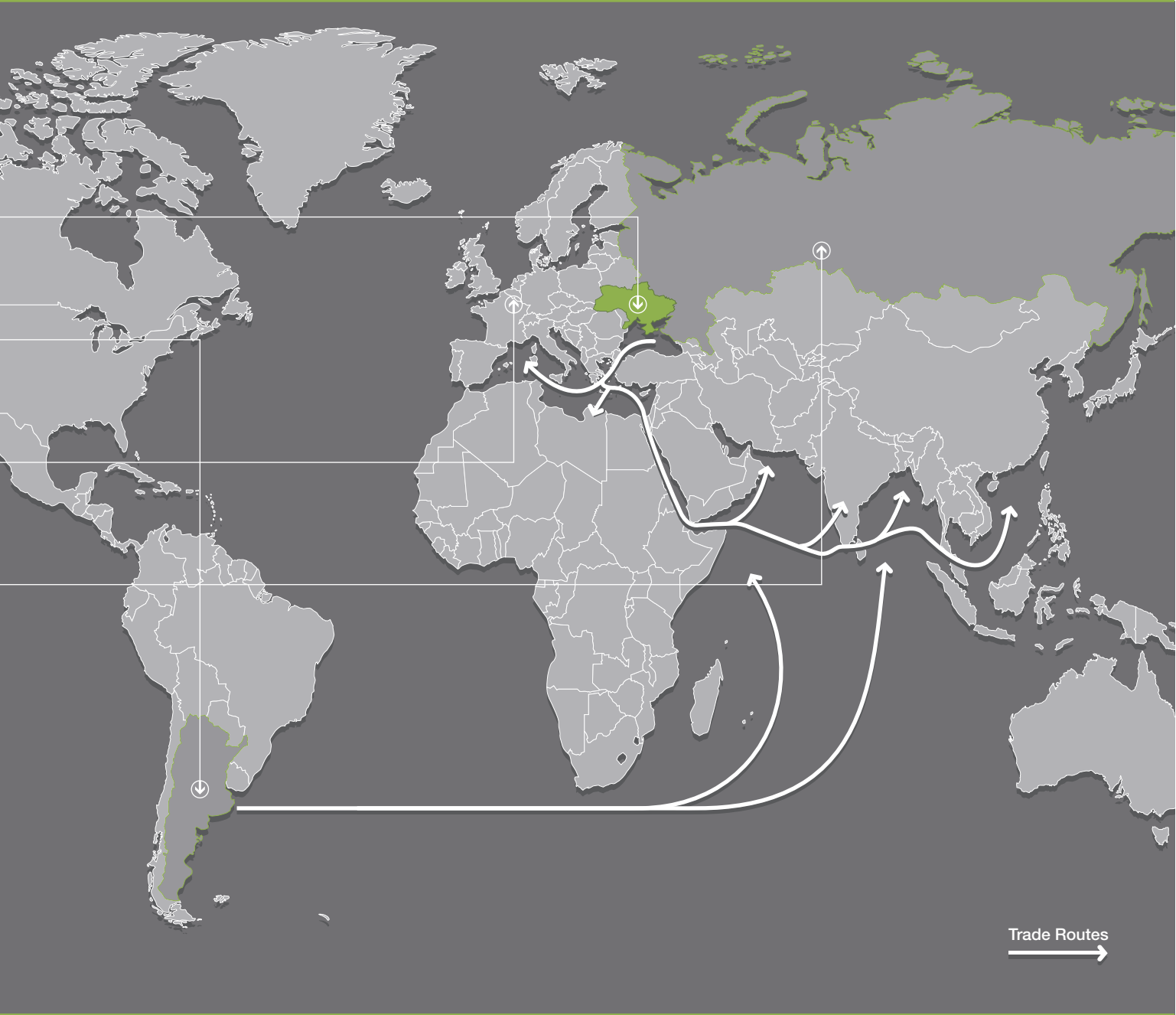
Major vegetable oils: world production, season 2011/2012 (projected)

- | | |
|----------------|-------|
| 1. Palm oil: | 37.0% |
| 2. Soya bean: | 28.4% |
| 3. Rape seed: | 15.0% |
| 4. Sunflower: | 8.5% |
| 5. Other oils: | 11.1% |



Sunflower oil
8.5%

Source: USDA, October 2011

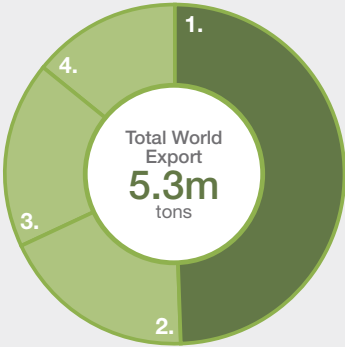


Sunflower oil: major exporters, season 2011/2012 (projected)

- 1. Ukraine: 49.5%
- 2. Russia: 18.7%
- 3. Argentina: 17.7%
- 4. Other: 14.1%

Ukraine
49.5%

Source: USDA, October 2011

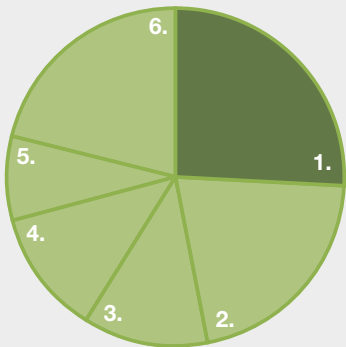


Ukrainian sunflower oil exports by destination, season 2010/2011

- 1. India: 26%
- 2. EU: 21%
- 3. North Africa: 12%
- 4. Turkey: 12%
- 5. Middle East: 8%
- 6. Other: 21%

India
26%

Source: APK-Inform



Ukraine: Major grain producer and exporter

- 52m tons grain production projected for 2011
- Near record 2011 harvest provides 24.4m tons grain export potential for season 2011/2012
- Grain production is strategically important to Ukraine, with 19% of Ukraine's 2010 hard currency earnings (EIU country report 2011) provided by grain and food exports
- World leader in barley production and export, with close to one third of world barley export originated in Ukraine
- Ukraine benefits from a strategic location on the Black Sea to supply EU, North Africa and Middle East markets
- Ukraine is one of the few countries in the world with substantial growth potential to be unlocked by adding farm land into production and by increasing production yields per ha

Ukraine
Million tons grain export, season 2011/2012
(USDA, October 2011, projected)

24.4



Major world grain exporters, season 2011/2012 (projected)

Ukraine

- 4.4 million tons barley
- 12.0 million tons corn
- 8.0 million tons wheat

USA

- 41.0 million tons corn
- 26.0 million tons wheat

Argentina

- 2.0 million tons barley
- 18.0 million tons corn
- 8.0 million tons wheat

European Union

- 2.0 million tons barley
- 16.0 million tons wheat

Russia

- 1.6 million tons barley
- 18.0 million tons wheat

Australia

- 4.0 million tons barley
- 19.0 million tons wheat

Canada

- 18.0 million tons wheat

Source: USDA, October 2011

Wheat: major exporters, season 2011/2012 (projected)

1. USA:	19.3%
2. Australia:	14.1%
3. Canada:	13.3%
4. Russia:	13.3%
5. EU:	12.0%
6. Ukraine:	5.9%
7. Argentina:	5.6%
8. Other:	16.5%

Ukraine

5.9%

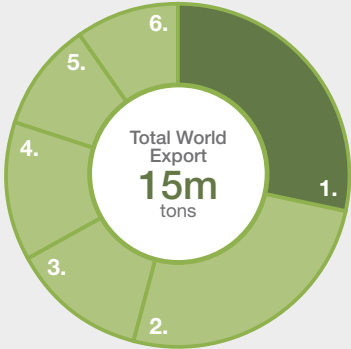
Source: USDA, October 2011





Barley:
 major exporters, season 2011/2012 (projected)

- 1. Ukraine: 28.5%
- 2. Australia: 25.9%
- 3. EU: 13.0%
- 4. Argentina: 13.0%
- 5. Russia: 10.4%
- 6. Other: 9.6%

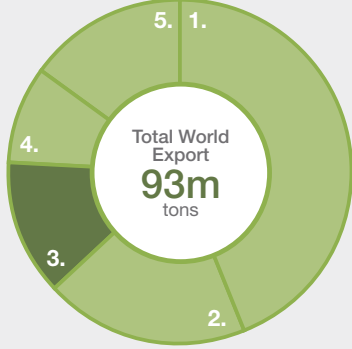


Ukraine
28.5%

Source: USDA, October 2011

Corn:
 major exporters, season 2011/2012 (projected)

- 1. USA: 43.9%
- 2. Argentina: 19.3%
- 3. Ukraine: 12.9%
- 4. Brazil: 9.1%
- 5. Other: 14.8%



Ukraine
12.9%

Source: USDA, October 2011

Our strategy is clear and driven by three principles

Leadership and continued growth

How we lead

- Drive market consolidation in Ukraine
- Expand origination footprint
- Build critical mass through volume increase

How we grow

- Consolidate existing franchises to secure sustainable growth
- Strengthen portfolio diversification
- Achieve appropriate balance between export and domestic markets
- Expand geographically by focusing on feedstock base countries

Conservative risk management

Our operations and development are guided by two core policies

- No crop financing and no delivery risk: Kernel does not finance production of third-party farmers
- No commodity price risk: Kernel holds a 'balanced book' by buying and selling at fixed prices equal volumes of physical goods

Our real-time management systems provide daily KPIs, production data, inventory and sales positions

Our flat management structure leads to fast decision-making process and efficient monitoring of risks

Financial targets and discipline

Our integrated and diversified business portfolio delivers sustainable operating margins

- Bulk oil – 17-19%
- Bottled oil – 20-22%
- Grain – 8-10%
- Export terminals – 40-45%
- Grain silos – 36-38%
- Farming – 30-40%

Sound leverage policy

- Net debt/EBITDA < 2.5 x (Financial year end)

High interest cover ratio

- EBITDA/finance costs > 5 x

Solid shareholder returns

- ROE > 20%

Our integrated business model ensures that we continue to lead the market

Farming

- 210,000 ha of farm land fully cultivated (as of October 2011)
- 1m tons of crops in 2011, including wheat, barley, corn, sunflower, soyabean, rapeseed and sugar beet

210,000

Ha of farm land fully cultivated



Sourcing

- Grain and oilseed origination from over 2,000 farmers throughout Ukraine

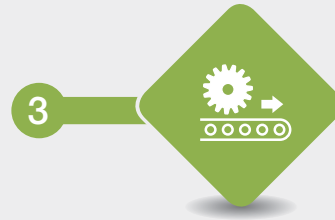
2,000

Farmers throughout Ukraine



Processing

- Ukraine – seven oilseed crushing plants totalling 2.6m tons crushing capacity per year
- Russia – three oilseed crushing plants totalling 400,000 tons/year sunflower seed processing capacity
- Oil refining and bottling facilities in Ukraine and Russia
- Four sugar plants totalling two million tons/year sugar beet processing capacity



Kernel asset location



Logistics	Marketing and sales	Kernel added value
<ul style="list-style-type: none"> → 2.3m tons grain storage capacity inland Ukraine → Illichevsk grain export terminal provides 4m tons/year grain throughput → Nikolaev oil export terminal provides 500,000 tons/year sunflower oil throughput → Nikolaev bulk cargo export terminal provides 350,000 tons/year sunflower meal throughput 	<p>→ 3.8 million tons of agriculture products handled in season 2010/2011</p> <p>3.8m Tons of agriculture products</p>	<p>FY2012 guidance (issued 30 August 2011)</p> <ul style="list-style-type: none"> → \$2,300m Revenue → \$370m EBITDA → \$255m Net income



Andrey Verevskiy
Chairman of the Board

Revenue
+86% (2010: \$1,020m)

\$1,899m

Fiscal year 2011 was an impressive year for Kernel. Year-on-year, Group revenue increased by 86% to USD 1.9 billion, EBITDA increased by 63% to USD 310 million and net profit increased by 49% to USD 226 million, significantly exceeding our initial plan and guidance for the year.

This was achieved in a rapidly changing and dynamic environment both in our domestic Ukrainian and international markets.

Dear Shareholders,

Fiscal year 2011 was an impressive year for Kernel. Year-on-year, Group revenue increased by 86% to USD 1.9 billion, EBITDA increased by 63% to USD 310 million and net profit increased by 49% to USD 226 million, significantly exceeding our initial plan and guidance for the year. This was achieved in a rapidly changing and dynamic environment both in our domestic Ukrainian and international markets.

Perhaps the most important single event affecting global agricultural markets was the severe drought, which hit large tracts of Central and Eastern Europe early summer 2010. Russia, in particular, was left with a much lower crop than originally planned, leading the government to impose a complete ban on export of grain over the season. As a result of the sudden tightening of global grain supply, international grain prices increased significantly, especially in the first half of season 2010/2011. The sharp rise in prices demonstrated the now crucial importance of the Black Sea region in supplying grain to international markets and its impact on the global food balance.

The drought also created food price inflation in Ukraine and led to the government regulating the grain market. While the country harvested 39 million tons of grain in 2010, a satisfactory crop well in excess of the country's needs in the range of 25 million tons and leaving over 10 million tons for export, food price increases brought the government to introduce grain export quotas in a bid to curb grain price increases in the country. While we clearly favour free markets, we understand the government's reluctance to have highly volatile and speculative commodity markets dictate domestic prices. Going forward, sharp rises in the price of staple foods could again bring the government to regulate and the Group will be dealing with such temporary export limitations in the most appropriate manner, as required by circumstances.

Weather conditions were, on the other hand, good for growing sunflowers. Ukraine delivered 7.5 million tons of seed in 2010, the best harvest ever recorded. With acreage planted with sunflowers quite stable at 4.5 million ha, this bumper crop was achieved essentially by higher yields, confirming the growing strength of the farming industry and the dominant position of Ukraine in the sunflower oil market.

EBITDA
+63% (2010: \$190m)

\$310m

Net Profit
+49% (2010: \$152m)

\$226m

The remarkable results posted by the Group were primarily driven by the oil and grain segments:

- Our bulk oil segment was clearly the main driver of growth throughout season 2010/2011. The record sunflower seed harvest enabled the Group to fully capitalise on the increase in crushing capacity of the Group. Compounded by the 40% increase in the price of oil on the international market, bulk oil revenue increased year-on-year by 189% and operating profit by 131%, leading to a record USD 1.2 billion in revenue and USD 166 million in bulk oil operating profit for the year;
- Grain was the second largest driver of growth after bulk oil, though the outlook for the segment at the beginning of the season was uncertain. Eventually, the government introduced grain export quotas, and the Group was allocated sufficient volumes to sell in aggregate 1.8 million tons of grain over financial year 2011. Higher grain prices, together with the higher margins resulting from the quota system, translated into revenue of USD 571 million and operating profit of USD 65 million, a near record for the segment.

Strong revenue and income growth posted in fiscal year 2011 were in no small part the result of the development strategy implemented by the Group. We significantly increased our crushing capacity both organically and by acquisition. And as the new production assets were integrated in the Group, we moved to consolidate further our leading position in the industry and acquired Black Sea Industries. This new development brings our total crushing capacity in Ukraine to 2.6 million tons per year. We have also expanded geographically by acquiring a crushing business in Russia. While this transaction remains relatively small, we believe it is an important first step into Russia, a market we consider promising due to the traditionally large feedstock base offered by the country.

We have also focused on developing farming. While we acknowledge this segment is the most exposed to soft commodity price volatility and government regulations, we are nevertheless convinced of Ukraine's competitive advantage and by the sound fundamentals in farming. In the course of the year, our farming operations increased from 85,000 ha under management to 210,000 ha leased by the Group, as of October 2011. Contribution from our expanded farming operations is expected to be significant in financial year 2012 and increase in following years as we improve yields and productivity at the newly acquired farms. Going forward, we will continue searching for new farming opportunities offering a compelling case for investment.

To conclude, I wish to confirm our confidence in the development and overall competitive advantage of agribusiness in our regions. Our strategy remains unchanged and we will pursue the significant growth opportunities we see in the Black Sea region to consolidate leading positions in our markets. Our ultimate goal remains, of course, building company value to the benefit of our stakeholders.



Andrey Verevskiy
Chairman of the Board

Kernel Holding S.A. is a publicly-traded holding company, registered in Luxembourg, which invests in agribusiness.

Operating Segments

Bulk Oil Page 14	Bottled Oil Page 16	Grain Page 18	Silo Services Page 20	Export Terminals Page 22	Farming Page 24
					

Russian Oils



Geographical expansion opportunity: acquisition of Russian Oils

On 15 August 2011 we announced the Group had entered into a share purchase agreement to buy Russian Oils for a USD 15 million cash consideration and debt denominated in RUB equivalent to USD 53 million.

The transaction is important as a first investment to expand operations into Russia, a market offering:

- An opportunity to develop Kernel's business model in a new geography with strong language, cultural and business environment affinities with Ukraine
- Access to the world's second largest feedstock base in sunflower seed

We finalised the transaction on 19 September 2011 and expect a fast integration to capitalise on the record sunflower seed crop in Russia. Assets acquired include:

- 400,000 tons of crushing capacity per year in three production plants, one plant located in the Krasnodar region and two plants located in the Stavropol region
- 100,000 tons per year of sunflower oil refining and bottling capacity

The subsidiaries of Kernel Holding S.A. (forming, together with Kernel Holding S.A., ‘the Group’) own assets primarily in Ukraine and operate across the agricultural value chain.

We operate in farming, grain origination, storage, transport and marketing, and in the production, refining, bottling and marketing of sunflower oil. We provide silo services to farmers and grain handling and transshipment services to the Group and third parties.

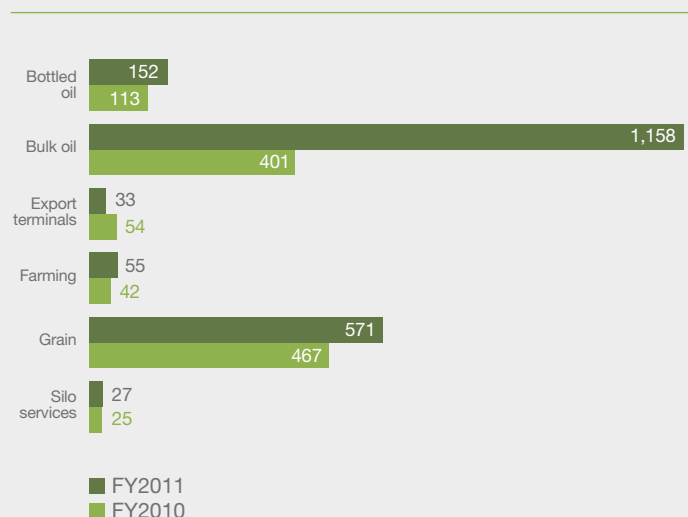
As principals, we service our customers both in Ukraine and on the international market. We deliver to them a range of agricultural products, such as wheat, barley, corn, soyabean and rapeseed, which we sell and deliver in bulk, without transformation or packaging. From the processing of sunflower seed in our crushing, refining and bottling plants, we sell and deliver to our clients sunflower oil in bottle or in bulk, and pelletised sunflower meal in bulk. Recently, we acquired sugar production assets to process sugar beet and supply the domestic market with refined sugar.

We have built leading positions in all our businesses. In bulk oil, Kernel produces and exports one third of all bulk oil delivered by Ukraine to the international market. In bottled oil, Kernel is the leading producer and supplier of packaged and branded oil to retailers and distributors in Ukraine. In grain, supported by an extensive network of inland silos and a world-class export terminal on the Black Sea, the Group typically originates and exports some 10% of all grain and oil-bearing crops exported by the country. Farming has recently been expanded significantly and we now lease 210,000 ha of land (as of October 2011), making Kernel one of the largest farm operators in Ukraine.

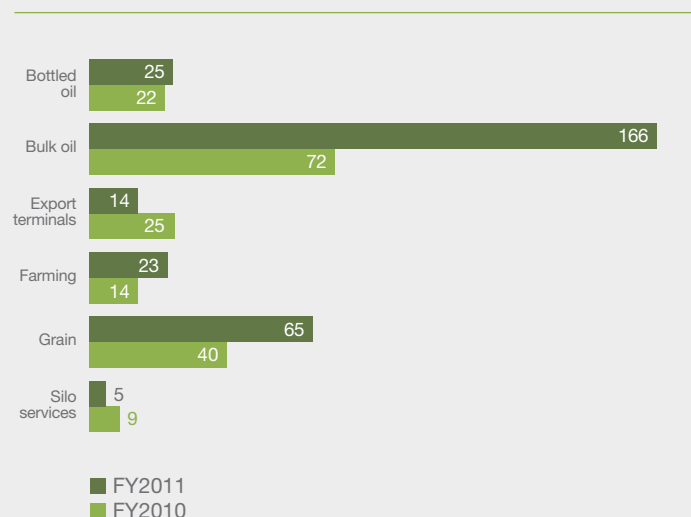
Scale is critical to our operations. Each year, we purchase millions of tons of grain for export and sunflower seed for our crushing plants from thousands of farmers throughout Ukraine. Our own farms will supply up to a quarter of the grain we export, but only a fraction of the sunflower seed needed to supply our crushing plants.

Our business model is built on the diversification offered by our operating segments and the powerful synergies we derive from the complementarity of our businesses. While we evaluate each segment on a stand-alone basis, we derive significant advantages from integration and operations common to our various businesses. A diversified business portfolio also helps us to deliver expected results: whereas our farming business will be directly exposed, whether positively or negatively, to price fluctuations of crops produced, the direct impact of volatility in commodity prices is considerably lower in our grain and oil businesses. As service providers, our grain silo and terminal businesses are largely unaffected by commodity prices and depend primarily on the size of the harvest.

Revenue by operating segment (in USD millions, including intersegment revenue)



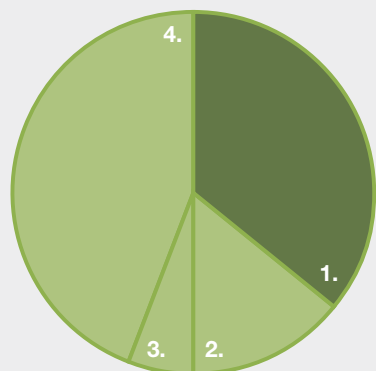
Operating profit by segment (in USD millions, before head office expenses allocation)





Crushing capacity (% of Ukraine capacity, Kernel estimate)

1. Kernel	36.0%
2. Cargill	14.0%
3. Bunge	6.0%
4. Other	44.0%



Crushing capacity
36%
of total Ukraine

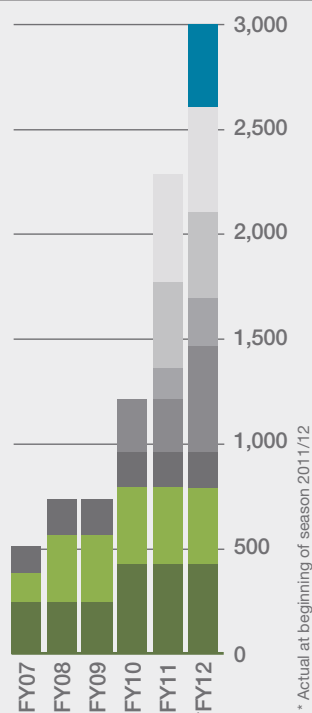
Kernel is the No.1 oilseed crusher in Ukraine, operating 2.6 million tons of crushing capacity per year and processing close to a third of all sunflower seed produced in Ukraine.

Scale – No.1 oilseed crusher in Ukraine

As the largest crusher, Kernel is also by far the largest Ukrainian exporter of sunflower oil. Over fiscal year 2011, the Group delivered 930,000 tons of sunflower oil, of which 821,000 tons were exported in bulk, accounting for one third of all oil exported from Ukraine. Bulk oil was the main driver of growth in fiscal year 2011, as a consequence of both a significant increase in the volume of oil produced and sold onto the international market and a general increase in oil prices over the season. In financial year 2011, the bulk oil segment contributed USD 1.2 billion in revenue, equivalent to 58% of Group sales, and USD 166 million to operating profit, equivalent to 56% of consolidated EBIT.

Kernel crushing capacity and plants (in thousand tons/year)

Russia
Bandurka
Kirovograd
Nikolaev
BSI
Prikolotnoe
Volchansk
Poltava



Crushing capacity
(in tons/year, as of beginning of season 2011/12)
3,000,000

Ukraine – No.1 sunflower oil exporter in the world

Ukraine is today the undisputed world leader in the production and export of sunflower oil. The production of sunflower seed comfortably covers domestic demand for vegetable oil, and most observers consider this leading export position will become stronger over the coming years. The Food and Agricultural Policy Research Institute, an internationally-recognised research institute, estimates Ukraine could be supplying in the next decade up to 66% of all sunflower oil traded on the international market. The recent development of a modern and efficient oilseed crushing industry was built on the large and natural feedstock base offered by Ukraine, a region offering an ideal blend of weather and soil conditions for the growing of sunflowers. Some 4.5 million ha of farm land are regularly planted with sunflower, delivering large harvests in 2009, 2010, and, by Group estimates, a record harvest of 8 to 9 million tons in 2011. Sunflower is a major cash crop and we expect the Ukrainian farmer to continue focusing on maximising sunflower seed production, in particular through yield increase, which could average from 2.0 to 2.5 tons of sunflower seed per ha and deliver regularly 9–10 million tons of sunflower seed per year.

Revenue
+ 189% (FY2010: \$401m)

\$1,158m

Operating profit
(before head office expenses allocation)
+ 131% (FY2010: \$72m)

\$166m

Expertise in oilseed processing
– competitive advantage in a traditional industry of Ukraine

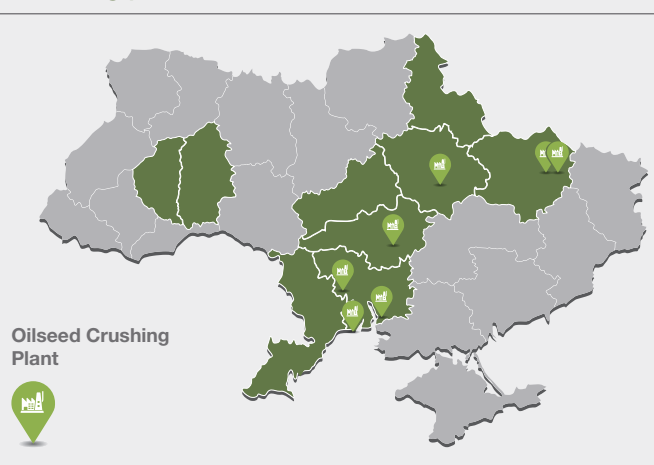
The bulk oil segment covers the full production and marketing cycle of oil sold in bulk, from procurement of sunflower seed and production of crude sunflower oil and meal, an animal feed component, to marketing and distribution of both products. Sunflower seed is purchased exclusively in Ukraine and mostly directly from farmers, either at the farm gate or at inland grain silos owned by the Group or third parties. In the course of the crushing season, sunflower seed stocks accumulated in silos will be transported to Kernel crushing plants for further processing. In execution of sales contracts, oil and meal will be shipped daily from the crushing plants primarily by railroad, in tank and hopper cars, to export terminals on the Black Sea or delivered to the borders of Ukraine.

Our business is industrial in nature. Processing margin is derived from the daily price difference between oil and seed, where the seed price in Ukraine will be essentially a function of the international price of sunflower oil, a widely-traded and well-defined commodity. As the Group purchases the feedstock for its crushing plants at fixed price, it will be concluding contracts for forward delivery of oil and meal also at fixed price in order to lock in processing margin. As the seed is processed, and oil and meal are produced, goods will be delivered to our customers over the course of the season and in accordance with delivery terms of sales contracts.

Strong position for growth

Prompted by strong international demand, the oilseed crushing industry in Ukraine has grown significantly in size over the last ten years, with overall processing capacity broadly in line with the average level of sunflower seed production. While competition has undoubtedly increased, we believe Kernel is well equipped to maintain its competitive edge in this industry, thanks to the strategic location and efficiency of our plants, our origination power well supported by our network of grain silos, and the financial strength and discipline of our Group. Going forward, we expect the segment to continue being a major contributor to Group results as new opportunities arise to expand crushing not only of sunflower seed, but also soyabean and rapeseed, and as we integrate our most recent acquisition in Russia and steadily build our position in this new market.

Strategic location of Kernel oilseed crushing plants in Ukraine



At the close of fiscal year 2011, Kernel owned and operated six crushing plants located in several regions of Ukraine and had entered into an option to purchase the Black Sea Industries crushing plant in Ilichevsk providing, in aggregate, 2.6 million tons of crushing capacity.

Together with size, location of the production assets is a critical factor to run a successful operation: Kernel has created a network of crushing plants stretching from the Black Sea to the eastern border with Russia, covering regions richly endowed with black earth and large traditional producers of sunflower seed. The short distance to our plants and reliability of our Group will naturally bring thousands of farmers to consider Kernel as the buyer of choice for their crop.

Since purchasing its first crushing plant in 2002, the Group has invested heavily to improve efficiency of the production process, increase volumes and expand geographically. In the course of financial year 2011, we commissioned the new Bandurka multi-seed crushing plant, adding 500,000 tons of sunflower seed crushing capacity per year to the Group.

The Kirovograd and Nikolayev crushing plants, acquired in the last quarter of fiscal year 2010, were quickly integrated and added 565,000 tons of crushing capacity per year as of the beginning of season 2010/2011.

Altogether, supported by organic as well as acquisition growth, we succeeded in increasing our crushing program from 1.2 million tons in 2009/2010 to close to 2 million tons of sunflower seed in FY2010/2011, a 67% year-on-year increase.



Bottled oil sales
 (in thousand litres)



Bottled oil sales 2011
 (in thousand litres)

118,000

Kernel is a leading producer and marketer of bottled oil in the Ukrainian market, supplying up to a third of all bottled oil sold in the country.

Scale – leading producer and marketer of bottled oil

In financial year 2011, Kernel sold 118 million litres of oil in bottle, primarily to the Ukrainian market, contributing USD 152 million in revenue, equivalent to 8% of Group sales, and USD 25 million to operating profit, equivalent to 8% of consolidated EBIT.

Sunflower oil – a traditional food ingredient in CIS countries

Sunflower oil is the most widely used vegetable oil in countries of the CIS. Traditionally and culturally, people have used sunflower oil, supplied primarily by Ukraine and South Russia, for all cooking purposes. Consumers in Ukraine and Russia continue today to buy mostly sunflower oil and demand for other vegetable oils remains marginal.

Efficiency and quality of production

Kernel supplies the market with quality oil produced exclusively at Group production facilities. The bottled oil segment comprises the full process of production, from procurement and crushing of seed, to refining of the crude oil and packaging, followed by marketing of branded products to distributors and retailers, and final distribution in Ukraine or export. In Ukraine, Kernel owns and operates in aggregate 173,000 tons per year of oil refining capacity and 134,000 tons per year of bottling capacity installed on the sites of the Poltava and Prikolotnoe crushing plants. Both sites are designed and equipped with state-of-the-art production lines guaranteeing a seamless seed-to-bottle production cycle, ensuring efficiency of production as well as food quality and security.

Revenue
+35% (FY2010: \$113m)

\$152m

Operating profit
(before head office expenses allocation)
+10% (FY2010: \$22m)

\$25m

We package oil in PET containers, from half-litre bottles to 5-litre cans, and merchandise primarily under three Group brands: Schedry Dar, Stozhar and Chumak Zolota. With the retail industry still at an early phase of development, private labels account for 23% of overall bottled oil sales on our domestic market. While sunflower oil has a virtually impregnable position on the local market, opportunities to increase sales are limited as demand remains highly sensitive to the relatively low purchasing power of consumers. Our three-brand strategy, however, allows the Group to position the brands in different price segments and to develop a variety of marketing strategies in order to target the widest possible consumer base.

Integrated business model brings synergies and higher margins

Kernel's bottled oil business benefits from significant synergies with other businesses of the Group. Efficient procurement of sunflower seed is critical to cost of production and depends on the strong relationship built between farms and our silos. Our bulk oil business supports higher overall oil margins for the Group by arbitraging domestic oil prices against international prices. Accordingly, we will typically seek a higher margin for bottled oil to compensate for our investments and commitment to the business.

FY2012 – growth in Ukraine, opportunities in Russia

As upward price pressure on the domestic market eases, Kernel expects growth in bottled oil sales to average 15 – 20% over the current season 2011/2012. Our new operations in Russia are also expected to contribute to growth of the bottled oil segment as we develop relations with distributors and retailers in this new and promising market. Export sales of bottled oil will remain, as in previous years, opportunistic and depend essentially on the price attractiveness of spot transactions.

Kernel – leading bottled oil producer and marketer in Ukraine

Consolidated bottled oil sector

- Kernel and Bunge supply over 60% of bottled oil sold in Ukraine
- Kernel and Bunge only nationwide marketers of bottled oil

Seamless seed-to-bottle production process at two production sites with integrated crushing, refining and bottling operations

- 173,000 tons/year refining capacity
- 134,000 tons/year bottling capacity

Three brand strategy + private label

- Schedry Dar
- Stozhar
- Chumak Zolota
- Private label (23% of bottled oil revenue in Ukraine)

**Primary sales market: Ukraine
Distribution throughout Ukraine**

- 40 regional distributors
- Direct supply to largest nationwide retailers

Russian market opportunity

- Acquisition of 100,000 tons oil per year refining and bottling capacity in Russia

Tons/year refining capacity (Ukraine)

173,000

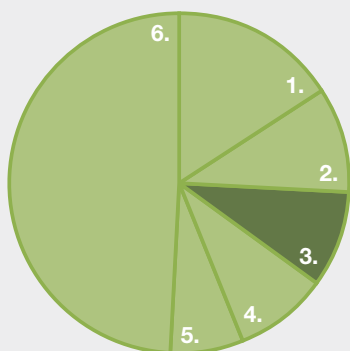
Tons/year bottling capacity (Ukraine)

134,000



Major grain exporters in season 2010/2011 (Excluding oil-bearing crops)

1. Nibulon	16.0%
2. Glencore	10.0%
3. Kernel	9.0%
4. Khleb Investbud	9.0%
5. Bunge	7.0%
6. Other	49.0%



Kernel grain sales

9%

Source: APK-Inform

Grain and oil-bearing crop sales (in thousand tons)



Kernel tonnage 2011

1,810,000

Kernel is a leading originator and supplier to the international market of grain and oil-bearing crops produced in Ukraine, handling in aggregate 1.8 million tons over season 2010/2011.

Leading grain originator and exporter

Notwithstanding export limitations, Kernel exported 373,000 tons of wheat, 321,000 tons of barley, 500,000 tons of corn and 380,000 tons of rapeseed and soyabean, equivalent to 10% of total grain and oil-bearing crops exported from Ukraine. The second largest driver of growth in financial year 2011, our grain segment contributed USD 571 million in revenue, equivalent to 29% of total Group sales, and operating profit of USD 65 million, equivalent to 22% of Group consolidated EBIT.

Ukraine – major supplier of grain to world markets

Over the last ten years, Ukraine has regained its status as a major supplier of grain to world markets. With favourable weather conditions, Ukraine can be expected to produce from 40 to 50 million tons per year of wheat, barley and corn, of which 25 million tons are required to supply the domestic market and the balance of 15 to 25 million tons are available for export. Such volumes, the Group believes, are still below the potential of the country. Over the next decade, as world food demand increases and requires agricultural powerhouses to produce more, Kernel expects grain volumes available for export to grow twofold and reach between 30 and 40 million tons per year.

Management of grain supply pipeline

The grain segment is a logistics business in nature. Kernel is essentially a pipeline operator, whose primary function is to efficiently channel the large surpluses produced by farmers in Ukraine to world consumer markets. Following harvest, the Group purchases grain directly from the farmer, mostly wheat, barley and corn, and oil-bearing crops, primarily rapeseed and soyabean. The crops are bought either at the farm gate or in grain silos owned by the Group or third parties and located conveniently close to the farms. Inland storage time will depend on the delivery terms of our export contracts, with most clients requiring delivery within one to three months following purchase of the grain. From inland grain silos, the grain will be loaded in hopper cars and shipped to load ports, for transshipment at the earliest possible date on ocean-going vessels chartered by the Group or third parties. While the Group uses the services of various grain terminals in order to minimise transport costs, over 70% of the grain exported by the Group will be shipped through Kernel's grain handling and transshipment facilities in Illichevsk on the Black Sea.

Revenue
+22% (FY2010: \$466m)

\$571m

Operating profit
(before head office expenses allocation)
+63% (FY2010: \$40m)

\$65m

Export is clearly the driver of our grain business. Our clients range from major international grain trading houses to well-established local importers supplying domestic consumer markets. And while our traditional markets are primarily around the Mediterranean, our sales to the Middle East and Far East are growing as the Black Sea area becomes an increasingly important supplier to these markets.

Added value from expertise in origination and logistics

While Kernel acts as transaction principal both when purchasing and selling grain, our price risk remains limited as we generate value not from commodity price movements but from our expertise in the local market and logistics. In line with company policy, we purchase and sell at fixed prices equal amounts of grain in much the same time frame, achieving in the process a natural hedge on the basis of physical goods. Delivery risk will also be avoided when purchasing grain. Accordingly, the Group will not provide pre-crop financing, and purchase contracts with farmers will typically be concluded following harvest and payment effected once goods are delivered to the Group.

Competitive position built on synergies between segments

Our grain origination and export operation relies first on our expertise and extensive presence throughout the country. Experienced and reliable employees are clearly our most precious asset in this business. Our network of regional offices and purchasing managers keeps regular contact with thousands of farmers feeding our grain supply pipeline and ensures the Group purchases at the best price, ships goods from inland elevators to port terminals, loads onto vessels and delivers to our clients in a timely and cost-effective manner. Support from Kernel's inland silos and grain terminals is critical, as strong relationships built over the years between our grain silos and farmers translate into an efficient grain procurement process, both in terms of pricing and volume. Control of grain handling and transshipment at port significantly increases both flexibility of execution and volume of sales contracts.

Kernel – positioned for growth

Clearly, the development of the farming sector in Ukraine has attracted the attention of international trading houses and competition has increased as newcomers bid for the growing grain export surpluses generated by farmers. We believe, however, that Kernel is well placed to take advantage of the growth we are experiencing in Ukrainian farming. Our traditional strongholds of Poltava and Kharkov, two large agricultural regions of Ukraine, will continue to supply us with large volumes of grain at attractive prices. We have also extended our operations further to the south and west of the country, where we have expanded our farming, crushing and silo activities. Altogether, our extended origination footprint and the 4-million ton throughput our grain terminal can comfortably handle should allow us to take advantage of the growing strength of farmers in Ukraine and export significantly higher grain volumes in the future.

Kernel – leading grain supply chain operator in Ukraine

Leading operator of grain supply chain in Ukraine with 10% market share of grain & oil-bearing crops export in season 2010/2011

Extensive and well-established origination base

- Origination effected directly at farm level through Kernel regional office & silo network
- Origination, merchandising and export of wheat, barley, corn, rapeseed and soya
- Widespread farmer supply base throughout Ukraine, with dominant position in Kharkov and Poltava oblasts

Prudent purchasing policy

- No pre-crop financing

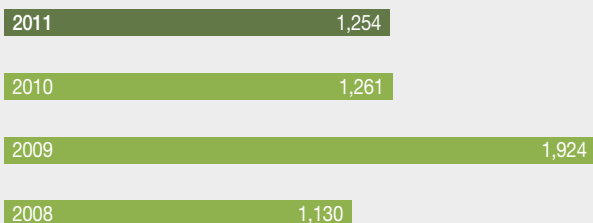
Logistics throughout Ukraine fully under Kernel control and management

Primary market: export

- 70% of grain and oilseed exports through Transbulkterminal
- Delivery effected to port of discharge in customer's home market



Grain and oil-bearing crops throughput
 (in thousand tons)



Inland silo throughput 2011

1,254,000 tons

Kernel owns and operates the largest private network of grain silos inland Ukraine, providing in aggregate 2.3 million tons of storage capacity and servicing over 2,000 clients, mostly farmers and the Group.

No.1 silo capacity in Ukraine

Kernel owns and operates the largest private network of grain silos inland Ukraine, providing in aggregate 2.3 million tons of storage capacity and servicing the requirements both of the Group and of some 2,000 clients, most of whom are farmers. In financial year 2011, silo services generated USD 11 million of revenue from third parties and USD 16 million in intersegment sales. Operating profit for the year was USD 5 million, equivalent to 2% of Group EBIT. Over season 2010/2011, Kernel silos received in aggregate 1.3 million tons of grain and oil-bearing crops.

Critical farming infrastructure

Grain storage infrastructure is a service industry vital to farming in Ukraine and in urgent need of being modernised and increased. Whereas existing storage infrastructure is estimated in the range of 30 to 35 million tons, the country now regularly harvests between 40 and 50 million tons of grain and over 10 million tons of oil-bearing crops. The significant shortage of capacity is clearly a limiting factor in the development of the farming industry and a threat to future increases in production levels. New capacity is now being built by farmers and companies such as Kernel, but is still not sufficient to meet basic needs such as crop storage following harvest, leading to losses and lower quality of crops.

Revenue
 (including intersegment sales)
 +8% (FY2010: \$25m)

\$27m

Operating profit
 (before head office expenses allocation)
 -46% (FY2010: \$9m)

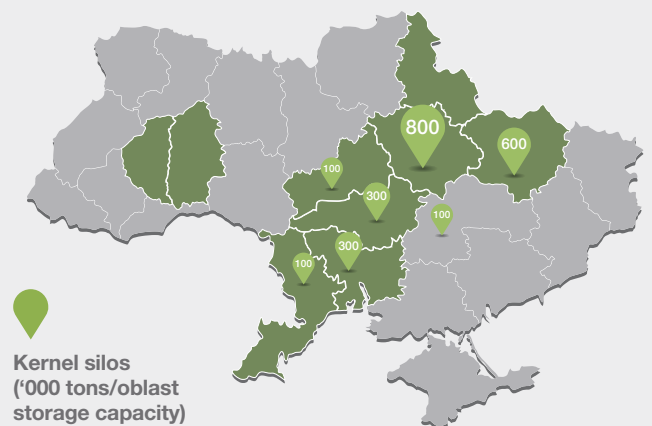
\$5m

Key point of contact with the farmer

While silo services provide the smallest contribution to Group revenue and operating profit, inland silos are instrumental in building long-term relationships with farmers and leading positions in the grain and oil businesses. Group silos operate essentially as providers of services to the Group and to third parties, essentially farmers. Following harvest, farmers will require a range of services such as cleaning, drying and storage of crops. Grain and oilseeds will be brought from the fields directly to the silo, and kept in silo for a period ranging from a few weeks to a couple of months. Typically, a portion of the farmer's crop will be sold immediately after harvest, while the balance will be stored and sold over the season. Kernel provides silo services against a monthly fee and the farmer is free to sell his produce to Kernel or to a third party. The Group is, however, in an advantageous position to buy the grain, having good visibility on volumes available for sale and easy access to his client. On average, over 80% of sunflower seed and 50% of wheat, barley, corn, rapeseed and soyabean stored in Group silos will be eventually bought by Kernel.

Kernel owns grain silos in several regions of Ukraine, with the highest concentration in the areas of Poltava and Kharkov, where the Group first started operating. First grain silos were acquired by the Group in the mid-nineties, essentially to gain better access to farmers and establish a regular supply of grain for export. Over the years, we have expanded this network of silos either by acquiring stand-alone silos in locations of strategic interest to the Group, or as assets owned by companies acquired by Kernel. Assets have been consolidated or, sometimes, divested depending on the synergies they offer with our farming, oil and grain businesses, and on their capacity to originate grain and oilseeds for the Group. Kernel owns and operates both vertical silos and flat warehouses for grain, typical of granaries built in the Soviet Union. Elevators are located along the national railway grid in order to ship grain efficiently to load ports, but also close enough to our crushing plants so as to supply feedstock to the factories by truck on a daily basis. The Group has been actively adding new capacity equipped with the latest technology and focusing on increasing its presence in the regions of Cherkassy, Kirovograd and Odessa, to both strengthen our origination power in regions where we have built or acquired crushing capacity and better service our expanded farming operations in the central part of the country.

Kernel storage capacity
 (by region)



Silo Services segment

Largest private grain silo network in Ukraine with 2.3m tons grain storage capacity

Strategic location of silos in key origination areas and close to Kernel crushing plants

All silos connected to national railway network, allowing grain shipment to port by railcar

6 new silos to be commissioned in FY2012 and FY2013

Business Review

Export Terminals



Major grain transshipment terminals in Ukraine

Terminal	Location	Storage Capacity
1. Transinvestservice	Yuzhniy	380,000 tons
2. Transbulkterminal	Illichevsk	200,000 tons
3. Ukrelevatorprom	Odessa	200,000 tons
4. Avlita	Sebastopol	170,000 tons
5. Nibulon	Nikolayev	130,000 tons

Source: APK-Inform

Export terminals throughput (thousand tons/season)

2011	2,114
2010	3,274
2009	3,400

Throughput 2011

2,114,000 tons

Kernel terminals are key infrastructure assets ensuring efficient export logistics for bulk oil, meal and grain exported by the Group.

Kernel – major operator of export infrastructure assets

The Group owns and operates Transbulkterminal in Illichevsk, the second largest grain export terminal in Ukraine, Oiltransterminal, a new vegetable oil tank farm in the port of Nika-Terra, Nikolayev, and a bulk cargo terminal for the transshipment of sunflower meal in the port of Nikolayev. In financial year 2011, export terminals generated USD 3 million of revenue from third parties and USD 30 million in intersegment sales. Operating profit for the year was USD 14 million, equivalent to 5% of Group EBIT. In aggregate, Kernel export terminals handled 2.1 million tons of grain, sunflower oil and meal cargo over season 2010/2011.

Ukraine – key gateway to international markets

Ukraine is ideally located on the Black Sea to capitalise both on the large export surpluses produced in farming and on grain cargo in transit from Russia and Kazakhstan. The country has four major deep-water ports directly on the Black Sea: Odessa, Yuzhny, Illichevsk and Sebastopol in Crimea. The country also has substantial port infrastructure in the estuary of Nikolayev and numerous other smaller port facilities along the Black Sea coast and on the Sea of Azov. Though the country's aggregate grain transshipment capacity is relatively high, only a few terminals, such as Transbulkterminal, can load cost-efficiently and directly at berth onto large ocean-going vessels such as Panamax vessels.

Revenue
(including intersegment sales)
-38% (FY2010: \$54m)

\$33m

Operating profit
(before head office expenses allocation)
-43% (FY2010: \$25m)

\$14m

Provider of logistics services to Group and third parties

Kernel export terminals provide port logistics services to the Group and, depending on availability of throughput capacity, to third parties. Services will include receiving and discharging of bulk grain, oil and meal at the terminals, and managing transshipment of goods onto sea-going vessels.

Transbulkterminal is a grain terminal located in the port of Illichevsk, a major deep-water port on the Black Sea. The grain terminal offers a combined storage capacity of 200,000 tons of grain in 39 bins installed directly alongside berth and loading equipment allowing to comfortably handle up to 4 million tons of grain per season. The terminal is ideally designed to receive grain by railroad in hopper cars and handle wheat, in particular milling wheat, barley, corn, rapeseed and soyabean. Depending on available capacity, the terminal will receive grain loaded either in Ukraine or in transit from Russia and Kazakhstan. Though Transbulkterminal offers the second largest grain storage capacity in port, the primary function of the terminal is not storage but fast, efficient and cost-effective transshipment of grain into ocean-going vessels such as Handy-size and Panamax vessels. Following a record 2008 grain crop, Transbulkterminal handled 3.4 million tons of grain in financial year 2009, its highest throughput to date, half of which was supplied by third parties. Season 2010/2011 showed, however, the strong benefits of our integrated model. Due to grain export limitations, third-party customers were reluctant to enter into yearly throughput agreements and most grain handled by Transbulkterminal over the season was supplied by Kernel. As we continue strengthening and expanding our grain origination capacity, we plan to increase the volume of grain supplied directly by the Group and, eventually, to utilise the terminal exclusively for our own needs.

Oiltransterminal is a vegetable oil tank farm and transshipment complex in the port of Nika-Terra, Nikolayev, acquired in June 2010 as part of the Allseeds transaction and handling oil exclusively for account of the Group. With oil production and export well in excess of the terminal's capacity, the Group has undertaken an expansion program to increase oil throughput capacity from the present 500,000 tons to 600,000 tons per year. Further expansion is not considered necessary at this stage, as the Group continues to deliver oil to third party terminals, as required by its customers.

Our bulk cargo terminal in Nikolayev, also acquired as part of the Allseeds transaction, exclusively services the Group and handles meal exported by ship. Over season 2010/2011, 242,000 tons of meal, equivalent to 30% of meal produced by the Group, were exported through Nikolayev.

TransBulkTerminal ('TBT')

2nd largest grain terminal in Ukraine, 4m tons/year grain throughput capacity (20% of total Ukrainian grain throughput capacity, Kernel estimate)

Located in Illichevsk, major Black Sea port and key gateway to international grain markets

Owned and operated by Kernel since June 2008, TBT is a provider of grain handling and transshipment services to Kernel and third parties, including transit from Russia and Kazakhstan

Key features:

- 200,000 tons grain storage capacity in 39 vertical bins directly alongside berth
- Handles all types of grain
- Grain & oilseed delivery to terminal by train and truck
- Loading and export of grain onto Handy-size and Panamax vessels
- Exclusive long-term right to two berths in port of Illichevsk

OilTransTerminal ('OTT')

Located in Nika-Terra port, Nikolayev

Owned and operated by Kernel since 2010

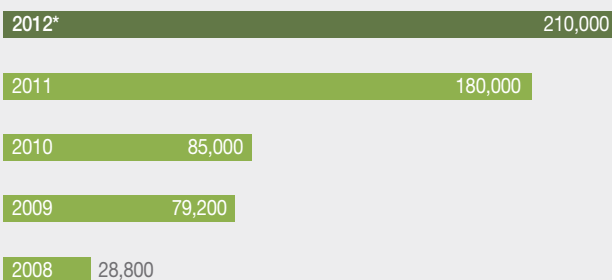
OTT primarily services Kernel and ensures up to 500,000 tons of Kernel bulk oil export (20% of total Ukrainian oil throughput capacity)

Key features:

- 30,000 tons oil storage capacity
- Oil delivery to terminal by train and truck
- Loading at berth of up to 25,000 tons oil per vessel



Kernel farming acreage (Ha)

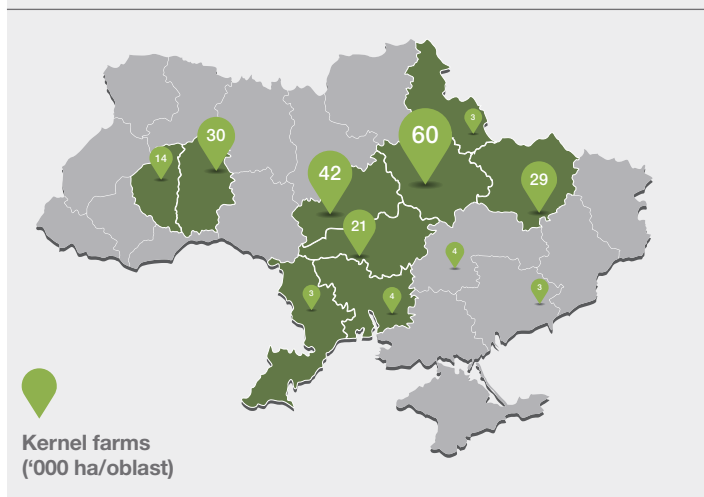


* As of October 2011.

Farming acreage, season 2011/12*

210,000 ha

Kernel farming operations (by region)



Kernel has created and manages one of the largest farming operations in Ukraine, leasing 210,000 ha of prime farm land (as of October 2011) and developing further the business.

Major farming business in Ukraine

In financial year 2011, farming had sales of USD 55 million, mostly to the grain and oils segments of the Group, and contributed USD 23 million to Group operating profit, equivalent to 8% of consolidated EBIT. While the relative weight of the segment was low, the continued expansion of the business is expected to generate up to 15% of Kernel's operating profit from financial year 2012 onwards.

Ukraine agriculture – strategic sector and major foreign currency earner

Ukraine is now undoubtedly an agricultural powerhouse and a major player on the international market for grains and vegetable oils. We anticipate that this already important position on the world agricultural stage will continue to develop as Ukraine steadily increases production and moves to centre stage within countries whose vital function is to feed regions with high population growth such as India and China. Though 2010 harvest was impacted by drought, Ukraine produced 39 million tons of wheat, barley and corn, and exported over 10 million tons over the season 2010/2011. 2011 grain harvest is expected to deliver over 50 million tons of grain, leaving well in excess of 20 million tons for export. Thanks to its large surplus production, farming is also the country's second largest export industry, generating approximately USD 10 billion in foreign currency, equivalent to 19% of the country's foreign currency earnings in 2010 (source: Economist Intelligence Unit, Country Report, October 2011). And while 2011 is a near-record harvest for Ukraine, we believe that, based on the Group's own farming results and yields, the country will in the coming years produce well over 50 million tons of grain and supply between 30 to 40 million tons of grain to world markets.

Revenue
 (including intersegment sales)
 +31% (FY2010: \$42m)

\$55m

Creation of large land clusters

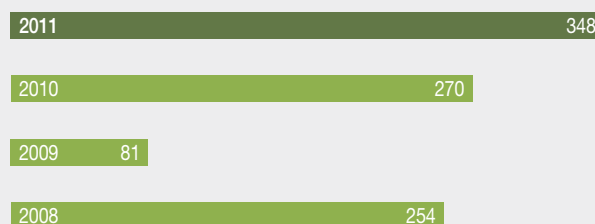
We view farming as a core and strategic business of the Group, offering opportunities for growth both organically, through increases in productivity, and by acquisition as we expand our existing land clusters by acquiring new farms. As of October 2011, Kernel managed 45 farms, leasing in aggregate 210,000 ha of farm land in Ukraine. Kernel's farming operations can be regrouped in six large regional clusters managing from 15 to 60,000 ha each, plus some smaller farming operations managing 3 – 4,000 ha of land. Since purchasing its first farm in 2002, Kernel has been expanding acreage by targeting farms located in regions offering adequate rainfall, high quality soil and synergies with other businesses of the Group. In financial year 2011, Kernel expanded its farming operations from 85,000 ha to 180,000 ha of farm land and, in the first quarter of fiscal year 2012, added another 30,000 ha of land. Further acquisitions will be considered and reviewed on the basis of the attractiveness of the investment case. The Group does not intend, however, to become fully vertically integrated. Due to crop rotation, Kernel production of sunflower seed can only meet a fraction of the feedstock requirements of our oilseed crushing business, and grain production is expected to supply over time up to a quarter of total grain exported by the Group.

Productivity and operational profitability

While Kernel has recently significantly increased its farming business, the focus of the Group remains on productivity and profitability. In 2010, impacting our financial year 2011, Kernel harvested in aggregate 218,000 tons of grain and oil-bearing crops on 85,000 ha of farm land. Grain, rapeseed and soyabean were mostly exported, while sunflower seed was fully processed in Group crushing plants. Wheat was planted on 26% of land leased by the Group, while oil-bearing crops represented close to 50% of the acreage. As we rotate crops in order to preserve and enhance the productive capacity of the soil, we also endeavor to improve the crop mix to maximise commercial value of farm produce. In particular, we have now largely phased out the production of barley, mostly replaced by wheat, and the growing of peas, still representing 12% of the 2010 crop. Finally, the consolidation of Ukrros farms has introduced sugar beet in our crop mix, which we plan to continue on planting and expanding in order to increase self-sufficiency in feedstock for our sugar plants.

Farming EBITDA

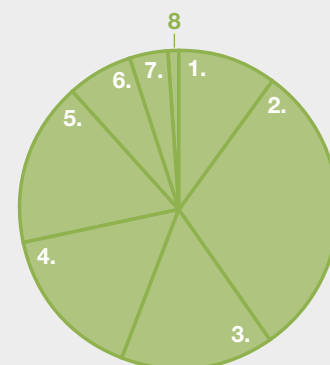
(USD/ha of land available for cultivation at beginning of season)



Kernel crop mix, harvest 2011

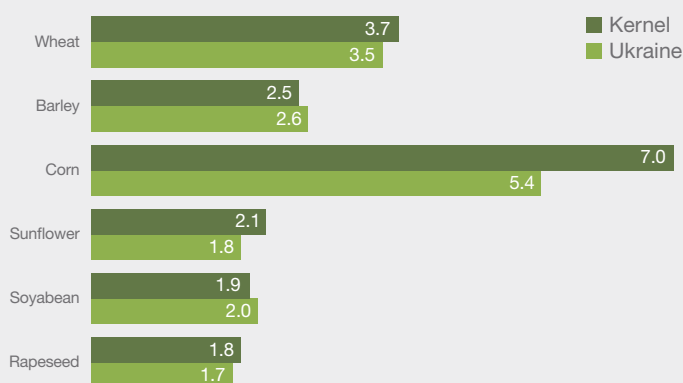
(% of land cultivated, including Ukrros farms)

1. Sugarbeet	10.2%
2. Wheat	30.3%
3. Corn	15.5%
4. Sunflower seed	15.7%
5. Soyabean	16.6%
6. Barley	6.5%
7. Rapeseed	3.9%
8. Peas	1.3%



Crop yields, harvest 2011

(tons/ha)



- Kernel yields based on net weight
- Ukraine yields based on bunker weight
- Corn, sunflower seed and soyabean yields are Kernel estimates



Anastasiia Usachova
Chief Financial Officer

For the year ending 30 June 2011, Kernel Holding S.A. (hereinafter ‘the Company’) had revenue of USD 1,899 million, operating profit of USD 277 million and net profit of USD 226 million.

Significantly higher year-on-year results were primarily driven by the bulk oil segment, as a result of crushing capacity expansion and rising prices for sunflower oil, and by the grain segment, as a result of higher margins created by the grain export restrictions and achieved on export volumes allocated to the Company by the government.

Overview

For the year ending 30 June 2011, Kernel Holding S.A. (hereinafter ‘the Company’) had revenue of USD 1,899,118 thousand, operating profit of USD 277,268 thousand and net profit of USD 226,047 thousand. Significantly higher year-on-year results were primarily driven by the bulk oil segment, as a result of crushing capacity expansion and rising prices for sunflower oil, and by the grain segment, as a result of higher margins created by the grain export restrictions and achieved on export volumes allocated to the Company by the government. Performance of inland silos and export terminals, also limited by the grain export limitations over season 2010/2011, was satisfactory. Performance of the farming segment improved year-on-year primarily as a consequence of the year-on-year increase in agricultural commodity prices.

The Company’s revenue and profit in financial year 2011 are derived from six operating segments:

- *Bulk sunflower oil* – The bulk sunflower oil segment contributed USD 1,157,874 thousand in revenue (58.0% of the Company’s total revenue, being the sum of external revenue and intersegment sales) and USD 165,764 thousand in operating profit to the Company;
- *Bottled sunflower oil* – The bottled sunflower oil segment contributed USD 152,101 thousand in revenue (7.6% of the Company’s total revenue, being the sum of external revenue and intersegment sales) and USD 24,500 thousand in operating profit to the Company;
- *Grain* – The grain segment contributed USD 571,143 thousand in revenue (28.6% of the Company’s total revenue, being the sum of external revenue and intersegment sales) and USD 65,320 thousand in operating profit to the Company;
- *Silo services* – The silo services segment contributed USD 26,596 thousand in revenue (1.3% of the Company’s total revenue, including intersegment sales) and USD 4,759 thousand in operating profit to the Company;
- *Export terminals* – The export terminals segment contributed USD 33,024 thousand in revenue (1.7% of the Company’s total revenue, including intersegment sales) and USD 14,311 thousand in operating profit to the Company;
- *Farming* – The farming segment contributed USD 54,672 thousand in revenue (2.7% of the Company’s total revenue, including intersegment sales) and USD 22,783 thousand in operating profit to the Company.

In financial year 2011, the Company handled 3.8 million tons of grain and oil-bearing crops. Rapeseed, soyabean and grain, mostly wheat, barley and corn, were primarily exported and sold on the international market. Sunflower seed procured and, to a small extent, produced by the Company totalled 2.0 million tons and was processed at Company crushing plants into sunflower oil and meal. Oil was either exported in bulk or sold in bottled format, primarily on the domestic market. In financial year 2011, export sales accounted for 89% of the Company’s sales.

ROE (Net profit to total equity)

2011	23%
2010	25%
2009	37%
2008	19%

Intersegment transactions

Due to the high level of vertical integration within the Company's operations, a number of transactions take place between segments of the Company and are eliminated in the Company's consolidated statement of comprehensive income. In particular, farming sells most of its produce to the grain and oil segments, for further marketing on the international market or processing in Company crushing plants, and silos and export terminals provide a significant portion of their services to the Group. In financial year 2011, farming intersegment sales totalled USD 50,363 thousand, accounting for 92.1% of total farming segment revenue, silo services intersegment sales totalled USD 16,075 thousand, accounting for 60.4% of total silo services revenue, and export terminals segment intersegment sales totalled USD 29,854 thousand, accounting for 90.3% of total export terminals segment revenue.

In order to reflect the profitability of each segment, goods or services are sold between segments on an arms-length basis and at market prices. Intersegment sales are conducted and accounted for as follows:

- *Export terminals* – For services provided by the export terminals segment, the grain or bulk oil segments pay the same price as third parties and the transaction is recorded as revenue for the export terminals segment and as cost of goods sold for the grain or bulk oil segments
- *Silo services* – For services provided by the Company's silos, the bottled sunflower oil, bulk sunflower oil or grain segments pay the same price as third parties and the transaction is recorded as revenue for the silo services segment and as cost of goods sold for the bottled sunflower oil, bulk sunflower oil or grain segment;
- *Farming* – For goods provided by the farming segment, the bottled sunflower oil, bulk sunflower oil or grain segments pay the same price as third parties and the transaction is recorded as revenue for the farming segment and cost of goods sold for the bottled sunflower oil, bulk sunflower oil or grain segment

Acquisitions

The Company effected the following acquisitions in the course of financial year 2011:

- In October 2010, the Company purchased a farming enterprise for a total cash consideration of USD 1.6 million and no debt. Assets acquired in the transaction include leasehold rights on 2.3 thousand ha of land, farming equipment, inventory and working capital in form of biological assets
- In March 2011, the Company entered into an option to purchase a 71% controlling interest in Ukrros, a farming enterprise, for a cash consideration of USD 40 million and c. USD 100 million in debt. While the call option was exercised on 26 August 2011, following approval of the transaction by the Antimonopoly Committee of Ukraine, Ukrros was fully consolidated as of 30 June 2011. Assets acquired include leasehold rights on 100 thousand ha of land, farming equipment, 87 thousand tons of grain storage capacity, and 22 thousand tons per day of sugar beet processing capacity
- In April 2011, the Company purchased a farming enterprise for a total cash consideration of USD 2.5 million and no debt. Assets acquired in the transaction include leasehold rights on 2.9 thousand ha of land, farming equipment, inventory and working capital
- In June 2011, the Company entered into an option agreement to purchase a 100% interest in Black Sea Industries, a company whose primary asset is a crushing plant in Illichevsk, Ukraine. The transaction, valued at USD 140 million on a debt-free and cash-free basis, was approved by the Antimonopoly Committee of Ukraine in September 2011 and will be consolidated in financial year 2012. Acquisition of Black Sea Industries was partially financed through a USD 54 million loan granted by the Company (details of the transaction are set out in note 28 to the financial statements).

Following the close of financial year 2011, the Company also entered into the following transaction:

- In August 2011, the Company purchased Russian Oils for a cash consideration of USD 15 million and debt denominated in RUB, equivalent to USD 53 million. The primary assets of Russian Oils are three crushing plants located in south Russia and totalling 400,000 of oilseed crushing capacity per year.

Capital increase

On 30 March 2011, Kernel announced its intention to raise capital to finance the Company's growth strategy and acquisition pipeline. The offering was well received by investors and raised USD 140 million for the Company through placement of 5,400,000 shares at a price of PLN 74 (equivalent to USD 25.96) per share. For the purpose of settlement and to ensure that allottees in the offering could receive and trade their allocations immediately after settlement, shares in the Company were lent by Namsen Limited, a major shareholder in Kernel Holding S.A. and the investment vehicle of Andrey Verevskiy, and returned following the Extraordinary shareholder meeting of the Company held on 21 July 2011 and subsequent capital increase and new share issue.

Financial Review (continued)

Revenue

+86% (FY2010: \$1,020m)

\$1,899m

Revenue

The Company's total revenue for financial year 2011 was USD 1,899,118 thousand in 2011, compared to USD 1,020,471 thousand in 2010, an 86% year-on-year increase.

The following table presents the Company's revenues by operating segment (including intersegment sales) for financial years 2010 and 2011:

	2011		2010		Change from 2010 to 2011
	(USD'000)	Percentage of total revenue	(USD'000)	Percentage of total revenue	
Operating segment revenue, including intersegment revenue					
Bottled sunflower oil	152,101	7.6%	112,627	10.2%	35.1%
Sunflower oil in bulk	1,157,874	58.0%	400,698	36.4%	189.0%
Export terminals	33,024	1.7%	53,732	4.9%	(38.5)%
Farming	54,672	2.8%	41,710	3.8%	31.1%
Grain	571,143	28.6%	466,462	42.4%	22.5%
Silo services	26,596	1.3%	24,715	2.3%	7.6%
Reconciliation	(96,292)		(79,473)		
Total revenue	1,899,118		1,020,471		86.1%

Bottled sunflower oil

Revenue from bottled sunflower oil sales was USD 152,101 thousand in 2011, as compared to USD 112,627 thousand in 2010. The 35.1% increase in sales reflects primarily the year-on-year increase in the average price for bottled sunflower oil products. Volume of sales was 118 million litres for the year under review, remaining mostly flat year-on-year.

Bulk sunflower oil

Revenue from sales of bulk sunflower oil was USD 1,157,874 thousand in 2011, as compared to USD 400,698 thousand in 2010, a 189.0% increase over the period attributable to the 124.4% increase in the volume of bulk oil sales contracts executed over the period, increasing year-on-year from 366,000 tons to 821,000 tons in 2011 as a result of crushing capacity expansion, and to oil and meal price increases throughout the season.

Export terminals

Revenue generated by export terminals was USD 33,024 thousand, as compared to USD 53,732 thousand in 2010. The 38.5% year-on-year decrease is primarily a consequence of the grain export restrictions, resulting in throughput decreasing in aggregate from 3.3 million tons to 2.1 million tons. With grain exporters not entering grain throughput contracts due to restrictions on export, Company export terminals serviced primarily the Group, resulting in USD 29,854 thousand of intersegment sales, equivalent to 90.3% of total revenue generated by terminals.

Farming

Farming revenue for the period under review was USD 54,672 thousand, as compared to USD 41,710 thousand in financial year 2010, a 31.1% increase attributable primarily to the year-on-year increase in crop prices. Actual farm production decreased from 269,000 tons of grain and oil-bearing crops in 2009 to 218,000 tons in 2010, an 18.8% year-on-year decline due to lower crop yields. As most farm production is sold to other segments of the Group, intersegment sales totalled USD 50,363 thousand, equivalent to 92.1% of the segment's revenue.

Grain

The Company's grain segment revenue was USD 571,143 thousand in 2011, as compared to USD 466,462 thousand in 2010, an increase of 22.5% primarily attributable to the increase in grain prices over the season. In volume terms, largely as a consequence of grain export limitations, the Company sold 1,810,000 tons of grain in 2011 as compared to 2,225,000 tons in 2010, an 18.7% decrease.

Silo services

Revenue from the silo services segment remained relatively stable at USD 26,596 thousand (USD 16,075 thousand attributable to intersegment sales) in 2011, compared to USD 24,715 thousand (USD 11,924 thousand attributable to intersegment sales) in 2010. Grain throughput remained mostly unchanged at 1,254,000 tons for the season.

EBITDA
+63% (FY2010: \$190m)

\$310m

Net profit
+49% (FY2010: \$152m)

\$226m

Gross profit

Gross profit was USD 459,527 thousand in 2011, as compared to USD 311,057 thousand in 2010, representing an increase of 47.7% over the period, primarily attributable to the increase in revenue from bulk oil and grain. The Company's gross profit margin decreased over the period from 30.5% in 2010 to 24.2% in 2011, primarily as a consequence of the higher price of sunflower seed relative to oil and the resulting lower margin achieved in the bulk and bottled oil businesses.

Other operating income

Other operating income increased from USD 17,547 thousand in 2010 to USD 26,192 thousand in 2011, of which USD 24,189 thousand were attributable to the farming segment and resulting from a USD 16,290 thousand increase in the fair value of the Company's biological assets due to year-on-year agricultural price increases, and USD 7,899 thousand in VAT payment exemptions.

Distribution costs

Distribution costs were USD 170,281 thousand in 2011 as compared to USD 134,388 thousand in 2010, representing an increase of 26.7% over the period.

General and administrative expenses

General and administrative expenses increased from USD 26,732 thousand in 2010 to USD 38,170 thousand in 2011, a 42.8% year-on-year increase following the integration of the Allseeds and Ukrros acquisitions.

Profit from operating activities

Profit from operating activities was USD 277,268 thousand in 2011, as compared to USD 167,484 thousand in 2010, representing a 65.6% year-on-year increase and reflecting primarily the increase in bulk oil sales and the higher margin achieved by the grain segment over the period under review. Operating margin was 14.6% for the period under review, below 2010 margin standing at 16.4%.

The following table provides information relating to the Company's operating profit by segments for the financial years 2011 and 2010, calculated prior allocation of general and administrative expenses related to head office functions supporting all six operating segments:

	2011 (USD'000)	2010 (USD'000)	Change from 2010 to 2011
Operating profit			
Bottled sunflower oil	24,500	22,221	10.3%
Sunflower oil in bulk	165,764	71,784	130.9%
Export terminals	14,311	24,922	(42.6)%
Farming	22,783	14,164	60.9%
Grain	65,320	40,056	63.1%
Silo services	4,759	8,836	(46.1)%
Unallocated G&A expenses	(20,169)	(14,499)	
Total Operating profit	277,268	167,484	65.6%

Bottled sunflower oil

Operating profit from the bottled sunflower oil segment was USD 24,500 thousand in 2011 as compared to USD 22,221 thousand in 2010, representing a 10.3% increase over the period. While operating profit increased in absolute terms, operating margin decreased from 19.73% in financial year 2010 to 16.1% in financial year 2011, primarily as a consequence of government pressure applied on domestic producers to cap prices of bottled oil, hence limiting our ability to pass on to the consumer the rising cost of sunflower seed.

Bulk sunflower oil

Operating profit from the bulk sunflower oil segment was USD 165,764 thousand in 2011 as compared to USD 71,784 thousand in 2010, representing an increase of 130.9% over the period as a result of both an increase in the volume of sales and rising prices for oil and meal over the season. While operating profit increased significantly in absolute terms, operating margin decreased from 17.9% to 14.3% as a result of higher oil prices leading to stronger competition for sunflower seed among crushers.

Export terminals

Operating profit from the Company's export terminals segment was USD 14,311 thousand in 2011 as compared to USD 24,922 thousand in 2010, representing a decrease of 42.6% over the period, primarily due to grain export limitations leading to lower throughput. Operating margin, notwithstanding the lower volumes, decreased only marginally to 43.3% for the period under review, compared to 46.4% in 2010.

Farming

Operating profit from the Company's farming segment was USD 22,783 thousand in 2011 as compared to USD 14,164 thousand in 2010. This increase is attributable primarily to the higher fair market value of biological assets resulting from the increase in agricultural commodity prices at the close of financial year 2011, as compared to agricultural prices at close of 2010. Operating margin for the period under review was 41.7%, compared to 34.0% in 2010, the higher margin in 2011 reflecting largely the higher crop prices.

Interest Coverage Ratio (EBITDA to finance costs)

2011	7.3
2010	8.3
2009	5.9
2008	4.4

Grain

Operating profit from the Company's grain segment was USD 65,320 thousand in 2011 as compared to USD 40,056 thousand in 2010, representing an increase of 63.1% and reflecting higher grain prices over the season and a higher operating margin, increasing from 8.6% in 2010 to 11.4% in 2011 as a result of the discrepancy between domestic and international grain prices created by the grain export restrictions and quotas.

Silo services

Operating profit from the Company's silo services was USD 4,759 thousand in 2011 as compared to USD 8,836 thousand in 2010, representing a decrease of 46.1% over the period. The decrease is primarily attributable to the increased fixed cost base as the Company increased its storage capacity following the consolidation of silos acquired from Allseeds, and lower capacity turnover in view of the lower harvest. As a result, operating margin decreased from 35.8% in 2010 to 17.9% in 2011.

Finance costs, net

Finance costs were USD 42,452 thousand in 2011 as compared to USD 22,784 thousand in 2010, representing an 86.3% increase over the period. This increase is attributable primarily to the higher working capital requirements resulting from the increase in the crush program of the Company and the overall price increase in agricultural commodities handled by the Group.

Net profit

Net profit attributable to equity holders of Kernel Holding S.A. was USD 226,272 thousand in 2011 as compared to USD 152,005 thousand in 2010, a 48.9% year-on-year increase primarily reflecting the significant increase in profits generated by the bulk oil and grain segments.

Gearing Ratio

(Total interest-bearing debt to total equity)

2011	0.42
2010	0.57
2009	0.82
2008	0.58

Cash flows

The following table provides a summary of the Company's cash flows for financial years 2011 and 2010:

	2011 (USD '000)	2010 (USD '000)
Net cash provided by operating activities	56,147	84,796
Net cash used in investing activities	(126,065)	(125,649)
Net cash provided by financing activities	123,551	3,983
Net increase/(decrease) in cash and cash equivalents	52,419	(40,310)

Net cash provided by operating activities

Net cash provided by operations in the period under review was USD 56,147 thousand, compared to USD 84,796 thousand in 2010.

Significant items impacting operating cash flow of the Company in financial year 2011 were the following:

- Trade accounts receivable increased by USD 52,080 thousand, primarily as a result of the overall increase in revenue;
- Taxes recoverable and prepaid increased by USD 1,371 thousand. While cost of goods sold increased twofold year-on-year, increase in taxes recoverable and prepaid was marginal, primarily as a result of the resumption of regular VAT refund by the State of Ukraine;
- The following movements resulted in Advances from customers and other current liabilities decreasing from USD 131,386 thousand as of 30 June 2010 to USD 102,029 thousand as of 30 June 2011:
 - USD 130,536 thousand cash outflow in settlement of current liabilities resulting primarily from the Allseeds acquisition;
 - USD 62,500 thousand increase in current liabilities as a result of the consolidation of Ukrros (note 27 to the financial statements);
 - USD 31,000 thousand increase in current liabilities due in settlement of the Ukrros acquisition.

Net cash used in investing activities

Net cash used in investing activities over the period under review was USD 126,065 thousand, compared to USD 125,649 thousand in 2010.

Significant items impacting investing activities in financial year 2011 were the following:

- USD 44,556 thousand in purchase of property, plant and equipment reflect primarily the final investments necessary for the commissioning of the Bandurka crushing plant, construction of new grain silos and capital expenditure necessary for yearly maintenance;
- USD 66,485 thousand for the purchase of intangible and other non-current assets reflect primarily a loan granted for the acquisition of the Black Sea Industries crushing plant, as disclosed in note 28 to the financial statements.

Borrowings

As of 30 June 2011, the Company had total interest-bearing debt of USD 421,963 thousand, including long-term and short-term borrowings. To finance its operations and development, the Company draws on a combination of bilateral and syndicated pre-export financing ('PXF') lines, typically secured against inventory and export contracts of the Group, and term loans for the financing of general corporate purposes or fixed assets, secured against such assets or guarantees of the Company and its subsidiaries.

The following table provides the total outstanding of short and long-term interest-bearing debt as at 30 June 2010 and 30 June 2011:

	30 June 2011 (USD '000)	30 June 2010 (USD '000)
Total interest-bearing debt	421,963	345,112
Short-term borrowings	234,514	169,098
Current portion of long-term debt	31,392	40,764
Long-term borrowings	152,684	127,454
Obligations under finance lease	3,373	7,796
Total interest-bearing debt	421,963	345,112

As of 30 June 2011, the Company had incurred USD 234,514 thousand of short-term debt to partially finance USD 183,668 thousand of inventory and USD 111,586 thousand of accounts receivable.

Kernel management considers that the following factors, among others, could materially influence the financial results of the Company:

Low harvest of grain or sunflower seed in Ukraine

The Company's operations and results are dependent on a steady supply of raw materials. Unfavourable weather and growing conditions can result in a significantly lower harvest and, consequently, to shortages in sunflower seeds for the oilseed processing activity of the Group or lower grain volumes available for the grain, silo services and export terminals segments, and could have a material adverse effect on the Company's business, results of operations and financial condition.

Product quality

The Company is subject to grain, sunflower oil and protein meal quality requirements and regulations. Actual or alleged violations of such requirements or alleged or actual contamination of the Company's food products could have a material adverse effect on the Company's reputation and its business, financial condition and results of operations.

Export limitations and restrictions

Regulations introduced by the Ukrainian government and concerning agricultural commodities can have a material adverse effect on the Company's business, financial condition and results of operations. In financial year 2011, because of the significant rise in grain prices on the international market, the government of Ukraine introduced grain export quotas. As a result of these grain export limitations, prices for grain on the domestic market were lower than on the international market.

Price controls

Detrimental price controls could be introduced for the Company's key products and affect its operations. Under Ukrainian legislation, local state authorities may regulate prices of certain food products, including crude and bottled sunflower oil. In particular, the local state authorities may from time to time require producers of certain food products, including producers of bottled sunflower oil, to obtain approval from the local officers of the State Prices Inspection before increasing the wholesale prices of such products by more than 1% in any given month.

Furthermore, the Cabinet of Ministers of Ukraine has introduced in the past a procedure for the determination of prices of food products, which are subject to state regulation. This procedure provides a formula for the calculation of wholesale prices of food products and profits from such sales and it seeks to limit the profit margin charged on such products. If detrimental price controls were introduced for the Company's key products or the Company failed to comply with the Ukrainian price regulation mechanism described above, its business, results of operations and financial condition could be materially adversely affected.

Increased competition

The Company could face increased competition from current and new operators in the Ukrainian agricultural industry. As the Ukrainian agricultural sector develops and crop production increases, farmers grow stronger and expand their acreage, grain traders and crushers see opportunities to expand business, which could lead to a relative loss in market position of the Company, and could have a material adverse effect on the Company's business, financial condition and results of operations.

Commodity price volatility

Most of the products procured, processed and sold by the Company are widely-traded agricultural commodities, the prices of which can be subject to significant fluctuations in a short time span. Such price movements could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's earnings are to an extent dependent on the prices of the commodities that it sells, including, amongst others, oil-bearing crops, grain, sunflower oil and meal. These fluctuate due to factors beyond the Company's control, including, amongst others, world supply and demand, supply of raw materials, weather, crop yields and governmental regulation. In addition, the price of vegetable oils depends on the production levels and prices of all edible oils as many oils, including sunflower oil, are substitutive by users to various degrees. Any of the above factors could adversely affect the Company's business, results of operations and financial condition.

Further risks identified by the Company include:

- A prolonged period of weak economic growth, either globally or in the Company's key markets
- The risk of protracted weakness or volatility in agriculture commodity prices
- Failure to manage continued growth through acquisitions
- Any loss or diminution in the services of Mr. Andrey Verevskiy, Kernel Holding S.A.'s Chairman of the Board
- The risk that changes in assumptions underlying the carrying value of certain assets, including as a result of adverse market conditions, could result in impairment of tangible and intangible assets, including goodwill
- The risk that significant capital expenditure and other commitments Kernel Holding S.A. has made in connection with acquisitions may limit its operational flexibility and add to its financing requirements
- Economic policy, political, social and legal risks and uncertainties in certain countries in which Kernel Holding S.A. operates or proposes to operate
- The risk of disruptions to Kernel Holding S.A.'s manufacturing operations
- Damage to Kernel Holding S.A.'s production facilities due to natural disasters
- The risk that Kernel Holding S.A.'s insurance policies may provide inadequate coverage
- The risk of product liability claims
- The risk of potential liabilities from investigations, litigation and fines regarding antitrust matters
- The risk that Kernel Holding S.A.'s governance and compliance processes may fail to prevent regulatory penalties or reputational harm, both at operating subsidiaries and joint ventures
- The risk of unfavourable changes to, or interpretations of, the tax laws and regulations in the countries in which Kernel Holding S.A. operates

Board of Directors

The Board of Directors is composed of six directors, of whom two are independent directors. The directors presently serving on the Board are the following:



1. Andrey Verevskiy
Chairman of the Board

Was appointed director of the Company on 21 September 2007 and has served as Chairman of the Board since then. Mr. Verevskiy founded the Group's business in 1995. Since 1995 he has held various executive positions within the Group and today focuses on and oversees the strategic development and overall management of the Group. As of 30 June 2011, he indirectly owns 40.96% of the Company. Mr. Verevskiy graduated from the Ukrainian Agrarian University with a degree in agronomy in 2004 and speaks fluent Russian, Ukrainian and English. Since 2002, Mr. Verevskiy has served as a member of the Ukrainian Parliament.



2. Patrick Conrad

Was appointed director of the Company on 21 September 2007. Mr. Conrad has served as a director of Inerco Trade SA, a subsidiary of the Group, since 2003, and today oversees investor relations for the Group. Prior to joining the Group, Mr. Conrad served as the head of corporate banking of HVB Bank Ukraine. Mr. Conrad graduated from HEC Lausanne University, Switzerland, with a degree in economics. Mr. Conrad speaks fluent French, Russian and English.



3. Victoriia Lukyanenko

Was appointed director of the Company on 21 September 2007. Ms. Lukyanenko has served as a lawyer for the Group since 2002, and today oversees the Group's corporate and legal issues. Prior to joining the Group, Ms. Lukyanenko held senior legal positions with various companies in Ukraine. In 1998 and 1999, Ms. Lukyanenko also served as a leading specialist at the legal department for licensing and registration of the Licence Chamber of Ukraine. Ms. Lukyanenko graduated from the Kiev T. Shevchenko National State University with a diploma in law in 1998 and became a member of the Ukrainian bar in 2003. Ms. Lukyanenko speaks fluent Russian, Ukrainian and English.

4. Anastasiia Usachova
Chief Financial Officer

Was appointed director of the Company on 21 September 2007. Ms. Usachova has served the Group since 2003, and today oversees the Group's financial reporting, auditing, budgeting, financial planning and risk assessment. Prior to joining the Group in 2003, Ms. Usachova served for eight years as the chief financial officer of United Grain Group, a Ukrainian-based grain trading company. Ms. Usachova graduated from the faculty of physics and mathematics of the Poltava University in 1993 and from the High School of Entrepreneurship of the Kiev Economic University with a diploma in international business administration in 1994. In 2000, Ms. Usachova completed the Russian Government's Finance Academy programme on practical finance management for finance and credit. In 2006, Ms. Usachova was awarded the certified financial manager/certified management accountant certification by the Institute of Management Accountants in the United States of America. Ms. Usachova speaks fluent Russian, Ukrainian and English.



5. Ton Schurink

Was appointed as an independent director of the Company on 12 October 2007. Mr. Schurink is a senior executive with extensive experience in trading commodities, risk management, barter, shipping, financial trading and trade and structured finance acquired during a 32-year career with Cargill. In 2001 he founded his own consulting company, CFT Advisory Services, which focuses on overlaps between commodities, finance and trading. In 2008 Mr. Schurink founded with other partners CFT Services & Partners SA. Mr. Schurink is also Board member of Navemar SA in Fribourg and Oceana SA in Chur, Amtrada Holding in Amsterdam and Banque Cantonale de Geneve. He is working with several trading companies, mainly on risk management issues. Recently he worked closely with a bank and liquidator in the bankruptcy of a trading company. Mr. Schurink is a graduate from Nijenrode Business School in The Netherlands and INSEAD Advance Management Programme in Fontainebleau, France. He holds both Dutch and Swiss passports.



6. Andrzej Danilczuk

Was appointed as an independent director of the Company on 12 October 2007. Mr. Danilczuk is a senior executive with over 20 years' experience in business development, trading and marketing of agri-commodities. He currently works with Koepta Brokers SARL in Geneva, Switzerland, which specialises in brokerage of grains, oilseeds and vegetable oil in the Black Sea region. Mr. Danilczuk started his career in 1991 at Louis Dreyfus Negoce SA where he reached the position of Vice President responsible for creating and co-managing all Louis Dreyfus agribusiness activities in Ukraine, Kazakhstan and Uzbekistan. He was specifically involved in the creation and management of an efficient origination network in Ukraine, trading, risk management, investments and long-term strategic planning. From 2005 till 2007 he worked as General Director of Nastyusha Paris S.A.S. a Russian-owned grain company, trading wheat of Kazakh and Russian origin. In 2007 Mr. Danilczuk joined Risoil S.A. Geneva as General Manager in charge of trading grains and oilseeds of Ukrainian, Bulgarian and Russian origin. Mr. Danilczuk has the rare know-how which combines a very good understanding of western corporate culture and modus operandi with a deep knowledge of local culture and business practices in the Black Sea region. Mr. Danilczuk is a graduate of the Moscow State Institute for International Relations. He is a Polish citizen.



Kernel Holding S.A. (hereinafter 'the Company') is a public company listed on the Warsaw Stock Exchange and registered in Luxembourg. The Company declares that it follows the non-binding Principles of Corporate Governance as established by the Luxembourg Stock Exchange in October 2009.

1) Board of Directors

a) Composition of the Board

- i) The Articles of Association of the Company ('STATUTS COORDONNES') provide that the Board of Directors is composed of at least three directors. The present Board is composed of six Directors.
- ii) The Articles of Association further stipulate that at least two directors must be independent from the corporation, affiliates of the corporation and shareholders holding at least five per cent of total votes in the corporation. The present Board is composed of two independent Directors and four Directors either employed by Subsidiaries of the Company or holding over five per cent of votes in the Company.
- iii) The Company follows the independence criteria outlined in Annex II of the European Commission Recommendation of 15 February 2005 to assess the independence of a director. The Company declares that the independent directors:
 - (1) are not an executive director (or manager) of the Company or an associated company, and have not been in such a position for the previous five years;
 - (2) are not employees of the Company or an associated company, and have not been in such a position for the previous three years;
 - (3) do not receive, and have not received, significant additional remuneration from the Company or an associated company apart from a fee received as an independent director;
 - (4) are not and do not represent in any way a strategic shareholder with a 10% or greater holding;
 - (5) do not have, and have not had within the last financial year, a significant business relationship with the company or an associated company, either directly or as a partner, shareholder, director or senior employee of a body having such a relationship;
 - (6) are not, and have not been in the last three years, a partner or employee of the present or former external auditor of the Company or an associated company;
 - (7) are not executive directors (or managers) in another company in which an executive director (or manager) of the company is an independent director, and do not have other significant links with executive directors (or managers) of the company due to positions held in other companies or bodies;
 - (8) have not served on the board or supervisory board as independent (or supervisory) directors for more than twelve years; and
 - (9) are not close family members of an executive director or manager;
- iv) All six Directors were re-elected to the Board by the shareholders at the general meeting of shareholders held on 15 November 2010:
 - (1) Mr. Andrey Verevskiy was re-elected Chairman of the Board of Directors for a five-year term by the shareholders at the general meeting of shareholders held on 15 November 2010;

- (2) Mr. Andrzej Danilczuk and Mr. Ton Schurink, both independent Directors, were re-elected to the Board for a one-year term by the shareholders at the general meeting of shareholders held on 15 November 2010;
- (3) Mrs. Viktoriia Lukianenko, Mrs. Anastasiia Usachova and Mr. Patrick Conrad were re-elected to the Board for a three-year term by the shareholders at the general meeting of shareholders held on 15 November 2010.

b) Meetings

The Board of Directors convenes primarily by conference call, as provided for in the Articles of the Company. Prior to release of financial statements of the Company, the Board will convene to review the results, including issues relating to general policy and strategy of the Company. The Board of Directors will also meet to review and approve the budget of the Company for the next financial year, and review the long-term strategic development plan of the Company.

c) Evaluation of the Board

To date, the Board has primarily contributed to review the financial reports of the Company prior their release and, as appropriate, to review the general strategy of the Group. Senior officers holding executive positions in various Subsidiaries of the Group are responsible for overall and daily management. Going forward, functions of the Board will include review and approval of the budget for the next financial year and review of the long-term strategic development of the Company.

d) Voting procedure of the Board

The Articles of Association of the Company provide that decisions will be taken by a majority vote of the directors present. In the event that the number of votes for and against shall be equal, the Chairman of the meeting will not have a casting vote and the proposed decision is considered rejected. Articles of Association of the Company also stipulate that resolutions can also be taken by circular letter, but only if adopted unanimously.

2) Board of Directors Committees

a) Audit Committee

- i) The primary function of the Audit Committee is to assist the Board of Directors in reviewing the financial reports and other financial information available, and, generally, in reviewing and assessing the auditing, accounting and financial reporting processes of the Company.
- ii) The Audit Committee is composed of all Directors of the Board. The need to appoint specific directors to the Audit Committee will be assessed annually by the Board.
- iii) To date, the Audit Committee has convened in the context of general Board meetings. The present operating mode of the Audit Committee and, in particular, the need to operate separately from Board meetings, will be reviewed annually by the Board.

b) Remuneration Committee

- i) The primary function of the Remuneration Committee is to assist the Board of Directors in establishing criteria and remuneration procedures for Directors, and in considering any remuneration for Directors.
- ii) The Remuneration Committee is composed of all Directors of the Board. The need to appoint specific directors to the Remuneration Committee will be assessed annually by the Board.

c) Nomination Committee

- i) The primary function of the Nomination Committee is to assist the Board of Directors in establishing criteria and procedures for nomination of Directors, and in considering any candidate for appointment or reappointment to the Board of Directors.
- ii) To date, as no changes have occurred in Directors of the Company since the Company became a publicly-listed company, the Board has not considered necessary to establish a Nomination Committee. The need to establish such committee will be assessed annually by the Board.

3) Executive Management

Kernel Holding S.A. is managed by a Board of Directors and by the senior executive officers employed by Subsidiaries of the Group and responsible for each of the operating segments and each of the support function of the Group.

4) Compensation

Details of Directors compensation is set out in Note 28 to the financial statements.

5) Ownership Structure

- a) Kernel Holding S.A. is a publicly-listed company, the shares of which are held primarily by institutional investors and by Namsen Limited, a Cyprus investment vehicle, whose beneficial owner is Andrey Verevskiy, Chairman of the Board.
- b) As at 30 June 2011, Namsen Limited held 30,174,250 shares in the Company, equivalent to 40.46% of voting rights in the Company.
- c) On 6 April 2011, Comgest S.A. on behalf of its clients (Investment and Advisory Agreements) notified the Company that the threshold of 5% of the voting rights in Kernel Holding S.A. was crossed. No further notification has been received from Comgest S.A. by the Company.

Statement of Management Responsibilities

for the year ended 30 June 2011

The Management of Kernel Holding S.A. and its Subsidiaries (Kernel Group or Group) is responsible for preparing the consolidated financial statements which reflect in all material aspects the financial position of the Kernel Group as at 30 June 2011, as well as the results of its activities, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

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

The Kernel Group's Management is also responsible for:

- development, implementation and control over effective and reliable internal control systems for the Group;
- keeping accounting records in compliance with the legislation and accounting standards of the respective country, in which Kernel Subsidiaries are registered;
- taking reasonable steps within its cognisance to safeguard the assets of the Group; and
- detecting and preventing from fraud and other irregularities.

These consolidated financial statements as at 30 June 2011 were prepared in compliance with IFRS and are approved by the Group's Management on 20 October 2011.

On behalf of the Management:

Andrey Verevskiy

Chairman of the Board

Anastasiia Usachova

Chief Financial Officer

This statement is provided to confirm that to the best of our knowledge the consolidated financial statements for the year ended 30 June 2011 and the comparable information have been prepared in compliance with IFRS and give a true, fair and clear view of Kernel Holding S.A. assets, financial standing and net results and that the directors' report on the operations of Kernel Group of companies truly reflects the development, achievements and situation of the Group, including a description of the key risk factors and threats.

This statement is provided to confirm that Reviseur d'Entreprises TEAMAUDIT S.A. have been appointed in accordance with the applicable laws and performed the review of the consolidated financial statements of Kernel Holding S.A. for the year ended 30 June 2011, and that the entities and the accountants performing the audit met the conditions necessary to issue an impartial and independent audit report in accordance with International Standards on Auditing.

20 October 2011

On behalf of the Management

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

To the shareholders of Kernel Holding S.A.
65, Boulevard Grande-Duchesse Charlotte
L-1331 Luxembourg

Report of the Réviseur d'Entreprises Agréé

Report on the Consolidated Financial Statements

Following our appointment, we have audited the accompanying consolidated financial statements of KERNEL HOLDING S.A. which comprise the consolidated statement of financial position as at 30 June, 2011 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises Agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the réviseur d'entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risks assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of KERNEL HOLDING S.A. as of 30 June, 2011, of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, 24 October 2011

TEAMAUDIT S.A.

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

Represented by



Jean Zeimet

Réviseur d'Entreprises Agréé

Selected Financial Data

for the year ended 30 June

Overview
Business Review
Corporate Governance
Financial Statements

(in thousands unless otherwise stated)

	Thousand USD		Thousand PLN		Thousand EUR	
	2011	2010	2011	2010	2011	2010
I. Revenue	1,899,118	1,020,471	5,538,398	3,010,594	1,394,536	735,045
II. Profit from operating activities	277,268	167,484	808,597	494,112	203,600	120,639
III. Profit before income tax	208,418	151,593	607,810	447,231	153,043	109,193
IV. Net profit	226,047	151,701	659,222	447,549	165,988	109,270
V. Net cash provided by operating activity	56,147	84,796	163,741	250,165	41,229	61,079
VI. Net cash used in investing activity	(126,065)	(125,649)	(367,643)	(370,690)	(92,571)	(90,505)
VII. Net cash provided by financing activity	122,337	543	356,771	1,602	89,833	391
VIII. Total net cash flow	52,419	(40,310)	152,869	(118,923)	38,491	(29,035)
IX. Total assets	1,561,886	1,124,773	4,297,842	3,818,154	1,078,072	920,964
X. Current liabilities	394,990	352,161	1,086,894	1,195,445	272,637	288,349
XI. Non-current liabilities	169,606	167,721	466,705	569,346	117,068	137,330
XII. Issued capital	1,945	1,933	5,352	6,562	1,343	1,583
XIII. Total equity	997,290	604,891	2,744,243	2,053,363	688,367	495,285
XIV. Weighted average number of shares	74,684,398	69,070,178	74,684,398	69,070,178	74,684,398	69,070,178
XV. Profit per ordinary share (in USD/PLN/EUR)	3.03	2.20	8.84	6.49	2.22	1.59
XVI. Diluted number of shares	75,572,177	73,891,365	75,572,177	73,891,365	75,572,177	73,891,365
XVII. Diluted profit per ordinary share (in USD/PLN/EUR)	2.99	2.06	8.73	6.07	2.20	1.48
XVIII. Book value per share (in USD/PLN/EUR)	13.01	8.71	35.80	29.58	8.98	7.13
XIX. Diluted book value per share (in USD/PLN/EUR)	12.86	8.15	35.38	27.65	8.87	6.67

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Financial Position

as at 30 June 2011

(in US dollars and in thousands unless otherwise stated)	Notes	30 June 2011 audited	30 June 2010 audited
ASSETS			
Current assets			
Cash	5	115,897	59,482
Trade accounts receivable, net	6, 28	111,586	65,483
Prepayments to suppliers and other current assets, net	7, 28	81,334	94,233
Taxes recoverable and prepaid, net	8	221,274	205,584
Inventory	9	183,668	147,787
Biological assets	10	95,961	26,131
Total current assets		809,720	598,700
Non-current assets			
Property, plant and equipment, net	11	502,752	379,035
Intangible assets, net	12	65,563	31,842
Goodwill	13	85,989	86,058
Other non-current assets	14, 28	97,862	29,138
Total non-current assets		752,166	526,073
Total assets		1,561,886	1,124,773
LIABILITIES AND EQUITY			
Current liabilities			
Trade accounts payable	28	27,055	10,913
Advances from customers and other current liabilities	15, 28	102,029	131,386
Short-term borrowings	16	234,514	169,098
Current portion of long-term borrowings	17	31,392	40,764
Total current liabilities		394,990	352,161
Non-current liabilities			
Long-term borrowings	17	152,684	127,454
Obligations under finance lease	18	3,373	7,796
Deferred tax liabilities	19	13,396	32,376
Other non-current liabilities		153	95
Total non-current liabilities		169,606	167,721
Equity attributable to Kernel Holding S.A. equity holders			
Issued capital		1,945	1,933
Share premium reserve		321,556	317,741
Subscribed capital		137,354	–
Additional paid-in capital		39,944	39,944
Revaluation reserve		15,049	11,260
Translation reserve		(162,152)	(160,622)
Retained earnings		617,878	391,606
Total equity attributable to Kernel Holding S.A. equity holders		971,574	601,862
Non-controlling interest		25,716	3,029
Total equity		997,290	604,891
Total liabilities and equity		1,561,886	1,124,773
Book value		971,574	601,862
Weighted average number of shares	33	74,684,398	69,070,178
Book value per share (in USD)		13.01	8.71
Diluted number of shares	33	75,572,177	73,891,365
Diluted book value per share (in USD)		12.86	8.15

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Income Statement

for the year ended 30 June 2011

Overview
Business Review
Corporate Governance
Financial Statements

	Notes	Year ended 30 June 2011 audited	Year ended 30 June 2010 audited
(in US dollars and in thousands unless otherwise stated)			
Revenue	20, 28	1,899,118	1,020,471
Cost of sales	21, 28	(1,439,591)	(709,414)
Gross profit		459,527	311,057
Other operating income	22	26,192	17,547
OPERATING EXPENSES			
Distribution costs	23, 28	(170,281)	(134,388)
General and administrative expenses	24, 28	(38,170)	(26,732)
Profit from operating activities		277,268	167,484
Finance costs, net	25, 28	(42,452)	(22,784)
Foreign exchange gain, net		1,723	10,957
Other expenses, net	26, 28	(28,121)	(4,064)
Profit before income tax		208,418	151,593
Income tax benefit	19	17,629	108
Net profit		226,047	151,701
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
Equity holders of Kernel Holding S.A.		226,272	152,005
Non-controlling interest		(225)	(304)
Weighted average number of shares	33	74,684,398	69,070,178
Profit per ordinary share (in USD)		3.03	2.20
Diluted number of shares	33	75,572,177	73,891,365
Diluted profit per ordinary share (in USD)		2.99	2.06

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Year ended 30 June 2011 audited	Year ended 30 June 2010 audited
(in US dollars and in thousands unless otherwise stated)		
Net profit	226,047	151,701
OTHER COMPREHENSIVE INCOME		
Exchange differences on translating foreign operations	(1,273)	1,532
Gain on property revaluation	–	15,154
Income tax related to components of other comprehensive income	3,789	(3,789)
Other comprehensive income, net	2,516	12,897
Total comprehensive income	228,563	164,598
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Equity holders of Kernel Holding S.A.	228,531	164,806
Non-controlling interest	32	(208)

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

Overview
Business Review
Corporate Governance
Financial Statements

(in US dollars and in thousands unless otherwise stated)	Attributable to Kernel Holding S.A. shareholders							Total	Non-controlling interest	Total equity
	Issued capital	Share premium reserve	Subscribed capital	Additional paid in capital	Re-valuation surplus	Translation reserve	Retained earnings			
Balance as at 30 June 2009 (audited)	1,815	236,637	-	39,944	-	(162,163)	239,601	355,834	1,629	357,463
Profit for the period	-	-	-	-	-	-	152,005	152,005	(304)	151,701
Other comprehensive income	-	-	-	-	11,260	1,541	-	12,801	96	12,897
Total comprehensive income for the period	-	-	-	-	11,260	1,541	152,005	164,806	(208)	164,598
Effect of changes of non-controlling interest	-	-	-	-	-	-	-	-	1,608	1,608
Increase of share capital	118	-	-	-	-	-	-	118	-	118
Issued capital and IPO expenses	-	81,104	-	-	-	-	-	81,104	-	81,104
Balance as at 30 June 2010 (audited)	1,933	317,741	-	39,944	11,260	(160,622)	391,606	601,862	3,029	604,891
Profit for the period	-	-	-	-	-	-	226,272	226,272	(225)	226,047
Other comprehensive income	-	-	-	-	3,789	(1,530)	-	2,259	257	2,516
Total comprehensive income for the period	-	-	-	-	3,789	(1,530)	226,272	228,531	32	228,563
Effect of changes of non-controlling interest	-	-	-	-	-	-	-	-	22,655	22,655
Subscribed capital	-	-	137,354	-	-	-	-	137,354	-	137,354
Increase of share capital	12	-	-	-	-	-	-	12	-	12
Issued capital	-	3,815	-	-	-	-	-	3,815	-	3,815
Balance as at 30 June 2011 (audited)	1,945	321,556	137,354	39,944	15,049	(162,152)	617,878	971,574	25,716	997,290

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Cash Flows

for the year ended 30 June 2011

(in US dollars and in thousands unless otherwise stated)	Notes	Year ended 30 June 2011 audited
OPERATING ACTIVITIES:		
Profit before income tax		208,418
Adjustments to reconcile profit before income tax to net cash used in operating activities:		
Amortisation and depreciation		32,361
Finance costs, net		42,452
Bad debt expenses and other accruals		2,244
Loss on disposal of property, plant and equipment		4,601
Non-operating foreign exchange loss		1,892
Gain from changes in fair value of biological assets		(16,290)
Gain on sales of equity investments		(495)
Operating profit before working capital changes		275,183
Changes in working capital:		
Increase in trade accounts receivable		(52,080)
Decrease in prepayments and other current assets		18,925
Decrease in restricted cash balance		1,720
Increase in taxes recoverable and prepaid		(1,371)
Decrease in biological assets		3,292
Increase in inventories		(24,889)
Increase in trade accounts payable		4,830
Decrease in advances from customers and other current liabilities		(130,536)
Cash provided by operations		95,074
Finance costs paid		(35,974)
Income tax paid		(2,953)
Net cash provided by operating activities		56,147
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment		(50,272)
Proceeds from disposal of property, plant and equipment		2,174
Purchase of intangible and other non-current assets		(66,485)
Acquisition of Subsidiaries		(11,482)
Net cash used in investing activities		(126,065)
FINANCING ACTIVITIES:		
Proceeds from short-term and long-term borrowings		2,258,100
Repayment of short-term and long-term borrowings		(2,275,730)
Proceeds from issued capital increase		12
Proceeds from share premium reserve increase		3,815
Proceeds from subscribed capital		137,354
Net cash provided by financing activities		123,551
Translation adjustment		(1,214)
Net increase in cash and cash equivalents		52,419
Cash and cash equivalents, at the beginning of the period		57,762
Cash and cash equivalents, at the end of the period	5	110,181

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

Overview
Business Review
Corporate Governance
Financial Statements

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

On behalf of the Board

Andrey Verevskiy
Chairman of the Board

Anastasiia Usachova
Chief Financial Officer

Notes to the Consolidated Financial Statements

for the year ended 30 June 2011

1. Key Data by Operating Segment

Key Data by Operating Segment for the Year Ended 30 June 2011:

(in US dollars and in thousands unless otherwise stated)	Bottled sunflower oil	Sunflower oil in bulk	Export terminals	Farming	Grain	Silo services	Sugar	Other	Reconciliation	Continuing operations
Revenue (external)	152,101	1,157,874	3,170	4,309	571,143	10,521	–	–	–	1,899,118
Intersegment sales	–	–	29,854	50,363	–	16,075	–	–	(96,292)	–
Total revenue	152,101	1,157,874	33,024	54,672	571,143	26,596	–	–	(96,292)	1,899,118
Other operating income	–	574	–	24,189	467	962	–	–	–	26,192
Operating profit (EBIT)	24,500	165,764	14,311	22,783	65,320	4,759	–	(20,169)	–	277,268
Finance costs, net										(42,452)
Foreign exchange gain, net										1,723
Other expenses, net										(28,121)
Income tax benefit										17,629
Net profit										226,047
Total assets	75,324	600,758	110,045	262,250	175,807	99,674	88,615	149,413	–	1,561,886
Capital expenditures	832	18,259	563	17,002	39	9,654	7	2,203	–	48,559
Amortisation and depreciation	1,980	10,087	3,550	8,722	1,099	4,511	–	2,412	–	32,361
Liabilities	2,443	18,898	2,542	40,212	8,615	6,596	34,110	451,180	–	564,596

During the year ended 30 June 2011 one of the Group's external customers accounted for more than 10% of total external revenue. During the year ended 30 June 2011 export sales amounted to 89% of total external sales revenue.

The Group believes that in the financial years ended 30 June 2011 and 2010 the Group operated in one geographical segment, Ukraine, as goods for resale and raw materials for production of finished products were sourced in Ukraine, and operating assets of the Group as of 30 June 2011 and 2010 were located in Ukraine.

Key Data by Operating Segment for the Year Ended 30 June 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)	112,627	400,698	24,086	3,807	466,462	12,791	–	–	1,020,471
Intersegment sales	–	–	29,646	37,903	–	11,924	–	(79,473)	–
Total revenue	112,627	400,698	53,732	41,710	466,462	24,715	–	(79,473)	1,020,471
Other operating income	–	2,468	2	13,353	379	892	453	–	17,547
Operating profit (EBIT)	22,221	71,784	24,922	14,164	40,056	8,836	(14,499)	–	167,484
Finance costs, net									(22,784)
Foreign exchange gain, net									10,957
Other expenses, net									(4,064)
Income tax benefit									108
Net profit									151,701
Total assets	105,089	410,664	120,734	67,486	297,373	81,676	41,751	–	1,124,773
Capital expenditures	12,362	127,825	7,078	3,240	1,458	54,850	7,527	–	214,340
Amortisation and depreciation	2,265	4,887	3,241	8,906	225	2,494	522	–	22,540
Liabilities	4,782	43,177	4,590	2,459	14,378	19,240	431,256	–	519,882

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

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 and sale of bottled sunflower oil, production and subsequent export of bulk sunflower oil and meal, production and sale of sugar, wholesale trade of grain (mainly wheat, barley and corn), farming and provision of logistics and transshipment services.

The majority of the Group's operations are located in Ukraine. The Group's financial year runs from 1 July to 30 June.

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

As of 30 June 2011 and 30 June 2010, the structure of the Group and principal activities of the Subsidiaries consolidated by the Holding were as follows:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of		
			30 June 2011	30 June 2010	
Kernel-Capital LLC	Holding company.	Ukraine	100%	100%	
Group Management LLC		Ukraine	100%	94%	
Etrecom Investments LLC		Cyprus	100%	100%	
Corolex Public Co. Limited		Cyprus	100%	94%	
Grain Trading Company 'Allseeds-Ukraine' CJSC		Ukraine	100%	94%	
Ukragrobiznes LLC		Ukraine	100%	100%	
Jerste BV		Netherlands	100%	100%	
Hamalex Developments Ltd.		Cyprus	100%	100%	
Chorex Developments Limited		Cyprus	100%	100%	
Tsukrovoy Soyuz Ukrros OJSC		Ukraine	71.3%	N/A	
Sugar Holding Limited		Cyprus	100%	N/A	
Inerco Trade S.A.		Trading in sunflower oil, meal and grain.	Switzerland	100%	100%
Inerco Commodities S.A.			Switzerland	100%	100%
Restomon S.A.			British Virgin Islands	100%	100%
Lanen S.A.	Panama		100%	100%	
Grain Trading Company LLC	Ukraine		100%	94%	
Kernel-Trade LLC	Ukraine		100%	100%	
Poltava oil-crushing plant Kernel Group PJS	Production plants. Production of sunflower oil and meal.		Ukraine	99.7%	98.3%
Vovchansky OEP PJSC		Ukraine	99.4%	99.4%	
Prykolotnjansky OEP LLC		Ukraine	100%	100%	
Kirovogradoliya JSC		Ukraine	99.2%	93.2%	
Ekotrans LLC		Ukraine	100%	94%	
Bandurskiy oil-crushing plant LLC		Ukraine	100%	100%	
JE Inerco-Ukraine LLC	Holding company. No significant activity since the date of foundation.	Ukraine	0%*	100%	
Transbulkterminal LLC	Provision of grain, oil and meal handling and transshipment services, including services to the Group.	Ukraine	100%	100%	
Estron Corporation Ltd.		Cyprus	100%	100%	
Oiltransterminal LLC		Ukraine	100%	94%	
Veselynivske ZPP LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	71.3%	N/A	
Reshetylivka Hliboproduct LLC		Ukraine	100%	100%	
Gulyaypolsky Elevator LLC		Ukraine	71.3%	N/A	
Horol-Elevator LLC		Ukraine	0%**	100%	
Mirgorodsky Elevator LLC		Ukraine	100%	100%	
Globynsky Elevator HP LLC		Ukraine	100%	100%	
Skifiya-Zerotrade LLC		Ukraine	100%	94%	
Poltavske Khlipopriemalne Pidpriemstvo PJSC		Ukraine	88.2%	88.2%	
Elevator – 'Grain Trading Company', LLC		Ukraine	100%	94%	
Gogoleve-Agro LLC		Ukraine	100%	99.9%	
Sagaydak-Agro LLC		Ukraine	0%***	100%	
Karlivka-Agro LLC		Ukraine	100%	99.9%	
Trykratskiy GPC JSC		Ukraine	97.7%	86.5%	

* Disposed of on 10 May 2011.

** Merged with Semenivski elevator LLC on 15 December 2010.

*** Merged with Myrporodsky elevator LLC on 27 June 2011.

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

2. Nature of the Business (continued)

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest as of	
			30 June 2011	30 June 2010
Lazorkovsky Elevator LLC		Ukraine	0%****	99.9%
Zherebkivsky Elevator LLC		Ukraine	0%*****	99.9%
Kononivsky Elevator LLC		Ukraine	100%	99.9%
Semenivski Elevator LLC		Ukraine	100%	99.9%
Kobelyaky Hliboproduct LLC		Ukraine	100%	100%
Sahnovshyna Hliboproduct LLC		Ukraine	0%*****	100%
Velykoburlutske HPP LLC		Ukraine	100%	100%
Gutnansky Elevator LLC		Ukraine	100%	100%
Lykhachivsky KHP LLC		Ukraine	100%	100%
Shevchenkisky KHP LLC		Ukraine	100%	100%
Kovyagivske KHP LLC		Ukraine	100%	100%
Viktorovsky Elevator LLC		Ukraine	100%	100%
Poltavaavtotransservis LLC	Trucking company.	Ukraine	100%	100%
MTE-2004 LLC		Ukraine	100%	94%
Chortkivsky tsukrovy zavod LLC	Production plants.	Ukraine	73.8%	N/A
Tsukrove LLC	Production of sugar.	Ukraine	71.3%	N/A
Palmirsky Tsukrovy Zavod LLC		Ukraine	72.7%	N/A
Orzhysky Tsukrovy Zavod LLC		Ukraine	76.2%	N/A
Agroservis LLC	Agricultural farms.	Ukraine	100%	100%
Zernoservis LLC	Cultivation of agricultural	Ukraine	100%	100%
Unigrain-Agro (Globyno) LLC	products: corn, wheat,	Ukraine	100%	100%
Unigrain-Agro (semenivka) LLC	sunflower seeds, barley,	Ukraine	100%	100%
Mrija-Agro LLC	soya beans and sugar beet.	Ukraine	100%	100%
Lozivske HPP PJSC		Ukraine	100%	100%
Krasnopavlivsky KHP PJSC		Ukraine	100%	100%
Agrofirma Arshytsya LLC		Ukraine	100%	100%
Agrotera-Kolos LLC		Ukraine	100%	100%
Chorna Kamyanka LLC		Ukraine	100%	100%
Govtva LLC		Ukraine	100%	100%
Perebudova PRAC		Ukraine	100%	100%
Manzhurka LLC		Ukraine	100%	100%
Krutenke LLC		Ukraine	100%	100%
Promin LLC		Ukraine	100%	100%
Brovarky PRAC		Ukraine	100%	100%
PRAC by the name of Shorsa		Ukraine	100%	100%
Troyanske LLC		Ukraine	100%	100%
Zorya LLC		Ukraine	100%	100%
Hliborob LLC		Ukraine	100%	100%
AC by the name of T. Shevchenko		Ukraine	100%	100%
Druzhba PRAC		Ukraine	100%	100%
Agrofirma Chkalova LLC		Ukraine	100%	100%
Agrofirma Vitshyzna LLC		Ukraine	100%	100%
Agrofirma Vesna LLC		Ukraine	1%	N/A
Osiyivske LLC		Ukraine	100%	N/A
Agrofirma Kuybyshevo LLC		Ukraine	76.2%	N/A
Povstynagroalyans LLC		Ukraine	71.1%	N/A
Ulyanivske LLC		Ukraine	76.2%	N/A
Palmira LLC		Ukraine	81.5%	N/A
Cherkasky OJSC		Ukraine	53.0%	N/A
Agrofirma Zorya LLC		Ukraine	64.1%	N/A
Agrarny dim im. Gorkogo LLC		Ukraine	71.5%	N/A
Agrarny dim CJSC		Ukraine	35.8%	N/A
Druzhba LLC		Ukraine	71.3%	N/A
Agropolis LLC		Ukraine	71.6%	N/A

These consolidated financial statements were authorised for issue by the Board of Directors of Kernel Holding S.A. on 20 October 2011.

**** Disposed of on 10 December 2010.

***** Merged with Kononivky elevator LLC on 8 April 2011.

***** Merged with Kobelyaky Hliboproduct LLC on 11 May 2011.

3. Change in Issued Capital

Since 15 June 2005 the holding company of the Group is Kernel Holding S.A. (Luxembourg) (the 'Holding'), whose issued capital as of 30 June 2011 consisted of 73,674,410 ordinary bearer shares without indication of a nominal value, providing 73,674,410 voting rights (as of 30 June 2010 – 73,191,000 shares).

The shares were distributed as follows:

	As of 30 June 2011		As of 30 June 2010	
	Shares allotted and fully paid	Share owned	Shares allotted and fully paid	Share owned
Equity holders				
Namsen LTD (limited company registered under the legislation of Cyprus) (hereinafter the 'Major Equity holder')	30,174,250	40.96%	30,174,250	41.23%
Free-float	43,500,160	59.04%	43,016,750	58.77%
Total	73,674,410	100.00%	73,191,000	100.00%

As of 30 June 2011 and 2010, 100% of the beneficial interest in the 'Major Equity holder' was held by Verevskiy Andrey Mikhaylovich (hereinafter the 'Beneficial Owner').

In order to perform an initial public offering of the shares of the Company on the Warsaw Stock Exchange ('WSE'), the general meeting of shareholders 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 and thirty-four (9,334) shares of the Company without indication of a nominal value into 46,670,000 (forty-six million six hundred and 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. 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 WSE.

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

On 5 January 2011, Kernel issued 483,410 new shares without indication of a nominal value. All the newly issued shares were subscribed by a stock option beneficiary under the Management Incentive plan. Issue price of 1 share was PLN 24. As a result of the increase, the Company's share capital was increased by an amount of USD 12,764 and set at USD 1,945,446.46 divided into 73,674,410 shares without indication of a nominal value.

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 125,000 as of 30 June 2011, unchanged from 30 June 2010, may not be distributed as dividends.

On 30 March 2011, Kernel Holding S.A. announced its intention to issue approximately five million new ordinary shares of the Company through an offering to institutional investors ('the Offering'). The Offering was conducted through an accelerated book build, closed on 31 March 2011. The allocations to institutional investors were announced on 1 April 2011, whereby 5,400,000 ordinary shares were placed at a price of PLN 74 per share. The Offering raised gross proceeds of PLN 399.4 million for the Company. In order to ensure that allottees in the Offering could receive and trade their allocations immediately, Namsen Limited, a company controlled by Andrey Verevskiy, lent shares in Kernel for the purpose of the settlement of shares. The respective capital increase was adopted on 21 July 2011 at the Extraordinary General Meeting of Kernel Holding S.A. Shareholders.

4. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The consolidated financial statements of the Group have been prepared 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 consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land lease rights, property, plant and equipment for oil, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

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's Subsidiaries' accounts prepared under local accounting regulations, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Adoption of New and Revised Standards

The Group has Adopted the following new and amended standards:

IFRS 2 Share-based Payment

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

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

4. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

Adoption of New and Revised Standards (continued)

IAS 32 Financial Instruments: Classification and Measurement

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Standards and Interpretations Not Yet Adopted

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

Standard	Effective for annual accounting period beginning on or after
IFRS 9 Financial instruments: classification and measurement	1 January 2013
IFRS 7 Financial statements: disclosures transfers of financial assets	1 July 2011
IFRS 10 Consolidated financial statements	1 January 2013
IFRS 11 Joint arrangements	1 January 2013
IFRS 12 Disclosure of interest in other entities	1 January 2013
IFRS 13 Fair value measurement	1 January 2013
Amendments to IAS 12 Recovery of underlying assets	1 January 2012
IFRIC 14 Prepayment of a minimum funding requirement	1 January 2011
IAS 24 Related party disclosures	1 January 2011
IAS 27 Consolidated and separate financial statements	1 January 2013
IAS 28 Investments in associates	1 January 2013
IAS 1 Presentation of financial statements	1 July 2012

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 1 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 utilises the USD as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ('IAS') 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 S.A. (British Virgin Islands), Inerco Commodities S.A. (Switzerland), Jerste BV (Netherlands), Corolex Public Co. Limited (Cyprus), Sugar Holding Limited (Cyprus) and Etrecom Investments LLC (Cyprus). Management has utilised the USD as the measurement currency for Inerco Trade S.A., Lanen S.A., Estron Corporation Ltd, Chorex Developments Limited, Hamalex Developments Ltd., Restomon S.A., Inerco Commodities S.A., Jerste BV, Corolex Public Co. Limited and Etrecom Investments LLC under IAS 21 as their major sources of finance, prices of sales contracts with customers and prices of significant contracts for purchases of goods and services from suppliers are denominated in USD. From 1 July 2009 and on the basis of IAS 21, management adopted the USD as the measurement currency of 'Kernel Trade' LLC, as the major sources of finance, prices of sales contracts with customers and prices of significant contracts for purchases of goods and services from suppliers are denominated in, or pegged to, the USD. On the basis of IAS 21, the USD was also adopted as the measurement currency for CJSC 'Poltava oil crushing plant — Kernel Group', JSC 'Vovchansky OEP', CJSC 'Prykolotnjansky OEP', and from 1 April 2010 JSC 'Kirovogradoliya' and 'Ekotrans' LLC, and from 1 July 2010 'Bandurskiy oil crushing plant' LLC, as the activities of these Subsidiaries are carried out with a limited degree of autonomy. Following the changes in measurement and presentation currency, reclassification in the Statement of Cash Flows was effected to provide users of the financial statements with clearer and more detailed information. Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group (the 'Subsidiaries') as of 30 June 2011. 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.

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 Group enterprises are eliminated on consolidation. Unrealised gains and losses resulting from intercompany transactions are also eliminated, except for unrealised losses which cannot be recovered.

Non-controlling interest at the date of the statement of financial position represents the non-controlling equity holders' portion of the pre-acquisition fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the non-controlling equity holders' portion of movements in equity since the date of the acquisition.

Business Combination and Goodwill

On the acquisition of a Subsidiary, the business combination is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregated amount of the consideration transferred, measured at the date of acquisition. The consideration paid is allocated to the assets acquired and liabilities assumed on the basis of fair values at the date of acquisition. Acquisition costs are expensed when incurred and included in general and administrative expenses.

If the cost of acquisition exceeds the identifiable net assets attributable to the Group, the difference is considered as purchased goodwill. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognised as an asset and carried at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed 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. They are therefore expressed in the measurement currency of the foreign operation and are translated at the closing rate.

In the case that identifiable net assets attributable to the Group exceed the cost of acquisition, the difference is recognised in profit and loss as a gain on bargain purchase.

For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. If the initial accounting for a business combination cannot be completed by the end of the reporting period in which the combination occurs, only provisional amounts are reported, which can be adjusted during the measurement period of 12 months after acquisition date.

Changes in the Group's ownership interests in Subsidiaries that do not result in the Group losing control over the Subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in Subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

Discontinued Operations

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

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

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

Foreign Currency 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 statement of financial position date.

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

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

Currency	Closing rate as of 30 June 2011	Average rate for the 12 month ended 30 June 2011	Closing rate as of 30 June 2010	Average rate for the 12 month ended 30 June 2010
USD/UAH	7.9723	7.9368	7.9070	7.9289
USD/EUR	0.6902	0.7343	0.8188	0.7203
USD/PLN	2.7517	2.9163	3.3946	2.9502

Cash and Cash Equivalents

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

Financial Instruments

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

Financial Assets or Financial Liabilities at Fair Value Through Profit or Loss

These 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 recognised 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 recognised 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 amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

4. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

Available-for-sale Financial Assets

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

Investments in Non-consolidated Subsidiaries and Associate

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 very near future, as well as investments in corporate shares where the Group owns less than 20% of issued capital, are accounted for at fair value or at cost of acquisition if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment if necessary. As of 30 June 2011 and 2010, there were no investments in non-consolidated subsidiaries or associates.

Taxes Recoverable and Prepaid

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

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises purchase cost and, where applicable, those expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using FIFO method. Net realisable 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, soya bean, sunflower seed, sugar beet and other crops produced, and cattle as biological assets. In accordance with IAS 41 (Agriculture), biological assets are measured on initial recognition and at each reporting date at their fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably (at the early stage of an asset life and when market-determined prices or values are not available).

Biological assets for which market-determined prices or values are not available and for which alternative estimates of fair value are considered 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.

Cost of agricultural preparation of fields before seeding is recorded as work-in-progress in inventories. After seeding the cost of field preparation is reclassified as biological assets held at fair value.

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

Property, Plant and Equipment

Buildings and constructions (oil) and production machinery and equipment (oil), accounted for at fair value, which is determined using external professional expert evaluation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Except for land, all other property, plant and equipment is stated at historical cost less depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

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

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

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

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

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

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

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

Property, plant and equipment are depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisers under the straight-line method.

Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20-50 years
Production machinery and equipment	10-20 years
Agricultural vehicles and equipment	3-10 years
Other fixed assets	4-20 years
Construction in progress ('CIP') and uninstalled equipment	not depreciated

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

Intangible Assets

Intangible assets acquired separately from a business are capitalised at initial cost. Amortisation 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 amortised but are tested for impairment by comparing their recoverable amount with their carrying amount annually on the 30th of June and whenever there is an indication that the trademarks may be impaired.

Impairment of Non-current Assets

At each statement of financial position 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 fair value less costs to sell 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 (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as 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 (or cash-generating unit) is increased to the revised estimate of its recoverable amount, subject to the proviso that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Trade and Other Accounts Payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Contingencies

Contingent liabilities are not recognised 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 recognised in the financial statements but is disclosed when an inflow of economic benefits is probable.

Provisions

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

Short-term and Long-term Borrowings

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

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

Loans

Loans provided by the Group are financial assets, created by means of grant of money directly to a borrower or participating in provision of credit services, not including those assets which were created with the purpose of immediate sale or sale during a short-term period or classified as investments held for trading. For loans given at a rate and on terms which are different from market terms and conditions, the difference between the par value of the resources provided and the fair value of the amount lent is reflected in the income statement for the period when the amount was lent, as an adjustment to the loan amount. Loans with fixed maturity terms are measured at amortised cost using the effective interest method. Loans without fixed maturity terms are carried at initial cost. Loans provided are reflected in the statement of financial position, less allowance for estimated non-recoverable amounts.

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

4. Basis of Presentation of Financial Statements and Summary of Significant Accounting Policies (continued)

Loans (continued)

Held-to-maturity investments and the Group's trade receivables and loans receivable are included in the complement in non-current assets, except for those cases when the term of redemption expires within 12 months from the reporting date. Financial assets, which are recognised at fair value through profit or loss are a part of current assets as well as available-for-sale investments if the Group's management has intent to realise them during 12 months from the reporting date. All acquisitions and sales of investments are registered at the settlement date. Investments in equity securities where fair value cannot be estimated on a reasonable basis are at cost 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 capitalisation.

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

Leases

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

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

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

Issued Capital and Earnings Per Share

Ordinary shares

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

Repurchase of Issued Capital

When issued capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised 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 International Financial Reporting Standard (IFRS) 2 (Share-based Payment) during the 2008 financial year.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the grant date and are recognised 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 recognised for awards that do not ultimately vest.

At each statement of financial position 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 statement of financial position date is recognised in the income statement, with a corresponding entry in equity.

Earnings Per Share

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

Revenue Recognition

Revenue is recognised 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 recognised:

Sale of Goods and Finished Products

Revenue is recognised 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 recognised 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 grain elevators. Such expenses are included in cost of sales.

Taxation

The tax payable is based on the current taxable profit for the period. The tax rates and tax laws applied when computing this amount are those that have been enacted by the end of the reporting period in countries where the Group operates.

Deferred tax is recognised in the consolidated financial statements 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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 realised 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 recognised amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Operating Segments

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

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

The operating segments' activities are as follows:

Operating segments	Activities
Bottled sunflower oil	Production, refining, bottling, marketing and distribution of bottled sunflower oil.
Sunflower oil in bulk	Production and sales of sunflower oil in bulk (crude and refined) and meal.
Grain	Sourcing and merchandising of wholesale grain.
Export terminals	Grain handling and transshipment services in the ports of Ilyichevsk and Nikolayev.
Silo services	Provision of grain cleaning, drying and storage services.
Sugar	Production, marketing and distribution of sugar.
Farming	Agricultural farming. Production of wheat, barley, corn, soya bean, sunflower seed and sugar beet.

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

In the financial statements as of 30 June 2011 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, amortisation and depreciation related to property, plant and equipment and intangible assets are allocated to the segments when possible.

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

5. Cash

The balances of cash were as follows:

	As of 30 June 2011	As of 30 June 2010
Cash with banks in USD	105,159	43,506
Cash with banks in UAH	10,009	15,754
Cash with banks in other currencies	687	186
Cash on transit bank account	20	30
Cash in hand	22	6
Total	115,897	59,482
Less restricted cash on Security bank account and blocked amount	(5,716)	(1,720)
Cash for the purposes of cash flow statement	110,181	57,762

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

5. Cash (continued)

As of 30 June 2011, cash on a bank account in the amount of USD 5,716,000 was restricted in use based on the circular note issued for the equipment supply and thus was excluded from cash for the purpose of cash flow statement.

As of 30 June 2010, cash on a bank account in the amount of USD 1,720,000 was restricted in use based on short-term loan agreements with foreign banks and thus was excluded from cash for the purpose of cash flow statement.

6. Trade Accounts Receivable

The balances of trade accounts receivable were as follows:

	As of 30 June 2011	As of 30 June 2010
Trade accounts receivable	116,005	66,906
Allowance for estimated irrecoverable amounts	(4,419)	(1,423)
Total	111,586	65,483

As of 30 June 2011, accounts receivable from one European customer accounted for approximately 26.1% of the total carrying amount of trade accounts receivable (as of 30 June 2010 approximately 22.9%).

The average credit period on sales of goods is 21 day. No interest is charged on the outstanding balances of trade receivables. Trade receivables past due more than one month are impaired. Allowances for doubtful debts are recognised against trade receivables which are overdue between 30 and 365 days and are calculated on the basis of the delay in payment by applying a fixed percentage.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because for these receivables the commodity provisions were created.

Age of receivables that are past due but not impaired (commodity provision created)

	As of 30 June 2011	As of 30 June 2010
Past due 31-180 days	120	232
Past due 181-365 days	18	60
Past due more than one year	–	–
Total	138	292

Movements in the allowance for impairment in respect of trade receivables were as follows:

	30 June 2011	30 June 2010
Balance at 1 July	(1,423)	(810)
Impairment loss recognised	(2,996)	(613)
Balance at 30 June	(4,419)	(1,423)

No specific reserve was created as of 30 June 2011.

As of 30 June 2011, the amount of current trade receivables and receivables past due less than one month accounted for USD 104,257,000 (as of 30 June 2010 USD 63,856,000).

Age of impaired trade receivables was as follows:

	As of 30 June 2011	As of 30 June 2010
Past due 31-180 days	8,148	1,743
Past due 181-365 days	528	268
Past due more than one year	2,933	1,028
Total	11,609	3,039

7. Prepayments to Suppliers and Other Current Assets

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

	As of 30 June 2011	As of 30 June 2010
Prepayments to suppliers (Note 28)	76,979	20,622
Other accounts receivable and other current assets	8,095	76,560
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(3,740)	(2,949)
Total	81,334	94,233

8. Taxes Recoverable and Prepaid

The balances of taxes recoverable and prepaid were as follows:

	As of 30 June 2011	As of 30 June 2010
VAT ('value added tax') recoverable and prepaid	217,932	202,234
Other taxes recoverable and prepaid	3,342	3,350
Allowance for estimated irrecoverable amounts of VAT recoverable	-	-
Total	221,274	205,584

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on the domestic market in Ukraine. Management expects that these balances will be recovered in the amount of USD 217,932,000 within 12 months after the statement of financial position date. In the absence of previous impairment losses on the value added tax as of 30 June 2011, reserve on VAT is not charged (as of 30 June 2010: reserve on VAT was not charged).

In November 2010, the Company sold the Ukraine state bonds issued to Ukrainian Subsidiaries of the Company in reimbursement of VAT for a total face value of UAH 1,072,562,000 representing the Company's entire holding of state bonds. The bonds were sold to third parties for a total amount of UAH 943,255,000 representing a 12% discount to par value.

For the 12-month period ended 30 June 2011 the amount of VAT refunded by the state was USD 246,834,000 included USD 106,967,000 refunded in cash and equivalent of USD 139,867,000 refunded in the form of Ukraine State bonds.

9. Inventory

The balances of inventories were as follows:

	As of 30 June 2011	As of 30 June 2010
Raw materials	80,098	52,829
Finished products	68,573	53,199
Goods for resale	18,687	36,563
Packaging materials	623	379
Fuel	3,377	1,539
Agricultural products	933	261
Other inventories	11,377	3,017
Total	183,668	147,787

As of 30 June 2011, inventories with carrying amount of USD 91,640,000 (as of 30 June 2010: USD 91,234,000) were pledged by the Group as collateral against short-term loans obtained from banks (see Note 16).

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

10. Biological Assets

The balances of biological assets were as follows:

	As of 30 June 2011		As of 30 June 2010	
	Hectares	Value	Hectares	Value
Agricultural				
Wheat	53,514	20,926	22,443	6,387
Sunflower seed	28,117	14,743	17,059	6,047
Soya bean	28,966	9,503	18,062	4,845
Barley	11,745	3,070	6,645	1,812
Corn	27,352	16,457	8,377	2,349
Peas	1,708	196	10,551	3,721
Rapeseed	6,458	3,008	2,213	970
Sugar beet	18,067	23,988	–	–
Other crops	4,652	1,358	–	–
Total	180,579	93,249	85,350	26,131

	As of 30 June 2011		As of 30 June 2010	
	Number of heads	Value	Number of heads	Value
Cattle				
Cattle	14,767	2,712	–	–
Total	14,767	2,712	–	–

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2011 and 2010:

	Capitalised expenditures	Effect of biological transformation	Fair value of biological assets
As of 30 June 2009	19,871	(1,384)	18,487
Increase due to purchases and subsequent expenditures capitalised in biological assets (2009 harvest)	10,082	–	10,082
Decrease due to harvest (2009 harvest)	(29,953)	1,384	(28,569)
Increase due to purchases and subsequent expenditures capitalised in biological assets (2010 harvest)	18,649	–	18,649
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2010)	–	7,482	7,482
As of 30 June 2010	18,649	7,482	26,131
Increase due to purchases and subsequent expenditures capitalised in biological assets (2010 harvest)	15,257	–	15,257
Decrease due to harvest (2010 harvest)	(33,906)	(7,482)	(41,388)
Increase due to purchases and subsequent expenditures capitalised in biological assets (2011 harvest)	76,959	–	76,959
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (sowing under harvest 2011)	–	16,290	16,290
As of 30 June 2011	76,959	16,290	93,249

As a result of business acquisitions the Company purchased biological assets in the amount of USD 56,832,000 over the 12-month period to 30 June 2011.

11. Property, Plant and Equipment

As of 30 June 2011, property, plant and equipment with the carrying amount of USD 342,587,000 (as of 30 June 2010: USD 253,370,000) was pledged by the Group as collateral against short-term and long-term bank loans (see Note 16 and 17).

As of 30 June 2011, production equipment with a carrying amount of USD 8,911,000 was held under finance lease (as of 30 June 2010: USD 13,051,000) (see Note 18).

The following table represents movements in property, plant and equipment for the year ended 30 June 2011:

	Oil	Export terminals	Farming	Inland silos	Sugar	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
Additions	18,936	545	61,259	11,501	58,500	9,852	160,593
CIP and uninstalled equipment	18,936	545	16,885	9,622	–	2,198	48,186
Total additions from acquisition of subsidiaries:	–	–	44,374	1,879	58,500	7,654	112,407
Buildings and constructions	–	–	26,330	1,348	24,892	–	52,570
Production machinery and equipment	–	–	15,080	305	33,102	–	48,487
Agricultural vehicles and equipment	–	–	318	–	–	–	318
Other fixed assets	–	–	2,172	–	–	7,654	9,826
CIP and uninstalled equipment	–	–	474	226	506	–	1,206
Transfers	–	–	–	–	–	–	–
Buildings and constructions	41,412	12	33	299	–	11	41,767
Production machinery and equipment	32,939	564	21	581	–	59	34,164
Agricultural vehicles and equipment	–	–	16,766	–	–	5	16,771
Other fixed assets	461	–	25	–	–	2,250	2,736
CIP and uninstalled equipment	(74,812)	(576)	(16,845)	(880)	–	(2,325)	(95,438)
Disposal (at net book value)	(3,308)	–	(436)	(3,148)	–	(551)	(7,443)
Buildings and constructions	(2,728)	–	(65)	(2,828)	–	(261)	(5,882)
Production machinery and equipment	(580)	–	(1)	(319)	–	(8)	(908)
Agricultural vehicles and equipment	–	–	(370)	(1)	–	–	(371)
Other fixed assets	–	–	–	–	–	(282)	(282)
Depreciation expense	(11,569)	(3,548)	(5,333)	(5,392)	–	(2,893)	(28,735)
Buildings and constructions	(4,590)	(471)	(699)	(3,932)	–	(158)	(9,850)
Production machinery and equipment	(6,948)	(3,077)	(84)	(1,444)	–	(9)	(11,562)
Agricultural vehicles and equipment	(3)	–	(4,549)	(16)	–	–	(4,568)
Other fixed assets	(28)	–	(1)	–	–	(2,726)	(2,755)
Translation difference	(90)	(196)	(61)	(446)	–	95	(698)
Land	(9)	(27)	–	(9)	–	–	(45)
Buildings and constructions	(38)	(143)	(46)	(352)	–	(9)	(588)
Production machinery and equipment	(34)	(18)	(3)	(44)	–	2	(97)
Agricultural vehicles and equipment	(1)	–	(15)	(3)	–	(1)	(20)
Other fixed assets	–	–	–	5	–	106	111
CIP and uninstalled equipment	(8)	(8)	3	(43)	–	(3)	(59)
Net book value as at 30 June 2011	216,664	70,378	75,958	61,133	58,500	20,119	502,752
Land	2,280	3,353	2	1,129	–	46	6,810
Buildings and Constructions	118,403	15,046	30,816	41,537	24,892	2,945	233,639
Production machinery and equipment	85,198	51,923	15,288	8,851	33,102	110	194,472
Agricultural vehicles and equipment	18	–	27,058	35	–	4	27,115
Other fixed assets	433	–	2,196	5	–	16,840	19,474
CIP and uninstalled equipment	10,332	56	598	9,576	506	174	21,242

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

11. Property, Plant and Equipment (continued)

The following table represents movements in property, plant and equipment for the year ended 30 June 2010:

	Oil	Export terminals	Farming	Inland silos	Other	Total
Net book value as at 1 July 2009	108,467	61,476	24,137	20,456	7,234	221,770
Land	700	–	2	678	–	1,380
Buildings and constructions	34,013	5,796	5,868	16,022	2,162	63,861
Production machinery and equipment	21,475	55,648	400	2,979	3	80,505
Agricultural vehicles and equipment	121	–	17,800	75	–	17,996
Other fixed assets	–	–	–	–	5,054	5,054
CIP and uninstalled equipment	52,158	32	67	702	15	52,974
Additions	114,153	15,286	2,081	42,078	9,615	183,213
CIP and uninstalled equipment	55,811	816	2,081	1,173	3,911	63,792
Total additions from acquisition of subsidiaries:	58,342	14,470	–	40,905	5,704	119,421
Land	1,584	3,371	–	483	–	5,438
Buildings and constructions	32,119	9,845	–	33,273	349	75,586
Production machinery and equipment	24,605	1,252	–	6,823	9	32,689
Other fixed assets	–	–	–	–	5,346	5,346
CIP and uninstalled equipment	34	2	–	326	–	362
Transfers	–	–	–	–	–	–
Land	–	–	–	–	47	47
Buildings and constructions	22,117	196	550	540	1,044	24,447
Production machinery and equipment	18,273	558	6	964	60	19,861
Agricultural vehicles and equipment	–	–	1,513	–	–	1,513
Other fixed assets	–	–	–	–	2,474	2,474
CIP and uninstalled equipment	(40,390)	(754)	(2,069)	(1,504)	(3,625)	(48,342)
Disposal (at net book value)	(1,621)	(42)	(196)	(1,023)	(811)	(3,693)
Buildings and constructions	(1,027)	–	(19)	(786)	–	(1,832)
Production machinery and equipment	(594)	(42)	(44)	(236)	–	(916)
Agricultural vehicles and equipment	–	–	(133)	(1)	–	(134)
Other fixed assets	–	–	–	–	(811)	(811)
Depreciation expense	(6,724)	(3,179)	(5,170)	(2,263)	(1,624)	(18,960)
Buildings and constructions	(2,802)	(213)	(928)	(1,574)	(170)	(5,687)
Production machinery and equipment	(3,919)	(2,966)	(73)	(673)	(3)	(7,634)
Agricultural vehicles and equipment	(3)	–	(4,169)	(16)	–	(4,188)
Other fixed assets	–	–	–	–	(1,451)	(1,451)
Translation difference	(1,580)	36	(323)	(630)	(798)	(3,295)
Land	5	9	–	(23)	(1)	(10)
Buildings and constructions	(73)	24	(208)	(473)	(23)	(753)
Production machinery and equipment	(19)	4	(14)	(85)	(3)	(117)
Agricultural vehicles and equipment	(96)	–	(103)	(3)	–	(202)
Other fixed assets	–	–	–	–	(774)	(774)
CIP and uninstalled equipment	(1,397)	(1)	2	(46)	3	(1,439)
Net book value as at 30 June 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

As of 30 June 2011, the amount of property plant and equipment includes USD 3,405,000 and the amount of CIP and uninstalled equipment includes USD 191,000 of capitalised interest on borrowing costs (as of 30 June 2010: USD 3,136,000 calculated at a capitalisation rate of 7.1% per annum). Capitalisation rate used to calculate the amount of capitalised interests as at 30 June 2011 is 9.98% per annum.

As of 30 June 2011, CIP and uninstalled equipment contains construction in progress amounting to USD 16,242,000.

The fair value of buildings and constructions (oil) and production machinery and equipment (oil) was revalued on 1 July 2009 by an external independent appraiser.

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

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

The replacement cost approach involves the estimation of the present value of costs of construction or replacement of the item being assessed and their further adjustment by an ageing percentage.

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

12. Intangible Assets

The following table represents movements in intangible assets for the year ended 30 June 2011:

	Trade marks	Land lease rights	Other Intangible assets	Total
Cost as of 30 June 2010	19,450	18,280	2,275	40,005
Additions from acquisition of Subsidiaries (land lease rights)		37,019	150	37,169
Additions	–	–	373	373
Disposals	–	–	(46)	(46)
Translation difference	(87)	(155)	126	(116)
Cost as of 30 June 2011	19,363	55,144	2,878	77,385
Accumulated depreciation as of 30 June 2010	–	(7,275)	(888)	(8,163)
Amortisation charge	–	(3,252)	(374)	(3,626)
Disposals	–	–	16	16
Translation difference	–	74	(123)	(49)
Accumulated depreciation as of 30 June 2011	–	(10,453)	(1,369)	(11,822)
Net book value as of 30 June 2011	19,363	44,691	1,509	65,563

The following table represents movements in intangible assets for the year ended 30 June 2010:

	Trade marks	Land lease rights	Other Intangible assets	Total
Cost as of 30 June 2009	19,835	18,943	2,261	41,039
Additions from acquisition of Subsidiaries (land lease rights)	–	–	532	532
Additions	–	–	347	347
Disposals	–	–	(284)	(284)
Translation difference	(385)	(663)	(581)	(1,629)
Cost as of 30 June 2010	19,450	18,280	2,275	40,005
Accumulated depreciation as of 30 June 2009	–	(4,178)	(1,175)	(5,353)
Amortisation charge	–	(3,235)	(345)	(3,580)
Disposals	–	–	15	15
Translation difference	–	138	617	755
Accumulated depreciation as of 30 June 2010	–	(7,275)	(888)	(8,163)
Net book value as of 30 June 2010	19,450	11,005	1,387	31,842

Included in intangible assets of subsidiaries are the 'Schedry Dar', 'Stozhar', 'Zolota' and 'Domashnya' trademarks with the value of USD 4,578,773, USD 5,944,557, USD 8,661,027 and USD 178,695 respectively in 2011 (USD 4,616,587, USD 5,993,650, USD 8,661,027 and USD 178,695 respectively in 2010). These trademarks are used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market. As of 30 June 2011 and 2010, the trade mark 'Stozhar' was pledged as security for long-term loans (Note 17).

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

12. Intangible Assets (continued)

Management 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 amortised but tested for impairment by comparing their recoverable amount with their carrying amount annually on the 30th of June and whenever there is an indication that the trademarks may be impaired. The impairment testing of the trademarks was performed on 30 June 2011 by the independent appraiser FDI 'Bureau Veritas Ukraine'. No impairment was recognised.

13. Goodwill

The following table represents movements in goodwill for the 12-month period:

As of 30 June 2010	86,058
Goodwill arising on acquisition of Subsidiaries	–
Translation differences	(69)
As of 30 June 2011	85,989

Goodwill is allocated to the Group's cash-generating units (CGUs) identified by the operating segments.

An operating segment-level summary of the goodwill allocation is as follows:

Segments	As of 30 June 2011	As of 30 June 2010
Bottled sunflower oil	2,168	2,168
Sunflower oil in bulk	43,125	43,190
Export terminals	36,300	36,300
Farming	4,396	4,400
Total	85,989	86,058

As of 30 June 2011 and 2010, no impairment of goodwill, allocated to oil, terminal and farming sectors was identified. The recoverable amount was estimated based on the value in use model. This calculation uses pre-tax cash flow projections based on financial budgets approved by the management and covering a 4-year period. The key assumptions used in the most recent value in use projection as of 30 June 2011 were as follows:

- the projections were based on the most recent budget covering 4- year period;
- the discount rate used was based on weighted average cost of capital rate of 15,3%;
- long-term growth rate (g) in terminal period does not exceed the long-term average growth rate for the respective business in which CGU operates. For all CGUs except Poltava and Prikolotnoe oil processing plants g is 1% while for aforementioned plants g is 0,5%;
- the projections as to the crushing volumes were based on actual volumes for the most recent relevant reporting periods. The projections for terminal throughput services were based on average actual volumes for FY 2009-2011, and a 4% growth rate for the future periods; and
- the tariffs and expenses were adjusted for inflation on the basis of cumulative PPI in dollar terms.

14. Other Non-current Assets

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

	As of 30 June 2011	As of 30 June 2010
Grain elevator lease rights ('DAK Asset')	–	452
Prepayments for property, plant and equipment	4,043	1,725
Other non-current assets	93,819	26,961
Total	97,862	29,138

Other non-current assets include a USD 54 million loan provided by Kernel to a group of investors for the purchase of BSI.

15. Advances from Customers and Other Current Liabilities

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

	As of 30 June 2011	As of 30 June 2010
Advances from customers	17,959	42,381
Obligation under finance lease payable within one year (see Note 18)	5,538	5,255
Accrued payroll, payroll-related taxes and bonuses	3,197	2,985
Accounts payable for property, plant and equipment	2,565	247
Provision for unused vacations and other provisions	7,890	1,491
Short-term promissory notes issued	950	–
Taxes payable and provision for tax liabilities	19,619	3,982
Other current liabilities	44,311	75,045
Total	102,029	131,386

Other current liabilities include a USD 31 million owed to a group of investors for the purchase of Ukrros.

16. Short-term Borrowings

The balances of short-term borrowings were as follows:

	As of 30 June 2011	As of 30 June 2010
Bank credit lines	222,826	166,491
Interest accrued on short-term loans	10,656	1,213
Interest accrued on long-term loans	1,032	1,394
Total	234,514	169,098

The balances of short-term borrowings as of 30 June 2011 were as follows:

	Interest rate	Currency	Maturity	Amount due
Ukrainian subsidiary of European bank	Libor + 8.41%	USD	September 2011	30,682
Ukrainian bank	15%	UAH	September 2011	63,613
Ukrainian bank	20%	UAH	September 2011	8,780
Ukrainian bank	Euro Libor +4.5%	EUR	September 2011	243
Ukrainian bank	6 %	EUR	September 2011	144
Ukrainian bank	9 %	USD	September 2011	10,078
European bank	Libor + 5.3%	USD	August 2011	75,000
European bank	7.95%	USD	September 2011	34,286
Total bank credit lines				222,826
Interest accrued on short-term loans				10,656
Interest accrued on long-term loans				1,032
Total				234,514

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

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

As of 30 June 2011 the overall maximum credit limit for short-term bank credit lines amounted to USD 754,552,000 (as of 30 June 2010 USD 350,473,000).

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

16. Short-term Borrowings (continued)

Short-term loans from banks were secured as follows:

Assets pledged	As of 30 June 2011	As of 30 June 2010
Inventory (see Note 9)	91,640	91,234
Property, plant and equipment (see Note 11)	79,163	33,793
Total	170,803	125,027

17. Long-term Borrowings

The balances of long-term borrowings were as follows:

	As of 30 June 2011	As of 30 June 2010
Long-term bank loans	184,076	168,218
Current portion of long-term borrowings	(31,392)	(40,764)
Total	152,684	127,454

The balances of long-term borrowings as of 30 June 2011 were as follows:

	Interest rate	Currency	Maturity	Amount due
European bank	Libor + 3.52%	USD	April 2015	27,034
European bank	Libor + 6.75%	USD	September 2012	18,664
Ukrainian subsidiary of European bank	Libor + 5.7%	USD	September 2013	55,772
Ukrainian subsidiary of European bank	Libor + 5%	USD	November 2013	25,606
Ukrainian subsidiary of European bank	Libor + 11.2%	USD	August 2015	7,000
Ukrainian subsidiary of European bank	Libor + 7%	USD	September 2013	50,000
Total				184,076

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

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

Long-term loans as of 30 June 2011 include credit line from banks with the overall maximum credit limit of USD 228,956,000 (as of 30 June 2010: USD 210,000,000).

Long-term loans from banks were secured as follows:

Assets pledged	As of 30 June 2011	As of 30 June 2010
Property, plant and equipment (see Note 11)	263,424	219,577
Intangible assets (see Note 12)	5,945	5,994
Controlling stakes in Subsidiaries	not quantifiable	not quantifiable
Total	269,369	225,571

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

As of 30 June 2011			As of 30 June 2010		
	Maturity	Share in the mortgage		Maturity	Share in the mortgage
Vovchansky OEP VJSC	November 2013	100%	Vovchansky OEP PJSC	November 2013	100%
Kirovogradoliya JSC	September 2013	100%	Reshetylivka hliboproduct LLC	July 2010	100%
Gutyansky Elevator LLC	November 2013	100%	Globynsky Elevator HP LLC	July 2010	100%
Prykolotnjansky OEP LLC	November 2013	100%	Gutyansky Elevator LLC	November 2013	100%
Velykoburlutske HPP LLC	November 2013	100%	Poltavske KHP PJSC	July 2010	100%
Shevchenkisky KHP LLC	November 2013	100%	Prykolotnjansky OEP LLC	November 2013	100%
Kovyagivske KHP LLC	November 2013	100%	Velykoburlutske HPP LLC	November 2013	100%
Bandursky oil crushing plant LLC	April 2015	100%	Shevchenkisky KHP LLC	November 2013	100%
Transbulkterminal LLC	September 2012	100%	Kovyagivske KHP LLC	November 2013	100%
			Poltavaavtotransservis LLC	July 2010	100%
			Bandursky oil crushing plant LLC	April 2015	100%

18. Obligations Under Finance Lease

The major components of finance lease liabilities were as follows:

	As of 30 June 2011		As of 30 June 2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Amounts payable due to the finance lease:				
Within one year (see Note 15)	6,010	5,538	6,159	5,255
Later than one year and not later than five years	3,676	3,373	8,569	7,796
Total	9,686	8,911	14,728	13,051
Less future finance charges	(775)	–	(1,677)	–
Present value of lease obligations	8,911	8,911	13,051	13,051

On 12 May 2008, a Ukrainian Subsidiary of Kernel Holding S.A. signed a 4-year financial lease agreement with an overall total limit of USD 15 million, with the Ukrainian subsidiary of a European bank for financing of agricultural machinery and equipment. USD 3.3 million was outstanding as at 30 June 2011. The finance lease liability is denominated in USD and bears an interest rate of 8.0% per annum.

19. Income Tax

The corporate income tax rate in Ukraine was 23% as of 30 June 2011 and 25% as of 30 June 2010.

The new Tax Code of Ukraine, which was enacted on 2 December 2010, introduced a gradual decrease in income tax rates, from 23% effective 1 April 2011 to 16% effective 1 January 2014, as well as certain changes to the rules of income tax assessment effective from 1 April 2011. Consequently, the deferred income tax assets and liabilities as of 30 June 2011 were measured based on the revised income tax rates of the new Tax Code.

The components of income tax expense for the year ended 30 June 2011 and 2010 were as follows:

Income tax recognised in profit or loss:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Current income tax charge	(4,220)	(804)
Deferred tax income relating to changes in tax rates or the imposition of new taxes	10,589	–
Income tax benefit reported in the income statement	11,260	912
Income tax benefit	17,629	108

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

19. Income Tax (continued)

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

	For the year ended 30 June 2011	For the year ended 30 June 2010
Profit before income tax from continuing operations	208,418	151,593
Tax at statutory tax rate of 25% (July 2010 till 31 March 2011) and 23% since 1 April 2011 (2010: 25%)	(47,936)	(37,898)
Deferred tax income relating to changes in tax rates or the imposition of new taxes	10,589	–
Expenditures not allowable for income tax purposes and non-taxable income, net	54,976	37,178
Change in valuation allowance	–	828
Income tax benefit	17,629	108

Deferred tax arising on income and expenses recognised in other comprehensive income:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Exchange differences on translating foreign operations	–	–
Income tax related components of other comprehensive income	3,789	(3,789)
Total income tax recognised in other comprehensive income	3,789	(3,789)

As at 30 June 2011, based upon projections for future taxable income over the periods in which the deductible temporary differences are anticipated to reverse, management believes it is probable that the Group will realise the benefits of the deferred tax assets of USD 3,530,000 recognised in respect of tax losses carried forward by Group Subsidiaries. The amount of future taxable income required to be generated by Group subsidiaries to utilise the tax benefits associated with net operating loss carry forwards is approximately USD 15,400,000. However, the amount of the deferred tax asset considered realisable could be adjusted in the future if estimates of taxable income are revised.

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

	As of 30 June 2011	As of 30 June 2010
DEFERRED TAX ASSETS ARISING FROM:		
Tax losses carried forward	3,530	1,266
Valuation of advances from customers	–	8,568
Valuation of property, plant and equipment	2,035	967
Valuation of accounts receivable	1,221	296
Valuation of inventories	–	27
Valuation of intangible assets	3	216
Valuation of accrued expenses and other temporary differences	509	324
Net deferred tax asset after valuation allowance	7,298	11,664
DEFERRED TAX LIABILITY ARISING FROM:		
Valuation of property, plant and equipment	(18,148)	(31,904)
Valuation of intangible assets	(1,656)	(2,285)
Valuation of prepayments to suppliers and prepaid expenses	(882)	(9,824)
Valuation of financial investments	(8)	(9)
Valuation of inventories	–	(18)
Deferred tax liability	(20,694)	(44,040)
Net deferred tax liability	(13,396)	(32,376)

Movements in temporary differences were as follows:

	30 June 2010	Tax income /(expense) during the period recognised in profit or loss	Tax income /(expense) during the period recognised in other comprehensive income	Deferred taxes acquired in business combination	Currency translation difference	30 June 2011
Valuation of accounts receivable	296	771	–	151	3	1,221
Valuation of accrued expenses and other temporary differences	324	96	–	53	36	509
Valuation of advances from customers	8,568	(8,568)	–	–	–	–
Valuation of financial investments	(9)	1	–	–	–	(8)
Valuation of intangible assets	(2,069)	415	–	–	1	(1,653)
Valuation of inventories	9	(9)	–	–	–	–
Valuation of prepayments to suppliers and prepaid expenses	(9,824)	9,101	–	(133)	(26)	(882)
Valuation of property, plant and equipment	(30,937)	17,783	3,789	(6,682)	(66)	(16,113)
Tax losses carried forward	1,266	2,259	–	–	5	3,530
Net deferred tax liability	(32,376)	21,849	3,789	(6,611)	(47)	(13,396)

20. Revenue

Revenue was as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Revenue from bulk sunflower oil, cake and meal	1,157,874	400,698
Revenue from bottled sunflower oil	152,101	112,627
Revenue from farming	4,309	3,807
Revenue from grain trade	571,143	466,462
Revenue from grain silo services	10,521	12,791
Revenue from transshipment services	3,170	24,086
Total	1,899,118	1,020,471

For the year ended 30 June 2011 revenue from five European customers accounted for approximately 39% of total revenue (for the year ended 30 June 2010 revenue from five European customers accounted for 33% of total revenue).

21. Cost of Sales

Cost of sales was as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Cost of goods for resale and raw materials used	1,358,548	652,177
Payroll and payroll-related costs	24,841	17,813
Amortisation and depreciation	30,885	21,454
Rental payments	7,513	7,059
Other operating costs	17,804	10,911
Total	1,439,591	709,414

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

22. Other Operating Income

Other operating income was as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Gain/(loss) arising from changes in fair value attributable to physical changes and to changes in the market price for biological assets (see Note 10)	16,290	7,482
VAT and other farming related exemptions	7,899	5,759
Contracts wash-out (price difference settlement)	201	911
Premiums for quality	–	337
Other operating income	1,802	3,058
Total	26,192	17,547

According to the Tax Code of Ukraine, companies that generated not less than 75% of gross revenues for the previous tax year from sales of own agricultural products are entitled to retain the difference between input VAT paid on items purchased by such companies for their operations and VAT charged on products sold.

In accordance with the Tax Code of Ukraine issued in December 2010 (Notes 19, 29), the VAT rate will be decreased from currently effective 20% to 17% from 1 January 2014. The special VAT regime for agricultural industry has been prolonged each year since 2004 and will be effective through 1 January 2018.

23. Distribution Costs

Distribution costs were as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Carriage and freight	148,355	115,471
Marketing and advertising	8,048	8,233
Payroll and payroll-related costs	299	1,078
Customs expenses	2,693	2,700
Certification	3,086	3,131
Sanitation services	511	793
Depreciation	15	79
Other expenses	7,274	2,903
Total	170,281	134,388

24. General and Administrative Expenses

General and administrative expenses were as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Payroll and payroll-related costs	14,419	11,023
Bank services	3,394	2,228
Expenses related to bad debts	2,805	1,717
Amortisation and depreciation	1,461	1,007
Taxes other than income tax	1,262	1,047
Audit, legal and other professional fees	6,088	3,617
Rental payments	1,308	1,561
Repairs and material costs	1,622	836
Business trip expenses	248	427
Communication expenses	666	656
Insurance	2,117	670
Other expenses	2,780	1,943
Total	38,170	26,732

The fair value of the share-based payments (see Note 32) as of 30 June 2011 in the amount of USD 586,000 (30 June 2010: USD 1,407,000) is recognised as payroll and payroll-related expenses for the period ended 30 June 2011. The auditors remuneration for the period ended 30 June 2011 in the amount of USD 404,000 is included in audit, legal and other professional fees (30 June 2010: USD 269,000).

25. Finance Costs

Finance costs were as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Interest expense on bank loans and corporate bonds	31,834	17,909
Other finance costs, net	10,618	4,875
Total	42,452	22,784

26. Other Expenses

Other expenses were as follows:

	For the year ended 30 June 2011	For the year ended 30 June 2010
Income/(expenses) from 'DAK Asset'	75	(94)
Gain on sale of equity investments	495	578
Loss on disposal of property, plant and equipment	(4,601)	(172)
Other expenses, net	(24,090)	(4,376)
Total	(28,121)	(4,064)

27. Acquisition and Disposal of Subsidiaries

The following entities were acquired during the year ended 30 June 2011

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Tsukrovy soyuz Ukrros OJSC	Holding company	Ukraine	71.3%	30 June 2011
Sugar Holding Limited		Cyprus	100%	30 June 2011
Veselynivske ZPP LLC	Grain elevators. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	71.3%	30 June 2011
Gulyaypolsky elevator LLC		Ukraine	71.3%	30 June 2011
Agrofirma Kuybyshevo LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soya bean.	Ukraine	76.2%	30 June 2011
Povstynagroalyans LLC		Ukraine	71.1%	30 June 2011
Ulyanivske LLC		Ukraine	76.2%	30 June 2011
Palmira LLC		Ukraine	81.5%	30 June 2011
Cherkasky OJSC		Ukraine	53.0%	30 June 2011
Agrofirma Zorya LLC		Ukraine	64.1%	30 June 2011
Agrarny dim im. Gorkogo LLC		Ukraine	71.5%	30 June 2011
Agrarny dim CJSC		Ukraine	35.8%	30 June 2011
Druzhba LLC		Ukraine	71.3%	30 June 2011
Agropolis LLC		Ukraine	71.6%	30 June 2011
Chortkivsky tsukrovy zavod LLC	Production plants. Production of sugar.	Ukraine	73.8%	30 June 2011
Tsukrove LLC		Ukraine	71.3%	30 June 2011
Palmirsky tsukrovy zavod LLC		Ukraine	72.7%	30 June 2011
Orzhytysky tsukrovy zavod LLC		Ukraine	76.2%	30 June 2011

With this transaction, Kernel acquired not only a large farming business, but also substantial sugar production assets. The Management believes the sugar production assets offer an attractive opportunity to expand into a business closely related to our existing portfolio and benefiting from integration with our growing farming business. Assets acquired include four sugar plants, totalling two million tons of sugarbeet crushing capacity and sugar production capacity of c. 250,000 tons per year. On 26 August 2011, Kernel announced the Company had exercised a call option to acquire a controlling stake in Ukrros (Note 34).

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

27. Acquisition and Disposal of Subsidiaries (continued)

Fair value of assets, liabilities and contingent liabilities acquired during the year ended 30 June 2011 was as follows:

	Value prior to acquisition	Fair value
ACQUIRED NET ASSETS:		
Cash	861	861
Trade accounts receivable, net	2,968	2,968
Prepayments to suppliers and other current assets, net	6,715	6,715
Taxes recoverable and prepaid, net	14,429	14,429
Inventory	10,577	10,577
Biological assets, current	39,162	55,440
Property, plant and equipment, net	84,266	109,609
Intangible assets, net	146	146
Leasing land rights	–	35,231
Biological non-current assets	2,754	2,830
Other non-current assets	18	18
Deferred tax liabilities	(4,943)	(6,611)
Trade accounts payable	(12,633)	(12,633)
Advances from customers and other current liabilities	(62,501)	(62,501)
Short-term borrowings	(92,983)	(92,983)
Obligations under finance lease	(114)	(114)
Other non-current liabilities	(88)	(88)
Fair value of net assets of acquired Subsidiaries		63,894
Non-controlling interest		(20,538)
Fair value of acquired net assets		43,356
Negative goodwill		(3,356)
Total cash considerations due and payable		40,000
Less: acquired cash		(861)
Less: cash paid		9,000
Net cash due and payable		30,139

The purchase consideration consisted only of cash. Expenses related direct to acquire reflected in General and Administrative expenses.

In accordance with IFRS 3, the Group does not disclose revenue and profit or loss of the acquired Subsidiaries for the 12-month period prior to 30 June 2011, as they formed part of a larger Group and their financial statements for such period would not reflect the effective economic contribution to the Group.

Negative goodwill arising on acquisition of is accounted in other income,(expenses) on the face of Statement of comprehensive income and disclosed in line other expenses in Note 26.

The following entity was acquired during the year ended 30 June 2011:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Osiyivske LLC	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seeds, barley, soya beans and sugar beet.	Ukraine	100%	1 April 2011

Fair value of assets, liabilities and contingent liabilities acquired during the year ended 30 June 2011 was as follows:

	Value prior to acquisition	Fair value
ACQUIRED NET ASSETS:		
Cash	36	36
Trade accounts receivable, net	58	58
Prepayments to suppliers and other current assets, net	145	145
Taxes recoverable and prepaid, net	11	119
Inventory	415	415
Biological assets, current	807	1,392
Property, plant and equipment, net	1,018	1,625
Intangible assets, net	3	3
Leasing land rights	–	1,158
Biological non-current assets	172	189
Other non-current assets	11	11
Deferred tax liabilities	–	–
Trade accounts payable	(281)	(281)
Advances from customers and other current liabilities	(1,403)	(1,403)
Fair value of net assets of acquired Subsidiaries		3,467
Non-controlling interest		–
Fair value of acquired net assets		3,467
Negative goodwill		(985)
Total cash considerations due and payable		2,482
Less: acquired cash		(36)
Net cash outflow due to the acquisition of Subsidiary by non-controlling shareholders		2,446

The following entity was acquired during the year ended 30 June 2011:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Agrofirma Vesna LLC	Agricultural farm. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soya bean and sugar beet.	Ukraine	0%	5 October 2010

Fair value of assets, liabilities and contingent liabilities acquired during the year ended 30 June 2011 was as follows:

	Value prior to acquisition	Fair value
ACQUIRED NET ASSETS:		
Cash	28	28
Prepayments to suppliers and other current assets, net	3	3
Inventory	69	69
Biological assets, current	112	112
Property, plant and equipment, net	125	1,173
Leasing land rights	–	631
Advances from customers and other current liabilities	(10)	(10)
Fair value of net assets of acquired Subsidiaries	327	2,006
Non-controlling interest	327	(2,006)
Fair value of acquired net assets		–
Negative goodwill		427
Total cash considerations due and payable		(1,579)
Less: acquired cash		28
Net cash outflow due to the acquisition of Subsidiary by non-controlling shareholders		(1,551)

Non-controlling interest on acquired subsidiaries was calculated at the proportionate share of the acquiree's identifiable net assets. The non-controlling interest recognised at the acquisition date amounted to USD 22,544,000.

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

27. Acquisition and Disposal of Subsidiaries (continued)

The following entity was disposed of during the year ended 30 June 2011:

Subsidiary	Principal activity	Country of incorporation	Group's effective ownership interest on the date of acquisition	Date of acquisition
Lazorkovski elevator LLC	Grain elevator. Provision of grain and oilseed cleaning, drying and storage services.	Ukraine	100%	10 December 2010

Fair value of assets, liabilities and contingent liabilities disposed of during the year ended 30 June 2011 was as follows:

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 net assets of Subsidiaries disposed of **134**

Non-controlling interest –

Net assets disposed of **134**

Group's share in net assets disposed of 134

Fair value of consideration receivable 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 Subsidiary disposed of **–**

On 10 December 2010, as a result of the optimisation process of its legal structure, the Group relinquished operational control over 'Lazorkovsky elevator' LLC and does not consolidate it further.

On 10 May 2011, as a result of the optimisation process of its legal structure, the Group relinquished operational control over JE Inerco-Ukraine LLC, and assets of Inerco-Ukraine were transferred to the Group's Subsidiaries.

28. Transactions with Related Parties

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

The Group had the following balances outstanding with related parties:

	Total category as per consolidated statement of financial position		Total category as per consolidated statement of financial position	
	Related party balances	as of 30 June 2011	Related party balances	as of 30 June 2010
Trade accounts receivable, net	–	111,586	476	65,483
Prepayments to suppliers and other current assets, net	4,378	81,334	78,271	94,233
Other non-current assets	90,641	97,862	–	29,138
Trade accounts payable	265	27,055	42	10,913
Advances from customers and other current liabilities	31,082	102,029	73,489	131,386

Other non-current assets include a USD 54 million loan provided by Kernel to a group of investors for the purchase of BSI. Advances from customers and other current liabilities include a USD 31 million owed to a group of investors for the purchase of Ukrros.

Transactions with related parties were as follows:

	Amount of operations with related parties		Total category per consolidated income statement	
	for the year ended 30 June 2011	for the year ended 30 June 2010	Amount of operations with related parties	Total category per consolidated income statement
Revenue	–	1,899,118	614	1,020,471
Cost of sales	(1,217)	(1,439,591)	(202)	(709,414)
General, administrative and distribution expenses	(2,795)	(208,451)	(54)	(161,120)
Finance costs	622	(42,452)	–	(22,784)
Other income	232	(28,121)	41	(4,064)

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

As of 30 June 2011 the Board consists of the following six directors: the Chairman of the Board, two independent directors, three directors employed by Subsidiaries.

Remuneration of the Board (6 Directors) for the year ended 30 June 2011 amounted to USD 935,000 (for the year ended 30 June 2010: USD 672,000).

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

Three directors employed by Subsidiaries are entitled to remuneration for their services as members of the Management Team of the Group. Remuneration of the Management Team of the Group, totalling 14 people, amounting to USD 2,484,168.18 for the 12-month period ended 30 June 2011 (12-month period ended 30 June 2010: 14 people, amounted to USD 1,896,400.00).

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

29. Commitments and Contingencies

Operating Environment

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

Taxation

Ukrainian tax authorities are increasingly directing their attention to the business community. As a result, the Ukrainian tax environment is subject to frequent change and 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 in which the Group interprets them 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 moreover, 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.

The new Tax Code of Ukraine was published in December 2010 and became effective on 1 January 2011, with some of its provisions taking effect later (such as section III, dealing with corporate income tax, which came into force on 1 April 2011).

Retirement and Other Benefit Obligations

Most employees of the Group receive pension benefits from the pension Fund, and Ukrainian Government organisation in accordance with the applicable laws and regulations. The Group is required to contribute a specified percentage of the payroll to the pension Fund to finance the benefits.

The only obligation of the Group with respect to this pension plan is to make the specified contributions.

As of 30 June 2011 and 30 June 2010 the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Capital Commitments

As of 30 June 2011, the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 7,000,000 for supply of equipment and services required for construction of a new silo.

As of 30 June 2010, the Group had commitments under contracts with European and Ukrainian suppliers for a total amount of USD 4,989,000 for supply of equipment and services required for the new solvent extraction plant under construction and for a total amount of USD 600,000 for supply of equipment and services required for construction of a new silo.

Contractual Commitments on Sales

As of 30 June 2011, the Group had entered into commercial contracts for export of 389,000 tons of grain and 205,000 tons of sunflower oil and meal, corresponding to an amount of USD 119,820,000 and USD 127,419,000 respectively in prices as of 30 June 2011.

As of 30 June 2010, the Group had entered into commercial contracts for export of 116,000 tons of grain and 183,000 tons of sunflower oil and meal, corresponding to an amount of USD 16,353,000 and USD 96,573,000 respectively, in prices as of 30 June 2010.

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

29. Commitments and Contingencies (continued)

Operating Leases

As of 30 June 2011 and 30 June 2010, the Group had outstanding commitments under non-cancellable operating lease agreements with the following maturities:

Lease term	Future minimum lease payment as of 30 June 2011 (with third parties)	Future minimum lease payment as of 30 June 2010 (with third parties)	With Companies of the Group as of 30 June 2011	With Companies of the Group as of 30 June 2010
Less than 1 year	15,409	5,340	1,190	1,286
From 1 to 5 years	36,917	13,905	–	–
More than 5 years	22,426	5,630	–	–
Total	74,752	24,875	1,190	1,286

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

30. Financial Instruments

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising return to shareholders through a combination of debt and equity capital. In November 2007 the Group was listed on the Warsaw Stock Exchange. Net proceeds of additional capital from the placement constituted USD 152,367,000 after deduction of total subscription cost. In April 2008 the Group increased equity by USD 81,725,000 as a result of a secondary offering of shares. In June 2010 the Group increased equity by USD 81,104,000.

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

Gearing Ratio

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

	As of 30 June 2011	As of 30 June 2010
Debt liabilities* (see Notes 16, 17, 18)	427,501	350,367
Cash (see Note 5)	(115,897)	(59,482)
Net debt	311,604	290,885
Equity**	971,574	601,862
Gearing ratio	32%	48%

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

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

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

- credit risk
- liquidity risk
- market risk

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

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

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

Credit Risk

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

Maximum exposure to credit risk was as follows:

	As of 30 June 2011	As of 30 June 2010
Cash (see Note 5)	115,897	59,482
Trade accounts receivable, net (see Note 6)	111,586	65,483
Total	227,483	124,965

Maximum exposure to credit risk for trade receivables by geographic region was as follows:

	As of 30 June 2011	As of 30 June 2010
Domestic customers (accounts receivable, net)	24,776	9,002
International customers (accounts receivable, net)	86,810	56,481
Total	111,586	65,483

Most clients of the Group are wholesale customers. The Group's most significant customer, an international customer, accounted for USD 29,124,000 of the trade receivables as of 30 June 2011 (as of 30 June 2010 one customer accounted for USD 15,048,000).

Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The characteristics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. Approximately 39% of the Group's revenue is attributable to sales transactions with 5 customers.

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

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned (controlled) subsidiaries. As of 30 June 2011 as well as at 30 June 2010 no guarantees were outstanding in favour of third parties.

Liquidity Risk

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

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

The average credit period on purchases of goods is 7 days.

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

30. Financial Instruments (continued)

Liquidity Risk (continued)

The contractual maturities of financial liabilities, including interest payments, as of 30 June 2011 were as follows:

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Trade accounts payable	27,055	(27,055)	(27,055)	–	–	–
Short-term borrowings (see Note 16)	234,514	(244,855)	(244,855)	–	–	–
Long-term borrowings (see Note 17)	184,076	(199,943)	(39,240)	(35,135)	(125,568)	–
Obligations under finance leases (see Note 18)	8,911	(9,801)	(6,125)	(2,663)	(1,013)	–
Total	454,556	(481,654)	(317,275)	(37,798)	(126,581)	–

The contractual maturities of financial liabilities, including interest payments, as of 30 June 2010 were as follows:

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
Trade accounts payable	10,913	(10,913)	(10,913)	–	–	–
Short-term borrowings (see Note 16)	169,098	(167,421)	(167,421)	–	–	–
Long-term borrowings (see Note 17)	168,218	(182,215)	(48,692)	(79,672)	(53,851)	–
Obligations under finance lease (see Note 18)	13,051	(14,728)	(6,159)	(5,005)	(3,564)	–
Total	361,280	(375,277)	(233,185)	(84,677)	(57,415)	–

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group policy is to synchronise future cash flow from sales and payments under financial liabilities, and to limit open inventory position.

Currency Risk

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

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

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

The Group's exposure to foreign currency risk as at 30 June 2011 was as follows:

	UAH	USD	EUR	Other currencies
Cash	10,029	105,159	637	72
Trade accounts receivable, net	1,994	109,592	–	–
Trade accounts payable	(9,245)	(17,810)	–	–
Short-term borrowings (see Note 16)	–	–	–	–
European bank	–	(109,851)	–	–
Ukrainian subsidiary of European bank	–	(31,679)	–	–
Ukrainian bank	(81,509)	(11,074)	(401)	–
Long-term borrowings (see Note 17)	–	–	–	–
European bank	–	(45,698)	–	–
Ukrainian subsidiary of European bank	–	(138,378)	–	–
Obligations under finance lease (see Note 18)	–	(8,911)	–	–
Financial position gross exposure	(78,731)	(148,650)	236	72
Estimated sales	–	247,239	–	–
Estimated purchases	–	–	–	–
Gross exposure	–	247,239	–	–
Net exposure	(78,731)	98,589	236	72

A 10% strengthening of the UAH against the USD as at 30 June 2011 would have increased equity and profit and loss account by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	USD	EUR	Other currencies
USD	10,955	24	7

Conversely, a 10% fall of the UAH against the USD as at 30 June 2011 would have had the opposite effect, on the assumption that all other variables remain constant.

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

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

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

	USD
USD	(12,049)

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

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

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

	Carrying amount	
	30 June 2011	30 June 2010
Fixed rate instruments (financial liabilities)	136,020	47,143
Variable rate instruments (financial liabilities)	291,481	303,224
Total	427,501	350,367

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

Other Market Price Risk

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

Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2011

31. Fair Value of Financial Instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 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, judgement 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 realise in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 June 2011 and 2010 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash

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

Trade and Other Accounts Receivable

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

Trade and Other Accounts Payable

The carrying amount of trade and other accounts payable is a reasonable estimate of their fair value.

Short-term Borrowings

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

Long-term Bank Borrowings

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

Long-term Loans from Related Parties

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

32. Share-Based Payments

On 20 February 2008, in accordance with management and Corporate Governance information provided in the prospectus dated 25 October 2007, Kernel Holding S.A. signed a Management Incentive plan providing to the management an option to purchase in aggregate up to 2,216,935 shares of Kernel Holding S.A., such number being equal to 3.5% of the issued and outstanding stock of Kernel Holding S.A. as at the adoption date of such plan, at IPO price (PLN 24). The management considers the IPO date (23 November 2007) as the date of grant of the Management Incentive plan. The option shall vest and become exercisable as to one third of the shares under option on 23 November 2008, as to a further one third of the shares under option on 23 November 2009, and as to the remaining shares under option on 23 November 2010, and is in force till 23 November 2018. There are no cash settlement alternatives. As of 30 June 2010 and 2009: 316,705 options out of 2,216,935 were not granted.

	Weighted average fair value in USD, per option		Number of options	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Beginning of the year	2.2215	2.2215	1,750,230	1,900,230
Vested during the year	2.2215	2.2215	633,410	633,410
Outstanding at end of the 12-month period	2.2215	2.2215	1,266,820	1,750,230

	Number of options				Fair value recognised as an expense during the period
	At beginning of the period	Granted during the period	Executed during the period	Outstanding at the end of the period	
Management	1,750,230	–	(483,410)	1,266,820	586

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

The fair value of the share-based transactions as of 30 June 2011 in the amount of USD 586,000 is recognised as an expense (part of the payroll and payroll related expenses) and a corresponding increase in equity over the vesting period (30 June 2010: USD 1,407,000).

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

Assumptions:	30 June 2011
Expected option term (in years)	4
Expected dividend yield	0%
Expected volatility	15%
Risk-free interest rate	2.25%

33. Earnings Per Share

Basic earnings per share is computed by dividing net income available to ordinary shareholders by the weighted-average number of ordinary shares outstanding (74,684,398 for the period ended 30 June 2011 and 69,070,178 for the period ended 30 June 2010), excluding any dilutive effects of stock options. Diluted earnings per share is computed in the same way as basic earnings per share, except that the weighted-average number of ordinary shares outstanding is increased to include additional shares from the assumed exercise of stock options. The number of additional shares is calculated by assuming that outstanding stock options, except those which are not dilutive, were exercised and that the proceeds from such exercise were used to acquire ordinary shares at the average market price during the reporting period. For calculating diluted earnings per share an average number of 75,572,177 ordinary shares is taken into account as the outstanding stock options were out of money based on the average market price during the reporting period (30 June 2010: 73,891,365).

34. Subsequent Events

On 3 August 2011, Kernel Holding S.A. increased share capital by an amount of USD 158,673.65 by the issue of 6,009,000 new shares without indication of a nominal value, of which 5,400,000 newly issued shares have been subscribed by the Company's principal shareholder, namsen limited. The remaining newly issued shares have been subscribed by holders of stock options issued in connection with the Company's management incentive plan. As a result of the capital increase, the Company's share capital is set at USD 2,104,120.11 divided into 79,683,410 shares without indication of a nominal value, giving right to 79,683,410 votes at the General Meeting of the Company.

In August 2011, Kernel Holding S.A. executed a share purchase agreement to acquire a 100% interest in Russian Oils, a company with oilseed crushing assets in the Krasnodar and Stavropol regions of Russia. On 19 September 2011, conditions precedent to the purchase of Russian Oils were fulfilled, and the acquisition was finalised.

On 17 August 2011, Kernel Trade LLC, a subsidiary of Kernel Holding S.A., entered into a USD 500 million credit agreement with a syndicate of banks led by ING Bank N.V, UniCredit Bank AG and Deutsche Bank AG. The working capital facility will be drawn to finance Kernel Trade LLC's sunflower seed purchases, storage and processing into sunflower oil and meal to be sold on the domestic market or exported.

On 26 August 2011, the Antimonopoly Committee of Ukraine approved the acquisition by Kernel of a controlling stake in Ukrros. On 26 August 2011, following the approval, Kernel Holding S.A. executed a call option agreement to acquire such controlling interest.

On 8 September 2011, Kernel Holding S.A. entered into a call option agreement for the purchase of a 100% interest in enselco, a Ukrainian farming company managing 29,300 ha of leasehold farmland. Subject to approval of the transaction by the Antimonopoly Committee of Ukraine, Kernel will pay a total cash consideration of USD 52.3 million for such acquisition.

On 22 September 2011, Inerco Trade SA, a Subsidiary of Kernel Holding S.A., entered into a USD 150 million secured revolving facility agreement with natixis, UBS AG and Raiffeisen Bank International AG as arrangers and lenders. The Facility is extended until 30 June 2012 and will be drawn to finance, the purpose of financing the purchase, storage, transportation and transshipment of agricultural commodities such as corn, barley, rapeseed and soya bean.

On 23 September 2011, Kernel received approval from the Antimonopoly Committee of Ukraine for the acquisition of BSI crushing plant. The value of the transaction is USD 140 million on a debt-free and cash-free basis.

On 28 September 2011, Inerco Trade SA entered into a USD 100 million two-year loan extended by European banks for general corporate purposes and secured against corporate guarantees of Kernel Holding S.A. and operational Subsidiaries of the Group.

On 30 September 2011, Kernel Trade, a subsidiary of Kernel Holding S.A., entered into a USD 100 million five-year loan extended by an Ukrainian bank. The loan is a multicurrency UAH/USD facility, and will be drawn to refinance existing Ukrros debt and finance sugar production. The facility will be secured by pledge of sugar plants and corporate guarantee of Kernel Holding S.A.

KERNEL

Kernel Holding S.A.

Siège social:
65 Boulevard Grande-Duchesse Charlotte
L-1331 Luxembourg

R.C.S. Luxembourg section B numéro 109173

www.kernel.ua