



KERNEL HOLDING S.A.

(incorporated as a public limited company (société anonyme), under the laws of the Grand Duchy of Luxembourg, having its registered office at 65, boulevard Grande-Duchesse Charlotte, L-1331 Luxembourg, Grand Duchy of Luxembourg and registered with Registre de Commerce et des Sociétés in Luxembourg under number B.109.173)

Offering of up to 21,279,048 Shares (subject to the Over-allotment Option as defined below to increase such amount by up to 3,191,857 Shares) without indication of a nominal value and admission to trading on the main market of the Warsaw Stock Exchange of all the Shares issued in the share capital of Kernel Holding S.A.

This document (the "Prospectus") has been prepared for the purpose of (i) the offering (the "Offering") of up to 21,279,048 ordinary bearer shares (subject to the Over-allotment Option as defined below to increase such amount by up to 3,191,857 shares) in the share capital, consisting of ordinary bearer shares, each without indication of a nominal value (the "Shares"), in KERNEL Holding S.A. (the "Company", the "Issuer" or "Kernel Holding"), and (ii) the admission of the entire issued share capital of the Company (i.e., up to 64,449,048 Shares) to trading on the main market of Giełda Papierów Wartościowych w Warszawie S.A. (the Warsaw Stock Exchange, the "WSE"). We will be offering for subscription up to 17,779,048 newly issued Shares (the "New Shares") to be issued by the Company and for sale up to 3,500,000 existing Shares (the "Sale Shares") held by the Company's majority shareholder Namsen Limited (the "Selling Shareholder"), a company organised under the law of Cyprus. Such New Shares and Sale Shares, together with the additional Shares to be offered in connection with the Over-allotment Option as described below (the "Over-allotment Shares"), are referred to, where the context permits, as the offer shares (the "Offer Shares"). The Company will only receive the net proceeds from the sale of the New Shares, whereas the Selling Shareholder will receive the net proceeds from the sale of the Sale Shares and the Over-allotment Shares, if any. The Offer Shares offered in this Offering constitute a minority interest in the Company. Prior to the Offering, the Selling Shareholder beneficially owns 85.7% of the issued share capital of the Company.

The Offering consists of (i) a public offering in Poland and (ii) an international offering by way of private placements to certain institutional investors outside Poland, in each case in accordance with applicable securities laws.

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or with any securities regulatory authority of any state or any jurisdiction in the United States. The Offer Shares are being offered and sold only outside the United States in accordance with Regulation S under the US Securities Act ("Regulation S") and may not be offered or sold within the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. See: "Selling Restrictions".

The Offer Shares are being offered, as specified in this Prospectus, subject to cancellation or modification of the Offering and subject to certain other conditions.

The Prospectus constitutes a prospectus in the form of a single document within the meaning of Art. 5.3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union (the "Prospectus Directive") and the Luxembourg law dated July 10, 2005, relating to prospectuses for securities, implementing the Prospectus Directive into Luxembourg law (the "Prospectus Act 2005"), and has been prepared in accordance with the Prospectus Act 2005 and Regulation 809/2004. The *Commission de Surveillance du Secteur Financier* (the "CSSF") in its capacity as the competent authority in Luxembourg under the Prospectus Act 2005, has approved this document as a prospectus. The Company will be authorised to carry out the Offering to the public in Poland, once the Polish Financial Supervision Authority (the "PFSA"), which is the competent authority in Poland, has informed the Company that the CSSF provided the PFSA (in accordance with Art. 19 of the Prospectus Act 2005, Art. 18 of the Prospectus Directive and Art. 37 of the Public Offering Act) with a certificate of approval of this Prospectus, a copy of this Prospectus and a summary of this Prospectus in the Polish language and after the Prospectus in the English language and its summary in the Polish language have been made available to the public.

See "Risk Factors" for a discussion of certain considerations to be taken into account when deciding whether to invest in the Offer Shares.

Prior to the Offering, there was no public market for the Shares. Based on this Prospectus, the Company intends to apply for the entire issued share capital as at the Settlement Date as defined below (i.e., up to 64,449,048 Shares), including the Offer Shares, to be admitted to listing and trading on the main market of the WSE (the "Admission"). The Company expects that the date on which trading in the Shares on the WSE will commence will be on or about 23 November 2007 (the "Listing Date"). Settlement of the Offering is expected to be made on or about 19 November 2007 (the "Settlement Date"). Prospective retail investors in Poland (other than "U.S. persons" as defined in Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 2 November 2007 and is expected to end on or about 13 November 2007, whereas selected prospective institutional investors (other than "U.S. persons" as defined in Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 1 November 2007 and is expected to end on or about 13 November 2007. The offer price per Offer Share (the "Offer Price") will not exceed PLN 50. The final Offer Price and the final number of the Offer Shares offered will be determined jointly by the Company and the Selling Shareholder upon recommendation of the managers named herein (the "Managers") after termination of the subscription periods on or about 14 November 2007 (the "Allotment Date"), based on interest from investors and will, in accordance with Art. 10 of the Prospectus Act 2005 and Art. 54 of the Public Offering Act, be filed with the CSSF and the PFSA and published in the same manner as this Prospectus and by way of a press release. If the Offering is cancelled or postponed prior to the Settlement Date, all subscriptions for the Offer Shares will be disregarded, any allotments made will be deemed null and void, and any subscription payments made will be returned without interest or other compensation. All dealings in the Offer Shares prior to settlement of the Offering and delivery of the Offer Shares are at the sole risk of the parties concerned.

All of the Shares are ordinary bearer shares and will exist in the territory of Poland in book entry form once they have been registered with the Polish clearing and settlement institution – the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych S.A.*, the "NDS"). Shareholders in the Company may hold them through the NDS participants, such as investment firms and custodian banks operating in Poland.

In connection with the Offering the Selling Shareholder has granted to ING Bank N.V., London Branch ("ING"), on behalf of the Managers, an option (the "Over-allotment Option"), exercisable for 30 calendar days after the Listing Date, to make available additional 3,191,857 existing Shares representing up to 15 per cent of the aggregate number of Offer Shares available in the Offering (before any exercise of the Over-allotment Option) (the "Over-allotment Shares") at the Offer Price to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions, if any. Such stabilisation shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) No. 2273/2003 of 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments (the "Stabilisation Regulation").

Offer Price: To be determined in PLN and announced on or about 14 November 2007

ING Securities S.A. in Warsaw will act as the offeror and listing agent (the "Listing Agent") for the Offering and listing of the Shares on the WSE. ING Bank N.V., London Branch is the Global Coordinator, Bookrunner and Lead Manager of the Offering.

Global Coordinator and Bookrunner



The date of this Prospectus is 25 October 2007

IMPORTANT INFORMATION

Capitalised terms used in this Prospectus and not otherwise defined herein have the meaning ascribed to such terms in Annex I "*Defined Term*". Certain industry terms and other terms used in this Prospectus are explained in Annex I "*Defined Terms*".

This Prospectus has been prepared by the Company in connection with the Offering and Admission solely for the purpose of enabling a prospective investor to consider an investment in the Offer Shares. The information contained in this Prospectus has been provided by the Company and other sources identified herein.

Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should, therefore, read this Prospectus in its entirety, and in particular, the section "*Risk Factors*", when considering an investment in the Offer Shares. The contents of this Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice and not rely exclusively on the legal, financial or tax information contained in this Prospectus.

Save where required by the provisions of mandatory laws, no person is or has been authorised to give any information or to make any representation in connection with the Offering and/or Admission, other than as contained in this Prospectus, and if given or made, any other information or representation must not be relied upon as having been authorised by us, or by the Managers.

Responsibility for this Prospectus

The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Neither the delivery of this Prospectus nor any sale made hereby at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or any of its subsidiaries or the Company and its subsidiaries taken as a whole (the "Kernel Group", the "Group") since the date hereof or that the information contained herein is correct as of any date subsequent to the earlier of the date hereof or any date specified with respect to such information.

Neither the Managers nor the legal advisers to the Company accept any responsibility whatsoever for the contents of this Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them or on their behalf in connection with us. The Managers and the legal advisers to the Company accordingly disclaim all and any liability whether arising in tort or contract which they might otherwise have in respect of this Prospectus or any such statement. No representation or warranty, express or implied, is made by the Managers as to the accuracy or completeness of the information set forth herein and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Notice to Prospective Investors

The distribution of this Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or an solicitation or invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such an offer or solicitation or invitation would be unlawful. Persons in possession of this Prospectus are required to ensure that they are informed about and to observe any such restrictions, including those set out under "*Selling Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition for the purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties and will be required to take certain actions described in particular in "*The Offering and Plan of Distribution*", which will be relied upon by us, the Managers and others. We and the Selling Shareholder reserve the right, at our sole and absolute discretion, to reject any purchase of Offer Shares that we, the Selling Shareholder, the Managers or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See, in particular: "*Selling Restrictions*".

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Certain Conventions and Presentation of Financial and Other Information

In this Prospectus, the terms "Kernel Group", "the Group", "we", "us", "our", "Kernel" and similar terms refer to Kernel Holding S.A. and its direct and indirect consolidated subsidiaries, unless the context requires otherwise. The terms "Kernel Holding", "the Company", "the Issuer" refer to Kernel Holding S.A., unless the context requires otherwise. Unless otherwise noted, references to "management" are to the members of the Board of Directors and the Management Team members, and statements as to the Company's beliefs, expectations, estimates and opinions are to those of the Company's management.

The Company maintains its financial statements (the "IFRS Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International

Financial Reporting Interpretations Committee ("IFRIC") and as applicable in the respective years. The IFRS Financial Statements included in this Prospectus comprise (i) the audited consolidated financial statements of Kernel Holding S.A. as at and for each of the past three years ended June 30, 2007, 2006 and 2005 (the "Consolidated Financial Statements") and (ii) unaudited pro-forma consolidated financial information of Kernel Holding S.A. comprising: (a) pro-forma balance sheet as of June 30, 2006 and (b) pro forma income statement for the year ended June 30, 2007 ("Pro Forma Financial Information"), which are included elsewhere in this Prospectus.

Unless otherwise indicated, financial information in this Prospectus has been prepared on the basis of IFRS and has been extracted without adjustments from the Consolidated Financial Statements and /or Pro Forma Financial Information contained elsewhere in this Prospectus, or has been extracted from those of Kernel's accounting records which have been used to prepare such financial information. The presentation of financial information on the basis of IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial information and notes thereto. Actual results could differ from those estimates.

For the first time Kernel Group applied IFRS on 30 June 2004. Consequently, the first consolidated balance sheet according to IFRS was prepared as at 30 June 2004 and the Company had not prepared consolidated statements of income, changes in shareholders' equity and cash flows in accordance with IFRS before 30 June 2004. As a result, our management could not present in the Consolidated Financial Statements as at and for the financial year ended 30 June 2005 the corresponding amounts in the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended 30 June 2004. The auditor's opinion provided in the auditor's report for the financial year ended 30 June 2005 contains the respective qualification due to the reasons described above.

Both the Consolidated Financial Statements and Pro Forma Financial Information included in the Prospectus are presented in US\$ which is the accounting currency of the Group and of the Company. The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the Consolidated Financial Statements and the Pro Forma Financial Information which have been prepared based on the Group Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in tables in this Prospectus have also been rounded and accordingly the totals in these tables may not add up to 100 per cent.

Unless otherwise indicated, all references in this Prospectus to "US\$" or "USD" are to the lawful currency of the United States and all references to "EUR", "Euro" or "€" are to the lawful currency of the European Economic and Monetary Union, of which Luxembourg is a member. References to "UAH" or "Hryvnia" are to the lawful currency of Ukraine, whereas all references to "PLN" and "Polish zloty" are to the lawful currency of Poland, all references to "CHF" are to the lawful currency of Switzerland, and all references to "RUR" are to the lawful currency of the Russian Federation.

Potential investors should consult their own professional advisers to gain an understanding of the financial information contained herein.

Market, Economic and Industry Data

All references to market, economic or industry data, statistics and forecasts in this Prospectus consist of estimates compiled by professionals, state agencies, market and other organisations, researchers or analysts, publicly available information from other external sources as well as our knowledge of our sales and markets and assessments made by our management.

Certain statistical data and market, economic or industry information and forecasts relating to the world and Ukrainian edible oil industry and grain trade have been extracted and derived by us from reports and analysis produced by, *inter alia*, the following sources:

- information available on website owned and operated by the State Statistics Committee of Ukraine (www.ukrstat.gov.ua);
- information, reports and analysis available on website owned and operated by the United States Department of Agriculture, and its Foreign Agricultural Service (www.usda.gov);
- specialised weekly magazine 'Oil World';
- information available on website of APK – Inform Information Agency (www.apk-inform.com);
- information available on website of the Food and Agriculture Organisation of the United Nations (www.fao.org);
- information published by the Food and Agriculture Policy Research Institute (FAPRI) (www.fapri.org);
- market researches provided by GFK Group;
- market researches provided by UkrAgroConsult;
- statistical data of National Bank of Ukraine (www.bank.gov.ua);
- statistical data of National Bank of Poland (www.nbp.gov.pl);
- a Polish specialised circular 'Grain Market – outlook and perspectives of June 2007';

- The Australian Bureau of Agricultural and Resource Economics (ABARE, www.abareconomics.com);
- European Biodiesel Board (www.ebb-eu.org/index.php).

While the Company has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Company or the Managers have independently verified that data. The information in this Prospectus that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by the cited sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. Subject to the foregoing, none of the Company or the Managers can assure investors of the accuracy or completeness of, or take any responsibility for, such data. The source for such third party information is cited whenever such information is used in this Prospectus.

With respect to industries in which we operate, some of our estimates and assessments could not be substantiated by reliable external market and/or industry information as such information is not often available or may be incomplete. While we have taken every reasonable care to provide the best possible assessments of the relevant market situation and the information about the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigations of the relevant markets or employ a professional consultant. Industry publications generally state that their information is obtained from sources they believe reliable, but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. We have relied on the accuracy of such data and statements without carrying out an independent verification thereof, and therefore cannot guarantee their accuracy and completeness. Furthermore, we believe that our management's estimates and assessments are accurate and reliable, however, they have not been verified by independent external professionals. Consequently, we can guarantee neither their accuracy and completeness nor that estimates or projections made by another entity relying on other methods of collecting, analysing and assessing market data would be the same as ours.

Save where required by mandatory provisions of laws, we do not intend and do not undertake to update market, economic or industry data, statistics and forecasts contained in this Prospectus. Industry trends may change or significantly differ from the one projected in this Prospectus. Therefore investors should be aware that estimates made in this Prospectus may not be relied upon as indicatives of our future performances and actual trends.

In this Prospectus, we make certain statements regarding our competitive position, our growth and market leadership. We believe these statements to be true based on market data and industry statistics regarding the competitive position of certain of our competitors. In presenting the overview of our competitive position in the relevant markets, we have also relied on our management's assessments and analysis of such competitive position. In making such assessments and analysis our management has used market information collected by its own employees and advisors for such purpose, either available on the basis of public information or derivable from the same.

Forward-looking Statements

Some of the statements in some of the sections in this Prospectus include forward-looking statements which reflect the Company's current views with respect to future events and financial performance of its Group. Such forward-looking statements can be identified by the use of forward-looking terminology, including the terms such as "believes", "expects", "estimates", "anticipates", "intends", "plans", "may", "will", "should", "would", "could" or, in each case, their negatives or other variations or comparable terms. All statements other than statements of historical facts included in this Prospectus are forward-looking statements. Such items in this Prospectus include, but are not limited to, statements under "*Risk Factors*", "*Our Business*", "*Industry Overview*" and "*Management Discussion and Operating and Financial Review*".

By their nature, forward-looking statements involve known and unknown risk and uncertainty, and other factors that may cause our actual results, performances and achievements to differ materially from any future results, performances, achievements or developments expressed in or implied by such forward-looking statements. We have based these forward-looking statements on numerous assumptions regarding our present and future business strategies, our current expectations and projections about future events and the environment in which we will operate in the future. These forward-looking statements are subject to risks, uncertainties and assumptions about our Group, including, among other things:

- our ability to develop and expand our business;
- our ability to keep up with new technologies and expand into new markets;
- our ability to control our costs;
- overall economic conditions in Poland and Ukraine;
- political and economic conditions in the countries outside Ukraine in which we operate;
- volatility in the world's commodities markets;
- the effects of regulation (including tax regulations) in Ukraine and Luxembourg and other countries in which we operate;
- our future capital spending and availability of financial resources.

The forward-looking statements speak only as at the date of this Prospectus. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, whether to reflect any new information, future events, any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, except as required by law, including under the Prospectus Act 2005 and the Public Offering Act.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Prospective investors are cautioned not to place undue reliance on such forward-looking statements, which are based on facts known to us only as of the date of this Prospectus.

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SUMMARY

The following constitutes the summary of the essential characteristics and risks associated with the Company, its Group and the Shares. This summary should be read only as an introduction to this Prospectus and contains information included elsewhere in this Prospectus. It is expressly pointed out that this summary is not exhaustive and does not contain all information which is of importance to prospective investors. Reading this summary should, in no way, be considered a substitute for reading this Prospectus in its entirety. Prospective investors should read this Prospectus thoroughly and completely, including the "Risk Factors", any supplements to this Prospectus required under applicable laws and our Consolidated Financial Statements and other financial information and related notes, before making any decision with respect to investing in the Offer Shares. No civil liability will attach to us in respect of this summary (including the Summary Financial and Operating Data) or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Summary of our Business

We are an integrated bottled oil and agribusiness Group operating from the farm down to the final consumer. We own and operate oilseed crushing, oil refining and bottling facilities as well as an extensive network of grain silos in Ukraine. We market and deliver to our clients products created through the processing of oilseeds, whether in bulk or bottled under our own brand names, and also a wide range of agricultural commodities grown in Ukraine. In the financial year to June 30, 2007 we had total net sales of US\$350 million, EBITDA¹ of US\$46.357 million and net income of US\$19.539 million. We believe we are:

- the largest producer and marketer of bottled oil in Ukraine with an estimated domestic market share of 35%;
- the second largest oilseed crusher in Ukraine, processing about 15% of total sunflower seeds harvested in Ukraine;
- the third largest exporter of bulk sunflower oil in Ukraine with 200,000 tons exported over the financial year to 30 June, 2007, equivalent to 11% of total sunflower oil export from Ukraine;
- among the top 10 originators and exporters of grain produced in Ukraine and
- the largest private grain silo network in Ukraine, with aggregate storage capacity of 1.7 million tons.

As of the date hereof, we own and operate three oilseed crushing plants with a total processing capacity of 730,000 tons of sunflower seeds per year. We own and operate two oil refining and bottling facilities installed next to the Group's crushing operations and capable of producing up to 140,000 tons of bottled oil per year, sold essentially under our Group brand names. We also own and operate 25 grain silos representing a total grain storage capacity of 1.7 million tons and two trucking companies providing logistic support to our grain and oil activities. Finally, we have developed a land bank totalling 30,000 ha of prime agricultural land, on which we grow various crops marketed or processed by our Group.

Kernel Holding S.A. is a holding company incorporated in Luxembourg, whose principal assets are its equity interests in its operating subsidiaries, the majority of which are incorporated and operate in Ukraine. All our production assets are owned by our two operating companies in Ukraine, LLC Kernel-Capital and LLC Kernel-Trade. We conduct our international marketing and sales activities essentially through our Swiss trading company Inerco Trade S.A. Our domestic origination, processing and bottled oil distribution activities are managed and handled by our Ukraine operating company LLC Kernel-Trade.

We conduct our operations in three divisions: agribusiness, bottled oil, and farming. Our two main divisions in terms of revenue and contribution to profit are the bottled oil and agribusiness divisions. Our third division, farming, is developed essentially to capitalize on the expected future free market for agricultural land.

Agribusiness is our largest division. It manages the origination of grains and oilseeds, storage and logistics of the agricultural commodities we trade and process, processing of oilseed in our three production plants, and finally marketing essentially on international markets of our bulk products, together with overall risk management related to the commodities we handle.

In the financial year ended 30 June 2007, our agribusiness division marketed and distributed 550,000 tons of grain, 200,000 tons of bulk vegetable oil and 210,000 tons of animal feed meal, accounting for US\$289.86 million in revenue and representing 82.7% of total Group sales. Our agribusiness division operates from Head Office in Kiev, Ukraine, and conducts merchandizing of agricultural commodities on the international markets and execution of international sales contracts.

Our bottled oil division manages the sales and marketing of bottled oil to final consumer markets. We refine, bottle and sell mostly our oil under the Group brand names "Schedry Dar", "Stozhar", "Chumak Zolota" and "Chumak Domashnya". We also sell refined and packaged oil to the main retailers operating in Ukraine for re-sale under their private labels. Our bottled oil division benefits from a safe and stable supply of crude oil directly produced by our crushing plants. On the Ukrainian domestic market we distribute our bottled oil to all regions of the country. Bottled oil which we export will be mostly delivered at the Ukrainian border. Our Bottled oil division is managed from our Head office in Kiev.

¹ Operating profit plus depreciation and amortization expenses of Kernel Holding S.A. for the year ended 30 June 2007.

In the financial year ended 30 June, 2007, our bottled oil division marketed and distributed 74 million litres of edible oils contributing US\$56.59 million to our Company revenue, representing 16.2% of total Group sales.

Our farming division manages the development of our agricultural land bank and also the production of agricultural crops on the land we lease, currently 30,000 ha mostly concentrated in two geographical regions of Ukraine. Our long-term lease contracts range from 5 to 10 years. We mainly grow corn, barley, wheat, sunflower and soy, which, after harvest, are mainly sold at market prices to our agribusiness division.

In the financial year ended 30 June, 2007, our Farming division harvested 40,000 tons of grain and oilseeds, representing 3% of grain and oilseeds handled by our agribusiness division.

Mr. Andrey Verevskyy, founder of the Group, is currently serving as Chairman of the Board of Directors and, through his Cyprus holding company – Namsen Limited, holds an 85.7% beneficial interest in the shares of our Company.

Our Business Strategy

Our objective is to continue developing our bottled oil business and agribusiness until they occupy sustainable and leading positions on our domestic market as well as to develop a strong platform for our international expansion, while ensuring the highest financial results and operational performance. To achieve our objectives we are implementing the following strategies:

Growth of both our core bottled oil business and our agribusiness through organic development

- We continue increasing processing capacity while improving operational performance and lowering cost per ton of production. As a result, we expect oilseed processing capacity at existing crushing plants to be increased by 60% by 2010;
- We are commissioning the construction of a green-field multi-seed crushing plant with a 510,000 ton/year oilseed crushing capacity in order to capitalize on the expected increase in sunflower seed production yields in Ukraine and on the rapid increase in production of rapeseed and soybeans in the country;
- We are significantly increasing throughput of grain through the Group's silos in order to capitalize on the growth of export crops from Ukraine;
- We are continuing to strengthen and expand our leading position on the bottled oil market by capitalizing on consumption growth on our domestic market, the phasing out of marginal refiners and bottlers and the gradual switch by the consumer from crude bulk oil sold on traditional markets to quality bottled oil sold through retail chains.

Seek new acquisition opportunities

We have completed several acquisitions in the course of our Group development and, on a selective basis, we intend to further acquire companies and/or production assets whenever the acquisition target corresponds to our selection criteria and strategic goals. To date we have effected acquisitions which have strengthened both our core bottled oil business and our agribusiness and made us, we believe, the main driving force behind the consolidation process in our sectors in Ukraine. In the future, however, such opportunities could materialize in our domestic market as well as abroad. We base our acquisition policy on the following criteria:

- The acquisition provides the return required by our shareholders;
- The acquisition provides the opportunity to further consolidate our markets, creates synergies with our existing business lines and enhances the value chain of our products;
- The acquisition widens the geographical reach of our Group and
- Makes full use of our existing expertise.

In line with our strategy, we are now actively looking to strengthen our position in the supply chain for agricultural commodities by acquiring port transshipment facilities on the Black Sea.

Focus on domestic and international markets

Both our domestic Ukrainian market and the international markets offer significant growth opportunities to our Group. With Ukraine's economy growing at an average rate of 6.8% per annum over the last 5 years, real household income growing by an estimated 20% in 2005 and 2006, and distribution networks developing ever faster, we are confident that our domestic market offers further growth opportunities in the bottled oil business. On international markets, with demand for grain and vegetable oil rising and supply from the farming sector in Ukraine growing, we anticipate significant growth of our grain, oil and protein meal export sales.

Our Competitive Strengths and Advantages

We believe our Group benefits from the following competitive strengths and advantages:

- *Strong origination base in agricultural commodities.* With Ukraine providing a unique combination of large stretches of extremely fertile soil, favorable climate, and direct sea access to near-by consumer markets, our Group benefits from a cost effective and abundant source of agricultural commodities.

- *Developed port infrastructure.* Our origination base in Ukraine is further enhanced by the extensive port infrastructure and deep-water ports of Ukraine on the Black Sea, providing us with direct access to our main export destinations, in particular the European Union and countries on the Southern and Eastern coasts of the Mediterranean.
- *Dominant position in two large agricultural regions of Ukraine.* Our production and logistics facilities are concentrated in the two regions of Poltava and Kharkov, situated in the sunflower and grain belt of Ukraine and among the largest agricultural regions in the country. As the only established crusher, refiner and bottler of vegetable oil in both regions, and thanks to our extensive network of grain silos in both regions, we are the partner of choice for most farmers in those regions, providing our Group with a largely captive source of supply for oilseed as well as grain.
- *Balanced business portfolio.* We operate in different markets and on different products. Our balanced business portfolio provides protection against a downturn or lower margins in one of our markets or products, thereby supporting sustainable results and performance.
- *Added value through integration of the value chain.* In both our core businesses we have built an integrated business model, which enables us to capture value all along the bottled oil and agribusiness supply chains.
- *Quality and reliability in production.* We ensure quality of our bottled oil through control of all three production stages of crushing, refining and bottling.
- *Synergies within and between our businesses.* Both our bottled oil business and our agribusiness draw on common operating resources. Resources are equally shared by separate business lines and also within divisions, thereby significantly improving operational efficiency of the Group.
- *Scalability of business.* Successful acquisitions and regular plant improvements have constantly increased the volumes traded by our Group and our sales, without however impacting significantly on our operating expenses. Having managed to accommodate substantial increases in activity with limited increase in overheads, we believe we still have room for economies of scale and improved productivity in both our bottled oil business and agribusiness.
- *Natural hedge provided by our bottled oil business.* Our bottled oil business and the relative stability of the price for bottled oil provide an effective hedge against the volatility experienced in the price of bulk oil.
- *Significant portion of dollar-denominated business.* We derive a significant portion of our sales from the international market, thereby limiting the impact of a possible devaluation of the local currency on profitability of our agribusiness and farming divisions.
- *Strategic location of our crushing facilities.* Our three crushing plants are located in the sunflower seed belt of Ukraine, in regions traditionally growing significant amounts of sunflower and offering nearby supply of feedstock for our oil activity.
- *Advantageous negotiating position in bottled oil pricing.* With sunflower oil production easily covering domestic demand, estimated at 550,000 to 650,000 tons per year, Ukraine is a natural exporter of most of its produce, and pricing of bottled oil on our domestic market is primarily a function of the international market. If the price of sunflower oil on the international market increases, the price of bottled oil will eventually follow or oil will tend to disappear from the supermarket shelves and be exported. Conversely, with oil prices decreasing on the international market, the price of bottled oil will tend to stay at levels reached previously.
- *Quality of our earnings.* The expertise of our agribusiness division lies in management of the supply value chain. We do not create value by taking long or short positions on commodities markets, but essentially through our capacity to originate agricultural commodities at the lowest price, manage logistics, and production efficiently and execute delivery contracts to the satisfaction of our customers, thereby ensuring sustainable margins.
- *Efficient management structure.* All management decisions are taken in Kiev, with the Management Team convening regularly, and at short notice. Our flat management structure insures efficiency and speed in implementation of management decisions.

Historical and Recent Developments

Our Company started in the mid-nineties exporting agricultural commodities produced in Ukraine. Originally an asset-light trading company, our Company started acquiring grain silos as an instrument in support of grain origination.

In 2002, we expanded into a new area of business by acquiring a sunflower seed crushing plant located in Poltava. With this acquisition, our Group evolved from a pure trader to a processor of agricultural commodities. In the same period, we started building a portfolio of agricultural land by concluding long-term lease contracts for land usually close to our Group silos.

In 2004, with growth firmly under way in Ukraine, our management decided to expand the business portfolio of the Group and move into consumer markets and branded oil products. For this purpose, we acquired the oil brand "Schedry Dar", together with crushing, refining and bottling facilities located in the eastern region of Luhansk.

In 2006, with the sunflower oil industry entering consolidation phase, we effected a significant acquisition by purchasing the bottled oil brand "Stozhar" and the production assets of "Evrotek", a major domestic competitor active in both the bottled oil business

and agribusiness and benefiting from a dominant market position in the Kharkov region bordering on the Poltava region. As a result, we significantly increased our sales and became a leading producer and marketer of sunflower oil in Ukraine. We also now operate the largest and most modern oil refining and bottling complex in Ukraine and control the largest private silo network in the country.

In 2007, we concluded a series of agreements with the company CJSC "Chumak", providing our Group with the right to market and distribute bottled oil under the brand names "Chumak Zolota" and "Chumak Domashnya". Following these agreements, we have become the no 1 marketer of bottled oil in Ukraine with an estimated 35% market share.

Summary of Risk Factors

Before investing in the Offer Shares, prospective investors should consider carefully, together with the other information contained in the Prospectus, certain risk factors pertaining to the Company and its Group, in particular to our operating companies domiciled in the Ukraine, as well as to an investment and trading in the Offer Shares, set out in the section "Risk Factors".

Our business, results of operations and financial condition may be adversely affected by the following risk factors:

Risks Relating to our Group

- *The commodity nature of our products means that we are sensitive to market-driven pricing.*
- *An unexpected change in weather conditions may adversely affect our supply of raw materials.*
- *In our bulk trading operations, we sell a substantial portion of our products to a limited number of customers.*
- *We face competition in each of our businesses and we may not be able to compete successfully, especially due to consolidation among our competitors or customers which could weaken our market position and harm our business.*
- *Our competitors may have access to more and cheaper sources of capital allowing them to modernise their business, expand their operations more quickly, and giving them a substantial competitive advantage over us.*
- *We may be unable to raise additional capital to fund growth of our operations.*
- *We may be unable to obtain working capital at all or on terms comparable to those in the past.*
- *Covenants in the debt agreements of our subsidiaries may restrict our ability to borrow and invest, which could affect our flexibility to operate and our ability to expand.*
- *We finance our operations with debt and any future increase of indebtedness could adversely affect our cash flow, prevent us from fulfilling our strategic expansion plans or from paying dividends.*
- *We may be unable to implement our strategy, and the plan we execute may not produce the results we intend.*
- *Our risk management strategy may not be effective.*
- *Due to the seasonality of our business and our related short-term financing requirements, we may experience liquidity problems.*
- *Additional need for investments in recently acquired companies could adversely affect our financial condition.*
- *We may be unable to operate our production facilities without interruption due to the condition of some of our equipment.*
- *Energy or labour costs could increase.*
- *Increases in transportation costs may decrease our profitability.*
- *We depend heavily upon our key managers and other members of our workforce.*
- *We may not have or we may be unable to obtain sufficient insurance to protect ourselves from business risks and liabilities.*
- *Our current management information systems, in particular our accounting systems, may be insufficient for our operations or may not be as robust as those of companies organised in jurisdictions with a longer history of compliance with IFRS.*
- *We may incur costs to comply with health, safety and environmental laws and regulations.*
- *We are subject to food, grain, oil and protein meal quality requirements and regulations.*
- *Our business could be adversely affected if we fail to obtain, to maintain or to renew necessary permits or fail to comply with the terms of our permits.*
- *Third parties could challenge our title to or other rights to farm land that we lease and we may not be able to renew our lease agreements.*
- *Export limitations and restrictions on agricultural commodities could adversely affect our business.*
- *The Ukrainian government might abandon, alter or fail to continue with its policy of imposing duties on export of sunflower seed.*
- *We are subject to currency-related and interest rate risks.*

- *We may not hold all licenses necessary to operate our computer software.*
- *There may be uncertainties surrounding privatization of some of the Group Subsidiaries.*
- *Our operations may be limited by antimonopoly regulations.*
- *We could face administrative sanctions or be required to divest certain assets if the Antimonopoly Committee of Ukraine considers that we purchased from CJSC Chumak assets in contravention of antimonopoly legislation and without its prior approval.*
- *We could be subject to liabilities if it is determined that our past actions violated Ukrainian corporate laws or regulations.*
- *The Company is a holding company with no assets other than participating interests in the Group Subsidiaries.*
- *Non-Luxembourg or non-Ukrainian investors may have problems with enforcement of judgements against the Company.*

Risks relating to our operations in Ukraine

- *General.*
- *Risks associated with emerging markets.*
- *Political considerations.*
- *Economic considerations.*
- *Dependence on external sources of financing.*
- *Regional relationships.*
- *Ukraine's developing legal system.*
- *Official economic data and third-party information.*
- *Relationships with western governments and institutions.*
- *Fluctuations in the global economy.*
- *Ukraine may not be able to maintain access to foreign trade and investment.*
- *Corruption and money laundering issues.*
- *Uncertainties relating to the judicial system.*
- *Ukraine's tax system.*
- *Disclosure and reporting requirements and fiduciary duties.*

Risks Related to Shares, Listing and Trading on the WSE

- *Your shareholding, voting rights and the earnings per Share may be diluted.*
- *Market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares.*
- *We may not guarantee that we will pay dividends in the future.*
- *Securities or industry analysts may cease to publish research or reports about our business or may change their recommendations regarding our Shares.*
- *We may be unable to list our Shares on the WSE.*
- *Trading in our Shares on the WSE may be suspended.*
- *Our Shares may be delisted from the WSE.*
- *There can be no assurance regarding the future development of market for the Shares and its liquidity.*
- *The marketability of our Shares may decline and the market price of our Shares may fluctuate disproportionately in response to adverse developments that are unrelated to our operating performance and decline below the Offer Price.*
- *The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares.*
- *Exercise of certain shareholders' rights and tax treatment for non-Luxembourg investors in a Luxembourg company may be more complex and costly.*

Summary of the Offering

The Issuer	Kernel Holding S.A., a public limited company (<i>société anonyme</i>), incorporated under the laws of Luxembourg, having its registered office at 65, boulevard Grande-Duchesse Charlotte, L-1331 Luxembourg and registered with <i>Registre de Commerce et des Sociétés</i> in Luxembourg under number B.109.173.
The Selling Shareholder	Namsen Limited, a limited liability company incorporated under the laws of Cyprus, having its registered office in Nikosia, P.C. 2406 Egkom, 13 Aqiou Prokopiou Street, Cyprus. As at the date of this Prospectus the Selling Shareholder holds an 85.7% beneficial interest in the issued and outstanding share capital of the Company. After the Offering, upon exercise of the Call Option (see " <i>Principal Shareholders and Selling Shareholder</i> ") the Selling Shareholder will continue to own not less than 67 per cent of our issued and outstanding Shares (or not less than 62 per cent if the Over-allotment Option is exercised in full).
The Offering	The Company and the Selling Shareholder are offering the Offer Shares: (i) to investors other than U.S. persons (as defined in Regulation S) in a public offering in Poland; and (ii) in private placements to selected Institutional Investors other than U.S. persons (as defined in Regulation S) elsewhere outside Poland and outside the United States, in each case in reliance on the Regulation S under the US Securities Act.
Offer Shares	The Offer Shares comprises up to 21,279,048 ordinary bearer shares of the Company without indication of a nominal value. The Offer Shares will consist of up to 17,779,048 New Shares and up to 3,500,000 Sale Shares. The number of Shares offered may be increased pursuant to the Over-allotment Option described below. The final number of the Offer Shares offered will be determined by the Company and the Selling Shareholder upon recommendation of the Managers after termination of the subscription periods on the Allotment Date on or about 14 November 2007, based on interest from investors and will be announced on or about 14 November 2007 in a manner required by applicable laws, as well as market practices in Poland and Luxembourg, <i>i.e.</i> , in the same manner as this Prospectus has been published and by way of a press release.
Form of Shares	<p>All the Shares are ordinary bearer shares and will exist in book entry form once they have been registered with the National Depository for Securities (the "NDS") in Poland. Shareholders in the Company may hold them through the NDS participants, including investment firms and custodian banks operating in Poland.</p> <p>The Company will apply for registration of all the Shares issued in its share capital, including the Offer Shares, with the NDS. It is expected that soon after the Settlement Date, all of the Shares, including the Offer Shares, will be registered with the NDS and will exist in book entry form.</p>
Shares Outstanding before and after the completion of the Offering	Our issued and outstanding share capital as of the date of this Prospectus is US\$1,232,368.02 divided into 46,670,000 Shares, each without indication of a nominal value. Upon completion of the Offering no more than 64,449,048 Shares will be issued and outstanding which Shares will comprise our share capital in the amount not exceeding US\$1,701,841.55. See: " <i>Description of Our Shares and Corporate Rights and Obligations</i> " and " <i>General Information on the Company – Corporate Resolutions and Share Capital</i> ".

Subscription Periods	Prospective retail investors in Poland (other than "U.S. persons" as defined in Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 2 November 2007 and is expected to end on or about 13 November 2007, whereas selected prospective institutional investors (other than U.S. persons as defined in Regulation S) may subscribe for or purchase the Offer Shares during a period which is expected to commence on or about 1 November 2007 and is expected to end on or about 13 November 2007.
Offer Price	The final Offer Price will be determined by us and the Selling Shareholder based on recommendations made by the Managers once the Subscription Period ends at the Allotment Date on or about 14 November 2007 based on interest from investors and will be announced on or about 14 November 2007 in a manner required by applicable laws, as well as market practices in Poland and Luxembourg, <i>i.e.</i> , in the same manner as this Prospectus has been published and by way of a press release in Poland.
Allotment	Allotment will occur promptly following the Subscription Period, and is expected to take place on or about 14 November 2007, subject to acceleration or extension of the timetable for the Offering at the discretion of the Company and the Selling Shareholder.
Over-allotment Option	In connection with the Offering, the Selling Shareholder has granted to the Global Coordinator and Bookrunner the Over-allotment Option, exercisable for a period of up to 30 calendar days after the Listing Date, pursuant to which the Global Coordinator and Bookrunner may require the Selling Shareholder to sell up to an additional 3,191,857 Over-allotment Shares representing up to 15 per cent of the aggregate number of Offer Shares available in the Offering (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions. See " <i>Placing and Underwriting</i> ".
Settlement and Delivery of the Offer Shares	The settlement of the Offering, including the issuance of the New Shares, is expected to be made on the Settlement Date on or about 19 November 2007 upon payment of the total Offer Price. The Offer Shares will be delivered by registering such Offer Shares on investors' securities accounts, which is expected to take place on or about 22 November 2007 or as soon as practicable thereafter but before the Listing Date through the facilities of the NDS in accordance with standard procedures applicable to settlement of public offerings of equity securities in Poland. See " <i>The Offering and Plan of Distribution</i> ".
Listing and Trading	<p>Immediately following the Settlement Date, an application will be made for all of our Shares issued in the share capital (<i>i.e.</i>, up to 64,449,048 Shares), including the Offer Shares, to be admitted and introduced to trading on the main market of the WSE. Trading in the Shares on the WSE is expected to commence on the Listing Date on or about 23 November 2007. Prior to the Offering, there was no public market for our Shares.</p> <p>No application is currently intended to be made for the Shares to be admitted to listing or dealt with in any other regulated market.</p>
Dividends	All Shares, including the Offer Shares, carry full dividend rights if and when declared, from the date the holder acquires such Shares. See " <i>Dividends and Dividend Policy</i> ".
Voting Rights	Each Share entitles its holder to one vote at our General Meeting of Shareholders.

Use of Proceeds	<p>Net proceeds from the New Shares offered and sold by the Company will accrue to the Company, whereas the proceeds from the sale of the Sale Shares and the Overallotment Shares, if any, by the Selling Shareholder will accrue for the Selling Shareholder. See "Use of Proceeds".</p> <p>The Company intends to use the proceeds from the Offering primarily for the purposes of: (i) greenfield construction of a multiseed crushing plant with 510,000 tons/year crushing capacity in Ukraine; (ii) acquisition of port storage and trans-shipment facilities in Ukraine for agricultural commodities; (iii) capacity increase of our existing crushing plants during 2008–2010; (iv) increase by 50,000 ha of our farm land bank in Ukraine; (v) repayment of bridge financing raised to fund the acquisition of "Chumak Zolota" and "Chumak Domashnya" bottled oil brand in July 2007; (vi) increase in working capital needs following capacity expansion. See "Use of Proceeds".</p>
Underwriting	<p>We and the Selling Shareholder plan to enter on the Allotment Date into an underwriting agreement (the "Underwriting Agreement") pursuant to which the Managers will undertake, subject to certain other conditions, to procure subscribers for the Offer Shares at the Offer Price. Failing the procurement of such subscribers or payment of the Offer Price, ING Bank N.V., London Branch shall for itself subscribe for and pay for the Offer Shares. See "Placing and Underwriting".</p>
Lock-up	<p>Each of the Company and the Selling Shareholder has agreed that without the prior written consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld, it will not, for a period of 180 days from the Settlement Date, propose or otherwise support an offering of any of the Shares, announce any intention to offer any Shares or new Shares and/or to sell, contract to sell, or otherwise transfer or dispose of any Shares, to issue any securities convertible into the Company's stock or securities that in any other manner represent the right to acquire the Company's Shares, or conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling the Company's stock, except (i) as part of the Offering (including the sale of Shares subject to the Over-allotment Option) or (ii) as a part of any stock/management incentive plan linked to the Company's share capital to be implemented by the Company.</p>
Securities Code	ISIN Code: LU0327357389
Global Coordinator and Bookrunner	ING Bank N.V., London Branch
Polish Manager and Offeror	ING Securities S.A., Warsaw
Managers	ING Bank N.V., London Branch and ING Securities S.A., Warsaw
Selling Restrictions	<p>The Offer Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or any jurisdiction in the United States and subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the US Securities Act. For information on further selling restrictions please see: "Selling Restrictions".</p>

SUMMARY FINANCIAL AND OPERATING DATA

The following tables set out summary consolidated financial and operating data for the Company on a consolidated basis as at and for the three years ended 30 June 2005, 2006 and 2007 (the "Summary Annual Financial Information"). The Summary Annual Financial Information has been extracted from the Consolidated Financial Statements, without material adjustment, and should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements and the notes thereto included in this Prospectus and the information in the section titled "*Management Discussion and Operating and Financial Review*". The Consolidated Financial Statements have been prepared in accordance with IFRS and as applicable in the respective years. The Annual Financial Statements have been audited by LLC "Baker Tilly Ukraine". See "*Important Information – Certain Conventions and Presentation of Financial and Other Information*" and "*General Information on the Company – Independent Auditors*".

Consolidated Income Statement Data

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
REVENUE	350,379	215,242	143,763
COST OF SALES	(267,352)	(173,423)	(120,582)
GROSS PROFIT	83,027	41,819	23,181
OTHER OPERATIONAL INCOME	7,865	1,220	303
OPERATING EXPENSES:			
Distribution costs	(38,963)	(20,341)	(11,441)
General and administrative expenses	(13,295)	(10,685)	(7,087)
TOTAL OPERATING EXPENSES	(52,258)	(31,026)	(18,528)
OPERATING PROFIT	38,634	12,013	4,956
Finance costs, net.	(18,863)	(9,303)	(6,640)
Foreign exchange (loss)/gain, net.	(768)	(931)	1,124
Other (expenses)/income, net.	(2,311)	(1,810)	883
PROFIT / (LOSS) BEFORE INCOME TAX	16,692	(31)	323
INCOME TAX	1,904	75	267
NET PROFIT	18,596	44	590
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
Shareholders of Kernel Holdings S.A.	19,539	1,287	459
Minority interest	(943)	(1,243)	131

Consolidated Balance Sheet Data

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
ASSETS			
Total current assets	115,968	67,965	39,083
Total non-current assets	159,112	87,861	83,580
Total Assets	275,080	155,826	122,663
LIABILITIES AND EQUITY			
Total current liabilities	59,179	34,510	27,880
Total non-current liabilities	130,608	73,760	46,392
SUBORDINATED LOAN	7,532	—	—
COMMITMENTS AND CONTINGENCIES			
EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A. SHAREHOLDERS			
Total equity attributable to Kernel Holding S.A. shareholders	64,610	41,676	32,662
MINORITY INTEREST	13,151	5,880	15,729
Total equity	77,761	47,556	48,391
TOTAL LIABILITIES AND EQUITY	275,080	155,826	122,663

RISK FACTORS

Prospective investors in the Offer Shares should carefully consider the following risks and uncertainties, as well as other information contained in this Prospectus before deciding to invest in any of the Offer Shares. Our business, financial condition and results of operations have been, and could be, materially adversely affected by the following risks. If any of the following risks actually occurs, the value and trading price of the Shares could decline and investors could lose all or part of their investment. Described below are the risks and uncertainties we believe are material, but these risks and uncertainties may not be the only ones we face. Additional risks and uncertainties, including those we are not currently aware of or deem immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the Shares.

Risks Relating to our Group

The commodity nature of our products means that we are sensitive to market-driven pricing.

Selling prices for our oils and grain products and operating costs associated therewith are volatile and are determined by market conditions. Among the key factors affecting the market are the availability and supply of raw materials, the weather, crop yields and governmental regulations. If any or all of these factors depress selling prices or increase our operating costs, our business, results of operations and financial condition may be adversely affected.

An unexpected change in weather conditions may adversely affect our supply of raw materials.

Our ability to obtain raw materials in a timely manner and in sufficient quantities may be affected by natural conditions, including among others, drought, flood, unexpected or heavy frost and hurricanes, and other unpredictable factors such as crop allocation, plantings, government farm programs and policies. Such factors may cause deliveries of raw materials to be delayed or unavailable to us and may adversely affect our business, results of operations and financial condition.

In our bulk trading operations, we sell a substantial portion of our products to a limited number of customers.

We have well-established ties with a relatively small number of selected large customers in our bulk trading operations relating to grains, oil and protein meal from which we have historically earned, and believe we will continue to earn in the future a significant portion of our revenues (see: "Our Business"). We believe that our commercial relationships with our customers are good. However, there are a number of factors other than our performance, including pricing and market demand for our products, that could cause the loss of a client and may not be predictable. One or more of our clients could cease their operations or reduce their size. The default of one of our large customers could have an adverse effect on our business, results of operations and financial condition.

We face competition in each of our businesses and we may not be able to compete successfully, especially due to consolidation among our competitors or customers which could weaken our market position and harm our business.

We are one of the largest companies engaged in Ukraine in the production and marketing of bulk sunflower oil, protein meal and bottled oil as well as a leading exporter of grain produced in Ukraine. We have managed to increase significantly our market share over the past ten years. Agribusiness and the edible oil industry are, however, highly competitive industries and we face significant competitive challenges, as outlined below.

In agribusiness, the markets for our products are highly price sensitive. We compete against large multinational, domestic suppliers, oilseed processors and farm cooperatives. Competition is based to a large extent on price, speed, quality of contract execution, and geographic location.

In the bottled oil industry products sold by our Company are not only highly price sensitive, but need to compete successfully in a range of marketing issues. We must establish and maintain favourable brand recognition, efficiently manage distribution, maintain market share, develop products sought by consumers and other customers, implement appropriate pricing policies, provide marketing support, and obtain access to retail outlets and sufficient shelf space for our retail products.

We have many current and prospective competitors, some of which are multinationals with greater financial and marketing resources than ours. The appearance of new participants or increased activity of current market participants may significantly increase competition on the market. Moreover, it is possible that we will experience significant pricing pressure from both our consumers and our competitors, and that some of our competitors will seek to increase their market share by further reducing their selling prices or by offering some incentives. Consequently, to remain competitive and/or to retain our share in the market, we may need to increase our expenses on new acquisitions and our marketing efforts or to adjust pricing of our products. This could adversely affect our business because of increased operating costs and reduced profitability. Moreover, competition could cause us to lose our market share or exit certain lines of business, each of which could have an adverse effect on our revenues and profitability.

Our competitors may have access to more and cheaper sources of capital allowing them to modernise their business, expand their operations more quickly, and giving them a substantial competitive advantage over us.

Our business requires us to be able to raise working capital quickly to fund operations and to obtain financing for investments at a reasonable cost. Our competitors may have the ability to obtain more and cheaper sources of capital than us. Their access to such capital may enable

them to implement operational or investment projects that could give them a competitive advantage over us and could adversely affect our results of operations and financial condition.

We may be unable to raise additional capital to fund growth of our operations.

We may need additional capital to maintain and expand our business. Our ability to raise additional funding to pursue our strategy depends on a number of factors, including our access to capital markets and the stability of our current operation. At the present time, we believe that our access to debt financing and cash flows from operations should be sufficient to finance our capital requirements for the foreseeable future. However, market conditions and other factors, especially large transactions and acquisitions to be effected by us or capital expenditures to be incurred by us, may cause us to seek additional financing sooner than we expect.

Save for our lock-up arrangements (See "*Placing and Underwriting – Lock-up Agreements*"), we cannot guarantee that with a view to equity financing we will not issue additional Shares or debt instruments linked to the Company's share capital, which will lead to dilution of the Company's then shareholders, or that we will not issue Shares or debt instruments with rights superior to those of the then holders of the Shares.

If we fail to generate sufficient funds from operating cash flow and debt or equity financing, we may have to delay or abandon our business plans or fall behind in our plant maintenance.

Any of these events could adversely affect our business, results of operations and financial condition.

We may be unable to obtain working capital at all or on terms comparable to those in the past.

In the past we have required a high level of working capital because of factors such as the seasonal nature of our business and our expansion programme. We have historically obtained working capital from many sources, including bank loans and bond issues. In the future, our inability to obtain working capital at all or on terms comparable to those in the past, could negatively affect our business, results of operations, or financial condition.

Covenants in the debt agreements of our subsidiaries may restrict our ability to borrow and invest, which could affect our flexibility to operate and our ability to expand.

In order to finance the development of our business, e.g. to upgrade our facilities or make significant acquisitions, we have needed and may need to incur debt. To obtain loans, we have been, and may be required to secure such loans by granting security over our significant assets such as shares held in our Group Subsidiaries or real estate owned by the Group. Such credit facilities may provide restrictive covenants that may limit our flexibility to operate. In addition, any onerous collateral requirement may limit our ability to raise additional funds. Some of the current debt facilities of our Group contain covenants that impose on us operating and financial restrictions, including restrictions on our ability to incur and extend loans, credit and other debt financing; encumber any assets; distribute profits; acquire shares in other entities; change the character of our business activities; dispose of shares; change of ownership or control; effect merger or any other reorganisation; dispose, transfer or lease assets; distribute dividends or profits; receive credits from other banks, among others. Events beyond our control could prevent us from complying with these covenants and result in a breach of any such obligation, thus triggering an event of default.

We finance our operations with debt and any future increase of indebtedness could adversely affect our cash flow, prevent us from fulfilling our strategic expansion plans or from paying dividends.

We leverage ourselves in order to finance our capital expenditure programs and part of our working capital needs associated with our development. As at 30 June 2007, we had consolidated net indebtedness of US\$140.15 million and shareholder equity of US\$64.6 million. Any need to obtain additional loans to finance our development, subject to compliance with covenants and other conditions, could increase our level of indebtedness and trigger several important consequences. For example, it could:

- limit our ability to obtain additional financing for working capital, capital expenditures or other purposes;
- require us to dedicate a substantial portion of the cash flow to pay interest expenses and repay principal debt, which would reduce funds that would otherwise be available to us for operations and future business opportunities;
- limit our flexibility in planning for, or reacting to, changes in our business and the markets in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to pay dividends.

We may be unable to implement our strategy, and the plan we execute may not produce the results we intend.

Our strategy envisages, among other things, that we will increase our production capacity and sell greater volumes of our current products. There are a number of factors that may have an impact on the implementation of our strategy, including our ability to gain capital and market demand for our products. Our ability to obtain financing to accomplish these goals will depend upon the stability of our current operations and the willingness of the market to make financing available to the Group. There can be no assurance that we will be able to fulfil our strategy in the time period we have set for ourselves.

Our risk management strategy may not be effective.

Our business is affected by fluctuations in agricultural commodities prices, freight rates, energy prices, interest rates and foreign currency exchange rates. Our risk management strategy may not be successful in minimizing our exposure to these fluctuations. In addition, our control procedures and risk management policies may not successfully prevent our traders from entering into unauthorized transactions that have the potential to impair our financial position.

Due to the seasonality of our business and our related short-term financing requirements, we may experience liquidity problems.

Due to the seasonal nature of our business, we require high levels of financing in the period immediately following the harvest to support the purchase of raw materials as they become available. We fulfil our seasonal financing requirements by obtaining short-term credit lines from commercial banks, which are repaid in the course of the financial year on the condition that our sales to customers are timely settled. If the majority of our customers were unable or unwilling to fulfil their payment obligations in a timely manner, we would be forced to repay our short-term credit lines from other resources, thus jeopardising our liquidity.

Additional need for investments in recently acquired companies could adversely affect our financial condition.

We have recently acquired a number of companies, production assets and brands and we intend to continue to acquire new companies and production facilities in the future. The need for investments in such companies to bring their operations in line with the Company's strategy and policies could have an adverse effect on our operating results and financial condition.

We may be unable to operate our production facilities without interruption due to the condition of some of our equipment.

Our sales depend to a large degree upon the continued operation of our processing facilities, some of which have been in operation for a long time and rely on outdated equipment. The operation of our plants involves risks, including among others, the breakdown, failure or substandard performance of equipment, the improper installation or operation of the equipment, an inability to make timely repairs and compliance with government regulations. Although we make all possible efforts to ensure that our processing facilities work properly, any significant manufacturing disruptions or reductions in capacity could adversely affect our ability to process and sell our products, which could have a material adverse effect on our business, results of operations and financial condition.

Energy or labour costs could increase.

Costs related to energy and labour constitute a significant portion of our operating costs. According to state statistics, the wages and energy prices in Ukraine have been rising. It is expected that the said costs will rise further in the coming years. Although we have recently improved our productivity by substantially reducing our workforce and increasing production, and while we are working to further improve our margins by reducing overall energy consumption and manual labour, there can be no guarantee that increases of wages and energy prices would not negatively affect our results of operations.

Increases in transportation costs may decrease our profitability.

We require significant quantities of raw materials to be delivered to our plants by truck or rail. Moreover, we also deliver our products to our clients or to port facilities by truck or rail. Consequently, our operating profit may be adversely affected by increased transportation costs. If, under certain circumstances, a need arises to obtain larger than normal quantities of raw materials from farms located at a greater distance from our plants, such a need will cause higher transportation costs, and as a result our operating profit could decrease.

We depend heavily upon our key managers and other members of our workforce.

Our success depends upon the continued contributions of our Board of Directors and other members of the Management Team. The loss or unavailability to the Group of such officers for an extended period of time could have a materially adverse effect upon our business, financial condition and results of operations, and may prevent us from effectively pursuing our business strategy. To the extent that the services of such officers are unavailable to the us for any reason, we will be required to hire other personnel to manage and operate the Company and the Group. We cannot provide assurance that we would be able to identify qualified personnel to manage and operate the Company and the Group or to employ such persons on acceptable terms.

We also rely, to a great extent, on the contribution of our senior management. We must attract highly qualified personnel with a thorough understanding of our business, to continue to grow rapidly and take advantage of opportunities existing on the market. The inability to attract and retain qualified managers could have a material adverse effect on our business, financial condition and results of operation.

We may not have or we may be unable to obtain sufficient insurance to protect ourselves from business risks and liabilities.

While we tend to maintain the types of insurance customarily available to commercial businesses in Ukraine, our insurance policies do not cover, and insurance is not commercially available for all potential risks to which we are or may be exposed, such as crop insurance and management liability insurance. Our lack of insurance for all or certain business related risks may expose us to substantial losses, which could adversely affect our business, results of operations and financial condition.

Our current management information systems, in particular our accounting systems, may be insufficient for our operations or may not be as robust as those of companies organised in jurisdictions with a longer history of compliance with IFRS.

The existing management information systems of the Group are not as robust as those of companies organised in jurisdictions with a longer history of compliance with IFRS. Insufficient robustness of management information systems may limit our growth potential, adversely affect the efficiency of our internal control and procedures, and lead to incorrect presentation or interpretation of financial matters affecting the Group. We are currently in the process of switching to a fully integrated accounting system. We lack experience with the operation of the new system and, consequently, timely delivery of the information which it has to process.

We may incur costs to comply with health, safety and environmental laws and regulations.

We are subject to environmental, health and safety laws and regulations relating to pollution, protection of the environment and protection of human health and safety. The Ukrainian laws and regulations dealing with those matters are subject to frequent amendments, which forces us to respond quickly by adjusting to new and usually more stringent requirements and standards. In the ordinary course of business, we are subject to various state inspections. We make all possible efforts to comply with such requirements and standards and we believe that we meet most of them. However, we cannot entirely exclude the possibility that in the future we could incur substantial costs to comply with health, safety and environmental laws and regulations or that we do not manage to adjust to new requirements. A serious breach of such requirements could result in fines being imposed on us by state inspections, damages and civil or criminal sanctions against us. We could also experience interruptions in our operations for actual or alleged violations of environmental laws. Costs of compliance and potential liabilities due to environmental damage or harm to health could adversely affect our business, results of operations and financial condition.

We are subject to food, grain, oil and protein meal quality requirements and regulations.

We are subject to risks relating to food, grain, oil and protein meal quality requirements and regulations which include, but are not limited to, product spoilage or contamination, industry or government regulations, including processing and labelling regulations, and which may result in potential product liability claims. These matters could adversely affect our revenues and operating results.

Our business could be adversely affected if we fail to obtain, to maintain or to renew necessary permits or fail to comply with the terms of our permits.

Our business depends on the continuing validity of several permits, the issuance to us of new permits and our compliance with the terms of such permits.

Regulatory authorities exercise considerable discretion in the timing of permit issuance and renewal and in the monitoring of compliance with the terms of permits. In certain circumstances, state authorities in Ukraine may seek to interfere with the issuance of permits, and the permitting process may also be influenced by outside commentary, political pressure and other extra-legal factors. Accordingly, there is a risk that permits needed for our business may not be issued or renewed or that they may not be issued or renewed in a timely fashion. If we are unable to obtain, maintain or renew necessary permits, our business, results of operations and financial condition could be materially adversely affected.

Moreover, currently neither of the Group Subsidiaries, which extract underground water, hold permits for the use of subsoil in connection with water extraction, which, in theory, may result in the suspension of water extraction activities of such Group Subsidiaries. The Group intends to file the applications for the respective permits in the nearest future and expects to obtain such permits in early 2008. However, due to ambiguity of the applicable Ukrainian legislation, the obtaining of such permits may be further delayed or temporarily refused by Ukrainian state authorities. See "Our Business – Regulatory Matters" and "Our Business – Environmental Matters".

Third parties could challenge our title to or other rights to farm land that we lease and we may not be able to renew our lease agreements.

We lease all the land plots on which we grow grains and oilseeds. The vast majority of our land plots under lease are leased from private individuals, whereas the remaining land plots under lease are leased from local authorities. As of the date of this Prospectus, we lease about 30 thousand hectares of land. Any challenge to the validity or enforceability of our Group Subsidiaries' rights to land they lease may result in the loss of the respective lease rights. Further, due to the fact that all our lease agreements are concluded for a limited period of time, we cannot guarantee that all lease agreements will be renewed upon their expiration. However, under Ukrainian law, as the lessee we have the pre-emptive right to extend the term of the lease agreement upon its expiry, provided that we have complied with the terms of the lease and the lessor desires to continue leasing the land plot. Any relevant loss of land could materially affect the volume of cultivated and harvested raw materials and thus our farming business.

Export limitations and restrictions on agricultural commodities could adversely affect our business.

Agricultural markets and agricultural production generally are subject to prevailing political and social policies. At times, governments impose export restrictions and limitations on grain and other agricultural commodities in the form of quotas, tariffs, and other mechanisms to protect consumers, producers or processors. The said restrictions and limitations can affect volumes and prices in national, regional and world markets. From time to time the government of Ukraine imposes such limitations and restrictions on agricultural commodities, especially grain exports, and, while sufficient quotas and export licences have been put at the disposal of the market in general and of our Group in particular,

there can be no guarantee that the Ukrainian government will not impose such limitations and restrictions in the future or, if imposed, that it will grant quotas to exporters of agricultural commodities, such as our Group. Any government regulations or legislation in the agricultural commodities could adversely affect our business, results of operations, and financial condition.

In order to prevent a future increase of retail prices for bottled sunflower oil in Ukraine, the Government of Ukraine is considering imposing quotas on the export of bottled sunflower oil as of 1 November 2007. The imposition of quotas should not have any material effect on the Group due to the Group's low volumes of exported bottled oil. Although we believe that there are currently no plans to impose similar quotas for the export of crude sunflower oil, there can be no assurance that quotas or similar export limitations or restrictions for the export of crude sunflower oil will not be imposed by the Government of Ukraine in the future.

The Ukrainian government might abandon, alter or fail to continue with its policy of imposing duties on export of sunflower seed.

Sunflower seeds have been subject to an export duty since October 1999, when the Ukrainian government introduced a 23% export duty on sunflower seeds with the goal of stimulating domestic processing of sunflower seeds and production of sunflower oil. In June 2001 the law "On the Rates of Export Customs on Some Kinds of Oil Cultures", as amended, reduced to 17% the export duty on sunflower seeds. Rates of export duties have been subject to changes as a result of Ukraine's ongoing negotiations regarding World Trade Organization (the "WTO") accession and required liberalisation of exports and import barriers, including restrictions relating to sunflower seed export. As a consequence, under the law "On Amendments to the Law On the Rates of Export Customs on Some Kinds of Oil Cultures" dated 7 July, 2005, Ukraine shall lower the export duty to 16% upon WTO accession and reduce the duty by a further 1 per cent each subsequent year until a final duty of 10% is reached six years after Ukraine's WTO accession.

There can be no assurance that the Ukrainian government will not abandon, alter, or fail to continue with its policy of regulating sunflower seeds export within the existing export duties system. The further reduction or the abolishment of export duties on sunflower seeds may result in increased volumes of sunflower seed exports or in a significant increase in sunflower seed prices in Ukraine. With more sunflower seeds being exported or higher prices for the seed, local crushers could face difficulties in seed procurement, which may lead to a decline in volumes of sunflower seeds processed in Ukraine and the processing capacities of Ukrainian oil producers such as our Group may not be utilised in full.

We are subject to currency-related and interest rate risks.

Fluctuations in the value of US\$, which is our reporting currency, against other currencies, such as UAH, EUR and CHF, have in the past had, and may have in the future, an adverse effect on our results of operations. Approximately 70% of our sales are invoiced in US\$ for goods sold on the international markets. The remaining 30% represent our sales of bottled oil and agriservices in the Ukrainian domestic market. All domestic sales are in UAH, which is not a freely tradable currency. The results of domestic operations are reported in UAH and then converted into US\$ at applicable exchange rates for inclusion in the Company's consolidated financial statements. Moreover, although the vast majority of loan facilities extended to the Group are denominated in US\$, some loan facilities of the Group are also denominated in UAH and EUR. A decline in the value of these currencies compared to US\$ would have a negative effect on our results of the operations. We also encounter currency exchange risks to the extent that we incur operating expenses in a currency other than that in which we have obtained financing or those in which we generate revenues.

In the ordinary course of business, we enter into hedging transactions in order to manage our exposure to foreign exchange, currency and interest rate risks. We cannot assure prospective investors that any hedging transaction that we have entered into or may enter into in order to protect against such risks will be successful or that shifts in currency exchange rates generally will not have a material adverse effect on the Company's financial condition or results of operations.

We may not hold all licenses necessary to operate our computer software.

Because we operate in multiple locations and business segments, we obtain our computer software from a variety of suppliers. We may, therefore, be unable to assess the reputation of each individual supplier from whom we obtain software. Consequently, although we endeavour to operate only licensed software, we may, at times, have unknowingly purchased unlicensed software from vendors with which we were unfamiliar. In such cases, a court could, in principle, judge us liable for infringement of certain intellectual property rights. Such a judgment could harm our business reputation and necessitate the payment of damages, both of which could negatively affect our business, operating results and financial condition.

There may be uncertainties surrounding privatization of some of the Group Subsidiaries.

Some of the Group Subsidiaries were acquired in the process of privatisation. There is a degree of uncertainty whether the Group has complied in all material respects with all applicable laws and regulations on the privatization of enterprises, these acquisitions could be challenged as having been improperly conducted. If the Group's title to such assets is successfully challenged, it may lose its shareholding rights in such Group Subsidiaries and incur fines and penalties, which could materially adversely affect the Group's business, results of operations, and financial condition.

Our operations may be limited by antimonopoly regulations.

We are the no. 1 producer and marketer of bottled oil in Ukraine with estimated domestic market share of 35%. In addition, we have a substantial share in other markets in Ukraine. Although we believe that mostly our operations are in compliance with applicable antimonopoly

regulations, in particular the antimonopoly regulations in force in Ukraine, there can be no certainty that our market shares will not result in the initiation of proceedings or investigations by the relevant antimonopoly authorities, including the Antimonopoly Committee of Ukraine (the "AMC"). If any proceedings or investigations were to result in adverse decisions against us, we could be prohibited from engaging in certain activities that are regarded as restricting competition and/or financial penalties could be imposed on us. Such prohibitions or financial penalties could have an adverse effect on our business, financial condition or our results of operations. In addition, any potential acquisition by our Group Subsidiaries may be subject to closer scrutiny by the AMC, which may conclude that such acquisition would restrict competition on a given market and prohibit the acquisition. Such a decision could adversely affect our ability to expand through acquisitions.

We could face administrative sanctions or be required to divest certain assets if the Antimonopoly Committee of Ukraine considers that we purchased from CJSC Chumak assets in contravention of antimonopoly legislation and without its prior approval.

In recent years, the AMC has sought to increase business transparency and improve the competitive environment in Ukraine through changes to competition legislation and procedures for conducting investigations and through challenges to various anticompetitive practices. Applicable antimonopoly legislation restricts companies and individuals from directly or indirectly acquiring control over other companies of assets thereof without the prior approval of the AMC where certain financial thresholds are met.

In year 2007 we completed a transaction with CJSC Chumak as a result of which we purchased:

- a) the equipment used for the bottling and packaging of oil;
- b) intellectual property rights to trademarks "Zolota", "Domashnya Oliia";
- c) intellectual property rights to the industrial design – bottle;
- d) license to trademarks "Chumak" (word and image), "From field to Table", "Natural perfectness", "Happiness Everyday",

(for further details see: "Our Business – Material Contracts – License Agreement and Intellectual Property Rights Transfer Agreements with CJSC Chumak").

Following the transaction with CJSC Chumak, we have consolidated the bottled oil market in Ukraine to become no. 1 producer and marketer of bottled oil in Ukraine. Based on our interpretation of Ukrainian law, we believe that this transaction did not require prior AMC approval and, thus, it was not reported to, nor approved by, the AMC prior to it taking place. However, there is a risk that AMC may take a different position and could view this transaction as concentration, which would have required prior AMC approval.

Any concentration performed without prior AMC approval is considered as violation of the Antimonopoly Law. Thus, failure to obtain AMC approval may result in financial penalties being imposed on the parties to any unauthorized concentration in the amount of up to 5% of turnover of parties and their related by control entities for the last reporting period preceding the year when the financial penalty was imposed. Moreover, the AMC is entitled to file claims with commercial courts on invalidation of agreements by which the parties performed an unauthorised concentration.

In addition, as a practical matter, the AMC typically does not impose fines in the maximum amount provided for by applicable legislation. However, there can be no assurance regarding the future actions of the Ukrainian state authorities, and the laws and regulations in respect of such matters are vague in certain parts and subject to varying interpretations.

Any sanctions imposed on us by the AMC or invalidations of agreements with CJSC Chumak could materially adversely affect our business, results of operations and financial condition.

We could be subject to liabilities if it is determined that our past actions violated Ukrainian corporate laws or regulations.

Ukrainian corporate law has developed considerably since Ukraine's transition to a market economy. Some of these laws contain ambiguities, imprecision and inconsistencies, which make compliance with these laws more difficult. In addition, our business has expanded over the last ten years primarily through acquisitions and reorganizations. As a result, prior transactions engaged in by our business may not have fully complied with all corporate formalities. In particular, certain reorganizations in our Group may not have fully complied with all technical requirements of Ukrainian corporate law. To date, we have not received any notice of violation from any interested parties or from governmental authorities, and we do not expect that any party will seek to review or modify any such transaction. However, there can be no assurance that we will not receive any such notices or claims in the future. Any such event could have an adverse effect on our business, results of operations, and financial condition.

The Company is a holding company with no assets other than participating interests in the Group Subsidiaries.

The Company is a holding company and performs no business operations on its own. All business operations of our Group are carried out by the Group Subsidiaries. The Company may pay dividends only to the extent it is entitled to receive dividends from its direct Group Subsidiaries, recognizes gains from the sale of their assets, or records proceeds from the issuance of the Shares. Furthermore, to some extent the Company relies upon external sources of financing, the earnings and cash flows of, and dividends on its shares from the Group Subsidiaries to pay expenses and meet any future obligations.

Non-Luxembourg or non-Ukrainian investors may have problems with enforcement of judgements against the Company.

The Issuer is a company incorporated in accordance with Luxembourg law and has its registered office in Luxembourg. The majority of the assets of the Group are located in Ukraine and the majority of the management personnel working for the Company are resident in Ukraine. For those reasons, non-Luxembourg and non-Ukrainian investors may encounter difficulties in serving summons and other documents relating to court proceedings on any of the entities within the Group and/or the management personnel working for the Company. For the same reason it may be more difficult for non-Luxembourg and non-Ukrainian investors to enforce a judgment of their home country courts issued against the entities within the Group than if those entities or the management personnel were located in that home country.

Risks relating to our operations in Ukraine

General

Since gaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. Concurrently with this transformation, Ukraine is evolving from a planned to a market-based economy. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy, and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Ukraine.

Risks associated with emerging markets

Investors in emerging markets such as Ukraine should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Prospective investors should also note that emerging economies such as Ukraine's are subject to rapid change and that some or all of the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide whether, in light of those risks, their investment is appropriate. Prospective investors are urged to consult their own legal and financial advisors before making an investment decision.

Political considerations

Ukraine has, over recent years, undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In parallel with this transformation, Ukraine is transitioning from a centrally planned economy to a market economy. However, this process is far from complete. Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it consistently difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to implement a variety of policies intended to foster economic reform and financial stability.

On 2 April, 2007, the President signed a decree dissolving the Parliament of Ukraine. The President's decree stated that the process of forming a majority coalition in Parliament during recent months had breached the procedure set forth in the Constitution of Ukraine. After several attempts to prevent early parliamentary elections by the Parliament and the Cabinet of Ministers of Ukraine, on 4 May 2007, President Yuschenko and Prime Minister Yanukovych reached an agreement on holding early parliamentary elections. The President and Prime Minister established a working group, comprising representatives of the President, the parliamentary coalition and the opposition, to negotiate the details for holding the elections, including the issues of election financing and uncertainty as to constitutionality. Following negotiations held by the working group, President Yuschenko, Speaker of the Parliament Moroz, and Prime Minister Yanukovych reached an agreement on 27 May, 2007, to hold early parliamentary elections on 30 September, 2007.

On 30 September, 2007, early parliamentary elections took place. According to official results of the elections, announced on 15 October 2007 the following five political groups were able to gain seats in the Parliament: Partiya Regioniv (the Party of Regions), led by Mr Viktor Yanukovych, the current Prime Minister; Blok Yuliy Tymoshenko (Yuliya Tymoshenko's Block), led by Ms Yuliya Tymoshenko; Blok Nasha Ukrayina-Narodna Samooborona (NUNS Block), led by the former Minister of the Interior, Yuriy Lutsenko and associated with President Victor Yuschenko; Blok Lytvyna chaired by the former Speaker of Parliament, Mr Volodymyr Lytvyn; and the Communist Party of Ukraine led by Mr Petro Symonenko. Currently, the above-mentioned political groups are negotiating the creation of the majority coalition in the Parliament, which is expected to be formed in November 2007.

Future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no certainty that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Any significant changes in the political climate in Ukraine may have negative effects on the economy as a whole and, as a result, a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Economic considerations

In recent years, the Ukrainian economy has been characterised by a number of features that contribute to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, tax evasion, significant capital flight, and low wages for a large portion of the Ukrainian population.

The implementation of reform has been partially impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

Although Ukraine has made significant gains in increasing its gross domestic product ("GDP"), decreasing inflation, stabilising its currency, increasing real wages and improving its trade balance, political instability in the fourth quarter of 2004 negatively affected the main economic indicators at that time.

Positive trends in GDP growth and increases in industrial output may not be sustainable over the longer term and may be reversed unless Ukraine undertakes certain important structural reforms in the near future while continuing to exercise monetary policies that have contributed to reduced inflation levels. The most critical structural reforms that need to be implemented or continued include (i) comprehensive reforms of Ukrainian tax legislation with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy, (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector) and (iii) reform of social benefits and pensions. An economic downturn may have a material adverse effect on the Group's business, results of operations and financial condition.

Dependence on external sources of financing

Ukraine's internal debt market remains illiquid and underdeveloped as compared to markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the International Monetary Fund (the "IMF"), the European Bank for Reconstruction and Development (the "EBRD"), the World Bank and the EU comprised Ukraine's only significant sources of external financing.

In 2000, Ukraine undertook a comprehensive debt restructuring exercise to alleviate its rising external debt resulting from the accumulation of large payments on external debt due in 2000 and 2001. Since the conclusion of this debt restructuring exercise, the ratio of external debt servicing (including principal, interest and fees but excluding debt owed to the IMF) to GDP has decreased from approximately 1.7% as at 31 December 2005 to approximately 1.4% as at 31 December 2006 based on official government sources. Total government external debt servicing (excluding payments to the IMF) was approximately US\$1.5 billion in each of 2005 and 2006, based on official government sources.

In 2005, the World Bank and Ukraine entered into five facility agreements for the implementation of systemic and investment projects, the aggregate amount of which totalled approximately US\$716 million. Further, in June 2006, the World Bank approved a US\$150 million loan for the "Access to Financial Services Project for Ukraine" (which aimed to increase access to financial services in rural areas) and in July 2006, the World Bank approved another US\$154.5 million loan for the "Second Export Development Project for Ukraine" (which aimed to support export and real sector growth in Ukraine by providing working capital and investment finance to Ukrainian private exporting enterprises and to develop financial intermediation in the Ukrainian banking sector). Currently, Ukraine is preparing to launch a Second Development Policy Loan Project.

Consequently, unless the international capital markets or syndicated loan markets are available to Ukraine, the Government will have to continue to rely to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and support foreign exchange reserves. These borrowings may be conditioned on Ukraine's satisfaction of certain requirements, which may include, among other things, implementation of strategic, institutional and structural reforms; reduction of overdue tax arrears; absence of increase of budgetary arrears; improvement of sovereign debt credit ratings; and reduction of overdue indebtedness for electricity and gas.

Ukraine has been able to access the international capital markets, raising new financing in 2003, 2004, 2005 and 2006 and its credit rating has been upgraded from B2 to B1 by Moody's in November 2003 (in November 2006 Moody's upgraded its outlook on Ukraine's credit rating from stable to positive), from B+ to BB- by Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P") in May 2005 and from B+ to BB- by Fitch in January 2005 (in October 2006, Fitch revised its outlook on Ukraine's foreign and local currency ratings from BB- (stable) to BB- (positive)). However, as a result of political instability caused by the Presidential decree to dissolve the Parliament and to convene new elections, in April 2007 S&P downgraded Ukraine's credit rating from "stable" to "negative". In August 2007 S&P has affirmed its BB- long-term foreign, BB long-term local, and B short-term sovereign credit ratings on Ukraine. At the same time, S&P affirmed its 4 recovery rating on foreign currency debt and uaAA national scale rating. The absence of a deep and liquid market for domestic treasury bonds means that Ukraine remains vulnerable should access to international capital markets not be possible for any reason in the future, or if such markets are only accessible on unfavourable terms. Under such circumstances, any failure of Ukraine to receive support from sovereign or private creditors or international financial institutions (such as the IMF and the World Bank) could adversely affect Ukraine's financing of its budget deficit, the level of inflation and/or the value of the hryvnia, which in turn may adversely affect the Ukrainian economy as a whole, and thus, the Company's business, results of operations and financial condition.

If Ukraine is unable to resort to the international capital markets or syndicated loan markets in the event of an international crisis (as occurred in 1998) or due to adverse domestic developments, a failure by official creditors and of multilateral organisations such as the IMF, the EBRD, the World Bank and the EU to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves and have a material adverse effect on Ukrainian economy as a whole, and thus, on the Group's business, results of operations and financial condition.

Regional relationships

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the Commonwealth of Independent States, or CIS, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (and from countries that deliver energy-related supplies to Ukraine through Russia). In addition, a large share of Ukraine's services receipts comprise transit charges for oil, gas and ammonia from Russia. As a result, Ukraine considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia cooled to a certain extent due to disagreements in late 2005 and early 2006 over the prices and methods of payment for gas delivered by the Russian gas monopolist OJSC Gazprom to, or for transportation through, Ukraine, over the stationing of the Russian Black Sea Fleet (Chernomorskiy Flot) on the territory of Ukraine and over Russia's ban on all imports of meat and milk products from Ukraine. It has been reported that, on 4 January 2006, Gazprom, its Ukrainian counterparty OJSC Naftogas and RosUkrEnergo AG, a gas trading company incorporated in Switzerland, entered into a series of new agreements for the supply of natural gas. In October 2006, RosUkrEnergo and CJSC Ukgaz-Energo, a 50–50 joint venture of RosUkrEnergo and Naftogas, reached an agreement on the price for natural gas to be supplied in 2007 for Ukraine's domestic consumption, which price increased considerably in 2007 in comparison with the previous year. The current Government has also achieved a partial removal of Russia's ban on Ukrainian meat and milk products imports.

More than 20% of Ukrainian exports of goods currently go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on Russian exports of energy resources, accompanied by the increase of the price for natural gas by Russia, may adversely affect the pace of economic growth of Ukraine. Further, the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and modernisation of production facilities. However, there can be no assurance that this will take place.

Any major adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine and/or Ukraine's revenues derived from transit charges for Russian oil and gas, would likely have negative effects on certain sectors of the Ukrainian economy and thus on the Group's business, results of operations and financial condition.

Ukraine's developing legal system

Since independence in 1991, as Ukraine has been developing from a planned to a market-based economy, the Ukrainian legal system has also been developing to support this market-based economy. Ukraine's legal system is, however, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include, but are not limited to: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form. Furthermore, several fundamental Ukrainian laws either have only relatively recently become effective or are still pending hearing or adoption by the Parliament. The recent origin of much of Ukrainian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Ukrainian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt, and result in ambiguities, inconsistencies and anomalies. In addition, Ukrainian legislation often contemplates implementing regulations. Often such implementing regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities. These and other factors that have an impact on Ukraine's legal system make an investment in the Shares subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

Official economic data and third-party information

Although a range of government agencies, along with the NBU and the State Statistics Committee of Ukraine, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine's GDP and other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from agency to agency and from period to period due to the application of different methodologies. Starting in the first quarter of 2003, Ukraine has been producing data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated, the information and figures presented in this Prospectus have not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics has been independently verified by any person. The Company accepts responsibility only for the correct extraction and reproduction of such information.

Relationships with western governments and institutions

Ukraine continues to pursue the objectives of achieving a closer relationship with the North Atlantic Treaty Organisation and hopes to join the World Trade Organisation (the "WTO") in the near future. With effect from 30 December 2005 and 1 February 2006, Ukraine was given market economy status by the EU and the United States, respectively. As of October 2007, Ukraine had concluded bilateral negotiations on market access issues with 49 member-states of the WTO (including the United States). Negotiations are still underway with Kyrgyzstan. As of December 2006, all of the twenty bills earmarked by the Government as being essential preconditions for joining the WTO had been adopted by Parliament and signed by the President. Failure to obtain WTO membership (which Ukraine has been pursuing for over ten years) could adversely effect the competitive position of Ukraine in the world economy and could slow growth that might otherwise be obtainable. In addition, any major changes in Ukraine's relations with Western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access world export markets, may have negative effects on the Ukrainian economy as a whole and thus on the Group's business, results of operations and financial condition.

Fluctuations in the global economy

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, because Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the United States, the EU or by other major export markets. Any such developments may have negative effects on the Ukrainian economy as a whole and thus on the Group's business, results of operations and financial condition.

Ukraine may not be able to maintain access to foreign trade and investment

Notwithstanding the recent improvements in the Ukrainian economy, cumulative foreign direct investment remains low for a country the size of Ukraine. As has happened in the past, an increase in the perceived risks associated with investing in Ukraine could dampen foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain receptive to foreign trade and investment. In early 2005, the government led by former Prime Minister Tymoshenko announced plans to review the privatisation of a number of major companies that they believed had been sold at unfairly low prices under the previous administration and one enterprise, OJSC "Kryvorizhstal" (now known as Arcelor Mittal Kryviy Rih), was re-privatised in October 2005. Although President Yuschenko and the government subsequently emphasised that these plans are no longer under consideration, and the repeat auction in October 2005 of OJSC "Kryvorizhstal" was generally perceived as having been conducted in a fair and transparent manner, any future attempts to nationalise private enterprises could adversely affect the climate for foreign direct investment. Any deterioration in the climate for foreign direct investment in Ukraine could have a material adverse effect on the economy, which, in turn, could adversely affect the City's financial condition and thus its ability to pay the principal of and interest and additional amounts, if any, on the Loan.

Corruption and money laundering issues

Independent analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation which came into force in June 2003, the NBU and other state authorities, as well as various entities carrying out financial transactions, are required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, the Financial Action Task Force on Money Laundering removed Ukraine from its list of Non-Cooperative Countries and Territories in February 2004 and discontinued the formal monitoring of Ukraine in January 2006.

Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thereby on the Ukrainian economy as a whole and thus on the Group's business, results of operations and financial condition.

Uncertainties relating to the judicial system

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly been impartial, the system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system is also understaffed and underfunded. Judicial decisions under Ukrainian law generally have no precedential effect. Moreover, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Further, only a small number of judicial decisions are publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is generally limited. However, according to a new law "On Access to Court Decisions" which became effective on 1 June 2006, all decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from 1 June 2006 onward should become available to the public.

The Ukrainian judicial system became more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system has become even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in furtherance of political aims. Finally,

court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the Ukrainian economy as a whole, and thus, on the Group's business, results of operations and financial condition.

Ukraine's tax system

Ukraine currently has a number of laws related to various taxes imposed by both central and local authorities. Applicable taxes include value-added tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. These tax laws have not been in force for significant periods of time, compared to more developed market economies, and often result in unclear or non-existent implementing regulations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments, which can result in either a friendlier environment or unusual complexities for the Company and its business generally. For example, with effect from 1 January 2004, the rate of corporate income tax was reduced from 30% to 25%, and a new flat personal income tax was introduced initially at a rate of 13% for almost all types of income, which was subsequently increased to 15% from 1 January 2007.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances generally create tax risks in Ukraine more significant than typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. However, this statutory limitation period may not be observed or may be extended in certain circumstances.

While the Group believes that it is currently in compliance in all material respects with the tax laws affecting its operations, it is possible that relevant authorities could, in the future, take differing positions with regard to interpretative issues, which may have a material adverse effect on the Group's business, results of operations and financial condition.

Disclosure and reporting requirements and fiduciary duties

Disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with U.S. standards, including the standards set forth in the U.S. Sarbanes-Oxley Act of 2002. Ukrainian banking laws have introduced the concept of fiduciary duties owed by a bank's management to the bank and its shareholders. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains undeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Company's directors or shareholders could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on the Company's business, results of operations and financial condition.

Risks Related to Shares, Listing and Trading on the WSE

Your shareholding, voting rights and the earnings per Share may be diluted

Your shareholding and voting rights in our Company and the earnings per Share may be diluted as a result of an issuance of additional Shares with exclusion of your pre-emptive rights.

Market value of Shares may be adversely affected by future sales or issues of substantial amounts of Shares

In connection with the Offering certain lock-up arrangements will be made with respect to the issue and sale of Shares by the Company and the Selling Shareholder. For further details see "*Placing and Underwriting – Lock up Agreements*". Once the lock-ups have expired or have been terminated, the existing Shares may be sold by the Selling Shareholder or new Shares may be issued by the Company without any restrictions. There can be no assurance as to whether or not issues or sales of substantial amounts of Shares will take place on the market in the foreseeable future. We cannot predict what effect such future sales of existing Shares held by the Selling Shareholder or issues of new Shares by the Company, if any, may have on the market value of the Shares. However, there can be no assurance that sales or issue of substantial amounts of Shares by the Company, the Selling Shareholder or by other shareholders in the Company, or the perception that such sales or issues could occur, could adversely affect, even if temporarily, the market value of the Shares and could adversely affect the Company's ability to raise capital through future capital increases.

We may not guarantee that we will pay dividends in the future

We are under no continuous obligation to pay regular dividends to our shareholders. Our ability to pay dividends in the future will depend upon a decision of our Board of Directors and the General Meeting of Shareholders (at which the Selling Shareholder may represent a majority of our voting rights) after taking into account various factors including our business prospects, future results of operations, cash flow, financial position, reinvestment needs, expansion plans, contractual restrictions, restrictions imposed by Luxembourg law, and other factors our Board of Directors and our General Meeting of Shareholders deem relevant, which decisions may not necessarily coincide with the short-term interests of all our shareholders. Restrictions under Luxembourg law include the obligation to create a reserve which may not be distributed, save in the case of our solvent liquidation, or, in certain situations, a reduction of our share capital. Such reserve is created by allocating an amount equal to 5 per cent of the Company's annual net profit to such reserve until and as long as such reserve equals to at least 10 per

cent of our issued share capital. There can be no assurance that we will make any dividend payments in the future. As at the date hereof, we do not expect to pay dividends in the medium term. For further details see *"Dividends and Dividend Policy"*. Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares.

Securities or industry analysts may cease to publish research or reports about our business or may change their recommendations regarding our Shares

The market price and/or trading volume of our Shares may be influenced by the research and reports that industry or securities analysts publish about us and our business. There can be no guarantee of continued and sufficient analyst research coverage for the Company as we have no influence on analysts who prepare such researches and reports. If analysts fail to publish reports on us regularly or cease publishing such reports at all, we may lose the visibility in the capital markets, which in turn could cause our Shares price and/or trading volume to decline. Furthermore, analysts may downgrade our Shares or give negative recommendations regarding our Shares, which could result in a decline of the Share price.

We may be unable to list our Shares on the WSE

The admission of our Shares to trading on the WSE requires that (i) the CSSF as a competent authority in Luxembourg under the Prospectus Act 2005 approve this Prospectus, (ii) we be notified by the PFSA that the PFSA received a certificate from the CSSF confirming that this Prospectus had been approved by the CSSF, together with this Prospectus in the English language and a summary of this Prospectus in the Polish language, (iii) we publish in Poland the Prospectus and its summary in the Polish language, (iv) our Shares be registered with the clearing and settlement system of the NDS and (v) the management board of the WSE approve the listing and trading of our Shares on the WSE. To obtain the WSE management board's approval we have to meet certain requirements provided for in the respective regulations of the WSE and other applicable laws. Such requirements include, but are not limited to: (i) the appropriate free float of our Shares (ii) no restriction on transferability of our Shares (iii) preparation and publication of the audited financial statements for the past three accounting years. Furthermore, while examining our application for admission of our Shares to trading on the WSE, the management board of the WSE will take into consideration: (i) our financial situation and our economic forecasts, (ii) our development perspectives, in particular, the chances of realisation of our investment plans, (iii) experience and qualification of the members of our Board of Directors and (iv) security of public trading on the WSE. Some of the conditions mentioned above are of discretionary nature and, therefore, we cannot assure that the management board of the WSE will conclude that we meet all of them.

The rules of the WSE require us to file an application for introduction of Shares to trading on the WSE within a period of six months from the date on which our Shares have been admitted to such trading. If we fail to comply with this obligation, the decision of the WSE management board on the admission of our Shares to trading on the WSE could be annulled.

We intend to take all the necessary steps to ensure that our Shares are admitted and introduced to trading on the WSE as soon as possible after the closing of the Offering. However, there is no guarantee that all of the aforementioned conditions will be met and that our Shares will be admitted and introduced to trading on the WSE on the Listing Date as expected or at all.

Trading in our Shares on the WSE may be suspended

The WSE management board has the right to suspend trading in our Shares for up to three months (i) at the request of the Company, (ii) if the Company fails to comply with the respective regulations of the WSE (such as specific disclosure requirements) or (iii) if it concludes that such a suspension is necessary to protect the interests and safety of market participants.

Furthermore, the WSE management board shall suspend trading in Shares for up to one month upon the request of the PFSA if the PFSA concludes that trading in our Shares is carried out in circumstances which may impose a possible threat to the proper functioning of the WSE or the safety of trading on that exchange, or may harm investors' interest.

We will make all endeavours to comply with all applicable regulations in this respect. However, there can be no assurance that trading in our Shares will not be suspended. Any suspension of trading could adversely affect our Share price.

Our Shares may be delisted from the WSE

If the Company fails to fulfil certain requirements or obligations under the applicable provisions of securities laws, including in particular requirements and obligations provided for under the Public Offering Act and Trading in Financial Instruments Act, the PFSA could impose a fine on us or delist our Shares from trading on the WSE.

Furthermore, the WSE management board shall delist our Shares from trading upon the request of the PFSA if the PFSA concludes that trading in our Shares imposes a significant threat to the proper functioning of the WSE or the safety of trading on that exchange, or infringes investors' interest. The mandatory delisting will be also effected by the WSE management board where: (i) transferability of Shares has become restricted, (ii) Shares are no longer in book entry form, (iii) the PFSA has requested so, (iv) our Shares have been delisted from another regulated market by a competent supervisory authority over such market, provided that our Shares were traded on another regulated market.

Moreover, the WSE management board may also delist our Shares where, (i) the Shares cease meeting all requirements for admission to trading on the WSE; (ii) the Company persistently violates the regulations of the WSE; (iii) the Company has requested so; (iv) the Company

has been declared bankrupt or a petition for bankruptcy has been dismissed by the court because the Company's assets do not suffice to cover the costs of the bankruptcy proceedings; (v) the WSE considers it necessary to protect the interests of the market participants; (vi) following a decision on a merger, split or transformation of the Company; (vii) no trading was effected in the Shares within a period of three previous months; (viii) the Company has become involved in a business that is illegal under the applicable provisions of laws; and (ix) the Company is in liquidation proceedings.

We believe that as at the date hereof there are no circumstances which could give grounds for delisting of the Shares from the WSE in the foreseeable future. However, there can be no assurance that any of such circumstances will not arise in relation to our Shares in the future. Delisting of our Shares from the WSE could have an adverse effect on the liquidity of the Shares and, consequently, on investors' ability to sell the Shares at a satisfactory price.

There can be no assurance regarding the future development of market for the Shares and its liquidity

There was no prior market for the Shares and therefore, there can be no assurance regarding the future development of such market and future demand for our Shares. The lack of a primary and/or developed and liquid public market for the Shares may have a negative effect on the ability of shareholders to sell their Shares or the price at which the holders may be able to sell their Shares. Moreover, if a market for the Shares on the WSE were to develop, the Shares could trade at prices that may be higher or lower than the Offer Price, depending on many factors. Therefore, there can be no assurance as to the liquidity of any trading in the Shares or that the Shares will be actively traded on the WSE, which may limit or prevent our shareholders from readily selling their Shares.

The marketability of our Shares may decline and the market price of our Shares may fluctuate disproportionately in response to adverse developments that are unrelated to our operating performance and decline below the Offer Price

We cannot assure that the marketability of our Shares will improve or remain consistent. The Offer Price in the Offering may not be indicative of the market price for our Shares after the Offering has been completed. Shares listed on regulated markets, such as the WSE, have from time to time experienced, and may experience in the future, significant price fluctuations in response to developments that are unrelated to the operating performance of particular companies. The market price of our Shares may fluctuate widely, depending on many factors beyond our control. These factors include, amongst other things, actual or anticipated variations in operating results and earnings by the Company and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry and in general the status of the securities market, governmental legislation and regulations, as well as general economic and market conditions, such as recession. These and other factors may cause the market price and demand for our Shares to fluctuate substantially and any such development, if adverse, may have an adverse effect on the market price of our Shares which may decline disproportionately to our operating performance. The market price of our Shares is also subject to fluctuations in response to further issuance of shares by the Company, sales of Shares by the Company's major shareholders, the liquidity of trading in the Shares and capital reduction or purchases of Shares by the Company as well as investor perception. As a result of these or other factors, there can be no assurance that the public trading market price of our Shares will not decline below the Offer Price.

The Company will have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares

Prior to the Offering, the Selling Shareholder beneficially owns 85.7 per cent of the Company's outstanding Shares and immediately after the Offering the Selling Shareholder will own not less than 62. Consequently, the free float of Shares held by the public will be limited.

Exercise of certain shareholders' rights and tax treatment for non-Luxembourg investors in a Luxembourg company may be more complex and costly

We are a company organized and existing under the laws of Luxembourg. Accordingly, our corporate structure as well as the rights and obligations of our shareholders may be different from the rights and obligations of shareholders in companies listed on the WSE.

The exercise of certain shareholders' rights for Polish or other non-Luxembourg investors in a Luxembourg company may be more difficult and costly than the exercise of rights in a Polish company. Resolutions of the General Meeting of Shareholders may be taken with majorities different from the majorities required for adoption of equivalent resolutions in Polish companies. Action with a view to invalidating of a resolution must be filed with, and will be reviewed by a Luxembourg court, in accordance with the law of Luxembourg.

Investors in Shares may also be subject to Luxembourg taxation of dividends received from the Company. Although Poland and Luxembourg have a tax treaty which provides protection against double taxation, there can be no assurance that such treaty will continue to remain in force. See "Taxation of our Shares".

EXCHANGE RATES INFORMATION

The reporting currency of the Company and of our Group is US\$. Approximately 70% of our sales are invoiced in US\$ for goods sold on the international markets. The remaining 30% represent our sales of bottled oil on our domestic Ukrainian market and the provision of services related to the agricultural sector. All domestic sales are in Hryvnia, which is not a freely tradable currency. The exchange rate in Ukraine is managed by the NBU and largely pegged to the US\$. Although most loan facilities extended to the Group are denominated in US\$, we also borrow funds in UAH and EUR. Therefore, fluctuations in the value of UAH, EUR and USD could have an impact on the Group's financial condition and results of operations.

Our Consolidated Financial Statements and Pro Forma Financial Information included in this Prospectus are presented in US\$.

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between US\$ (as a base currency) and UAH, EUR, CHF and Russian rouble used in the preparation of our Consolidated Financial Statements appearing in this Prospectus.

	UAH per US\$	CHF per US\$	EUR per US\$	RUR per US\$
Average rate for the year ended June 30, 2005	5.2544	1.2102	0.7856	n/d
Closing rate as of June 30, 2005	5.0550	1.2835	0.8296	27.0792
Average rate for the year ended June 30, 2006	5.0503	1.2789	0.8220	28.2186
Closing rate as of June 30, 2006	5.0500	1.2486	0.7981	28.000
Average rate for the year ended June 30, 2007	5.0500	1.2324	0.7668	26.4015
Closing rate as of June 30, 2007	5.0500	1.2293	0.7429	25.7785

Source: the Company based on the Consolidated Financial Statements

The following table shows, for the periods provided, and unless indicated otherwise, certain information regarding the exchange rates between PLN (as a base currency) and US\$, CHF, UAH, EUR, and Russian rouble.

	PLN per US\$	PLN per CHF	PLN per EUR	PLN per UAH	PLN per RUR
Closing rate as of:					
June 30, 2005	3.3461	2.6072	4.0401	0.6644	0.1167
June 30, 2006	3.1816	2.5803	4.0434	0.6340	0.1181
June 30, 2007	2.7989	2.2730	3.7658	0.5562	0.1084
September 30, 2007	2.6647	2.2762	3.7775	0.5307	0.1068

Source: Company based on data from NBP website at www.nbp.gov.pl

USE OF PROCEEDS

Use of Proceeds

We intend to raise approximately between US\$120 million and US\$160 million of gross proceeds from the issue of New Shares in the Offering. The net proceeds which we will receive from the issue of New Shares in the Offering are estimated to be up to approximately from US\$113.5 million to US\$151.7 million after deducting the estimated commissions, costs and expenses associated with the Offering in the amount of approximately from US\$6.5 million to US\$8.3 million. We will publish final details of the net proceeds gained in the Offering within two weeks of the Settlement Date in a manner consistent with Luxembourg and Polish laws (*i.e.*, by way of a Current Report).

We intend to use the proceeds from the Offering for the purposes of:

- greenfield construction of a multiseed crushing plant with 510,000 tons/year crushing capacity in Ukraine;
- acquisition of port storage and trans-shipment facilities in Ukraine for agricultural commodities;
- capacity increase of our existing crushing plants during 2008–2010;
- increase by 50,000 ha of our farm land bank in Ukraine;
- repayment of bridge financing raised to fund the acquisition of "Chumak Zolota" and "Chumak Domashnya" bottled oil brand in July 2007 (for further information see "*Our Business – Material Contracts – Financing Agreements*");
- increase in working capital needs following capacity expansion.

To the extent that the net proceeds from the Offering of the New Shares are not invested as described above, proceeds will be used to take advantage of other opportunities in line with our Company business strategy.

We will not receive any proceeds from the sale of Sale Shares and Overallotment Shares, if any, by the Selling Shareholder. The proceeds from the sale of the Sale Shares and the Overallotment Shares, if any, by the Selling Shareholder shall in whole accrue to the Selling Shareholder.

Reasons for the Offering

The Offering and the Admission are expected to provide a number of benefits to both the Company and the Company's shareholders, such as the following:

- enabling the Company to raise funds with a view to implementing the Company's strategy and achieving its strategic goals;
- facilitating our Group's access to the capital markets and, improving opportunities for further growth, expansion and development of our business and, thus increasing share value to our shareholders;
- raising the profile of the Group's business;
- strengthening the Group's reputation as a leading Ukrainian sunflower oil producer and grain exporter, which, in turn, may increase the customers base and create better conditions for long-term relationships with customers and suppliers;
- providing the Selling Shareholder, with a market for the Shares and an opportunity to realise part of its investment.

DIVIDENDS AND DIVIDEND POLICY

We have not adopted any formal dividend policy. Our general dividend policy following the Offering is to pay dividends at levels consistent with our growth and development plans, while maintaining a reasonable level of liquidity. Pursuant to this policy, we do not expect to recommend to the General Meeting of Shareholders any dividend payments in the medium term.

In accordance with Luxembourg regulations, in particular the Companies' Act 1915, and our Articles of Association, every year five (5) per cent of the net profit of the Company will be set aside in order to build up the legal reserve. This deduction ceases to be compulsory when the legal reserve amounts to ten (10) per cent of the issued share capital, but it must be resumed until the legal reserve is entirely reconstituted if, at any time, for any reason whatsoever, it has been touched. The remaining balance of the net profit will be at the disposal of the General Meeting of Shareholders.

Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting of Shareholders. Furthermore, interim dividends may be paid by the Board of Directors within the conditions provided for by the Companies' Act 1915.

Our dividend policy will, however, be reviewed from time to time and payment of any future dividends will be effectively at the discretion of our Board of Directors and the General Meeting of Shareholders after taking into account various factors, including our business prospects, future earnings, cash requirements, financial position, expansion plans and the requirements of Luxembourg (as described above) law.

In addition to the limitations described above, some terms of our financing agreements could also restrict our right to pay dividends, and require the Company to meet or exceed certain financial thresholds prior to paying dividends. All our Shares, including the Offer Shares, carry equal dividend rights.

The Company was incorporated on June 15, 2005 and has not paid any dividends to its shareholders since its incorporation.

For information relating to dividend rights and dividend payments please see "*Description of our Shares and Corporate Rights and Obligations – Dividends and Other Distributions*".

CAPITALISATION AND INDEBTEDNESS

The table below shows the capitalisation and indebtedness of the Company on a consolidated basis as at 30 June 2007 and as at 30 September 2007. The information as at 30 September 2007 is taken from the Company's management accounts and has not been audited. Prospective investors should read this information in conjunction with the "Management Discussion and Operating and Financial Review" and the Consolidated Financial Statements and accompanying notes included elsewhere in this Prospectus.

	As at 30 June 2007 (US\$ thousands) (audited)	As at 30 September 2007 (US\$ thousands) (unaudited)
Total current debt:		
Secured/guaranteed ⁽¹⁾	45,824	91,204
Unsecured/unguaranteed	0	0
Total current debt	45,824	91,204
Total non-current debt, net of current portion of long term debt:		
Secured/guaranteed ⁽¹⁾	102,424	144,199
Unsecured/unguaranteed	17,469	18,052
Total long-term liabilities	119,893	162,251
Shareholders' equity:		
Share capital	1,232	1,232
Share premium	2,608	2,608
Other reserves	60,770	60,770
Total shareholders' equity	64,610	64,610 ⁽²⁾
Minority interest	13,151	13,151
Total capitalisation and indebtedness	243,478	331,216

⁽¹⁾ Secured and guaranteed debt consists of bank loans which are secured by mortgages on Groups' real estate properties in Ukraine, including buildings and property complexes, pledges of Group's assets (plants, equipment and inventories as well as on rights to trademarks) and shares in certain Group Subsidiaries and guaranteed

⁽²⁾ Other reserves have not been adjusted following the result of operations for the period 1 July 2007 to 30 September 2007

Net indebtedness as at 30 June, 2007, and 30 September 2007:

	As at 30 June 2007 (US\$ thousands) (audited)	As at 30 September 2007 (US\$ thousands) (unaudited)
Cash	25,253	13,554
Cash equivalents	—	—
Trading securities	—	—
Liquidity	25,253	13,554
Current financial receivable	—	—
Current bank debt	37,417	82,088
Current portion of non current debt	7,018	8,060
Other current financial debt - lease	1,389	1,056
Current financial debt	45,824	91,204
Net current financial indebtedness	20,571	77,650
Non current bank loans	99,239	121,180
Bonds issued	9,937	29,771
Other non-current financial debt	3,185	3,185
Non-current financial indebtedness	112,361	154,136
Subordinated loan	7,532	8,115
NET FINANCIAL INDEBTEDNESS	140,464	239,901

SELECTED HISTORICAL FINANCIAL INFORMATION

The following tables set out selected consolidated financial and operating information as at and for the three years ended 30 June 2007, 2006 and 2005 (the "Selected Annual Financial Information"). The Selected Annual Financial Information has been extracted from the annual audited Consolidated Financial Statements, without material adjustment, and should be read in conjunction with, and is qualified in its entirety by reference to, the annual audited Consolidated Financial Statements and the notes thereto together with the audit reports of LLC "Baker Tilly Ukraine", Ukraine for the three years ended 30 June 2007, 2006 and 2005 included in this Prospectus and the information in the section titled "Management Discussion and Operating and Financial Review". The Consolidated Financial Statements have been prepared in accordance with International Financing Reporting Standards adopted by the EU and as applicable in the respective years. The Consolidated Financial Statements for the two years ended 30 June 2007, 2006 and 2005 have been audited by LLC "Baker Tilly Ukraine", Ukraine. Prospective investors are advised to read "Important Information – Certain Conventions and Presentation of Financial and Other Information" and "General Information on the Company – Independent Auditors" for a description of the financial information included in this Prospectus.

Consolidated Income Statement Data

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
REVENUE	350,379	215,242	143,763
COST OF SALES	(267,352)	(173,423)	(120,582)
GROSS PROFIT	83,027	41,819	23,181
OTHER OPERATIONAL INCOME	7,865	1,220	303
OPERATING EXPENSES:			
Distribution costs	(38,963)	(20,341)	(11,441)
General and administrative expenses	(13,295)	(10,685)	(7,087)
TOTAL OPERATING EXPENSES	(52,258)	(31,026)	(18,528)
OPERATING PROFIT	38,634	12,013	4,956
Finance costs, net	(18,863)	(9,303)	(6,640)
Foreign exchange (loss)/gain, net	(768)	(931)	1,124
Other (expenses)/income, net	(2,311)	(1,810)	883
PROFIT / (LOSS) BEFORE INCOME TAX	16,692	(31)	323
INCOME TAX	1,904	75	267
NET PROFIT	18,596	44	590
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
Shareholders of Kernel Holdings S.A	19,539	1,287	459
Minority interest	(943)	(1,243)	131

Consolidated Balance Sheet Data

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
ASSETS			
Total current assets	115,968	67,965	39,083
Total non-current assets	159,112	87,861	83,580
Total Assets	275,080	155,826	122,663
LIABILITIES AND EQUITY			
Total current liabilities	59,179	34,510	27,880
Total non-current liabilities	130,608	73,760	46,392
SUBORDINATED LOAN	7,532	–	–
COMMITMENTS AND CONTINGENCIES			
EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A. SHAREHOLDERS			
Total equity attributable to Kernel Holding S.A. shareholders	64,610	41,676	32,662
MINORITY INTEREST	13,151	5,880	15,729
Total equity	77,761	47,556	48,391
TOTAL LIABILITIES AND EQUITY	275,080	155,826	122,663

Consolidated Cash Flow Data

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
Operating profit before working capital changes	45,400	16,579	9,842
Cash (used in)/obtained from operations	30,660	(19,260)	189
Net cash used in operating activities	11,594	(29,047)	(5,304)
Net cash used in investing activities	(57,246)	(5,361)	(20,622)
Net cash provided by financing activities	64,471	30,743	33,086
NET INCREASE/(DECREASE IN CASH AND CASH EQUIVALENTS)	18,769	(3,665)	7,160
CASH AND CASH EQUIVALENTS, at the beginning of the year	5,983	9,409	2,102
TRANSLATION ADJUSTMENT	(50)	239	147
CASH AND CASH EQUIVALENTS, at the end of the year	24,752	5,983	9,409

PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information set out below (the "Pro Forma Financial Information") has been prepared to provide information about how the Acquisition (as defined below) might have affected the financial information of the Group had the Acquisition taken place on 30 June 2006. This Pro Forma Financial Information has been prepared for illustrative purposes only on the basis of the accounting policies adopted by the Group in preparing its Consolidated Financial Statements for the financial year ended 30 June 2007 and, because of its nature, addresses a hypothetical situation and does not reflect the Group's actual financial position.

This Pro Forma Financial Information has been prepared on the basis set out in the notes below.

Description of the Transaction

In December 2006 the Group acquired the production assets of Evrotek Group (hereinafter also called the "Stozhar Group" or "the Acquisition"). The asset transaction was structured as an acquisition of shares in the companies owning these assets and controlled by Evrotek Group. Only the entities holding the assets were acquired and not the trading nor the logistic company. While the acquisition was almost finalized in December 2006 (CJSC "Volchansk OE" was acquired in February 2007), the Group had started operating most of the production assets on 1 October 2006 on the basis of tolling agreements and the financial result for the period 1 October 2006 – 1 December 2006 is included in the Consolidated Financial Statements of the Group as of 30 June, 2007. The financial information for the period from 1 July to 1 October 1 2006 is recreated from the accounts of the entities that held the assets purchased, in accordance with the accounting policy of the Group and appropriately adjusted to reflect the impact of transfer pricing.

Pro Forma Balance Sheet as of June 30, 2006

The following pro forma balance sheet of the Group as of 30 June 2006 is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the actual financial position of the Group. It is prepared to illustrate the effect on the consolidated balance sheet of the Group of the Acquisition, had the Acquisition taken place on 30 June 2006, and is based on the consolidated balance sheet of the Group as of 30 June 2006 extracted without material adjustment from the Consolidated Financial Statements. Adjustments have been made in accordance with item 6 of Annex II of the Prospectus Regulation as described in the notes below.

ASSETS	For the year ended June 30, 2006			
	Kernel Group (audited)	Stozhar Group (unaudited)	Notes	Pro forma (unaudited)
(US\$ thousands)				
CURRENT ASSETS:				
Cash	6,384	(5,350)	(2i)	1,034
Trade accounts receivable, net	9,052	1,212	(2g)	10,264
Prepayments to suppliers and other current assets, net	7,376	3,781	(2g)	11,157
Taxes recoverable and prepaid, net	9,468	360	(2g)	9,828
Inventory	32,300	13,054	(2d)	45,354
Biological assets	3,385	—		3,385
Total current assets	67,965	13,057		81,022
NON-CURRENT ASSETS:				
Property, plant and equipment, net	72,483	75,241	(2e)	147,724
Intangible assets, net	7,433	9,426	(2f)	16,859
Goodwill	2,970	7,249	(2h)	10,219
Other non-current assets	4,975	—		4,975
Total non-current assets	87,861	91,916		179,777
TOTAL ASSETS	155,826	104,973		260,799
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Trade accounts payable	826	4,354	(2g)	5,183
Advances from customers and other current liabilities	4,735	2,076	(2g)	6,811
Short-term borrowings	23,291	12,396	(2j)	35,687
Current portion of long-term borrowings	5,655	—		5,655
Total current liabilities	34,510	18,826		53,336
NON-CURRENT LIABILITIES:				
Long-term borrowings	49,568	57,000	(2c)	106,568
Obligations under finance lease	4,565	—		4,565
Corporate bonds issued	10,258	—		10,258
Deferred tax liabilities	9,369	10,436	(2e)	19,805
Total non-current liabilities	73,760	67,436		141,196
SUBORDINATED LOAN	—	7,532	(2b)	7,532
COMMITMENTS AND CONTINGENCIES				
EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A. SHAREHOLDERS				
Share capital	964	175	(2a)	1,139
Share premium reserve	—	2,604	(2a)	2,604
Additional paid-in capital	39,425	—		39,425
Retained earnings	1,287	—		1,287
Total equity attributable to Kernel Holding S.A. shareholders	41,676	2,779		44,455
MINORITY INTEREST	5,880	8,400		14,280
Total equity	47,556	11,179		58,735
TOTAL LIABILITIES AND EQUITY	155,826	104,973		260,799

Pro Forma Income Statement for the year ended June 30, 2007

The following pro forma combined income statement of the Group for the year ended 30 June 2007 is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the actual results of the Group. It has been prepared to illustrate the effect on the consolidated profit for the year ended 30 June 2007 if the Acquisition had taken place on 30 June 2006, and is based on the consolidated income statement of the Group extracted without material adjustment from the financial information included in this Prospectus. Adjustments have been made in accordance with Annex II to the Prospectus Regulation.

	For the year ended June 30, 2007			
	Kernel Group	Stozhar Group	Notes	Pro forma
	(audited)	(unaudited)		(unaudited)
	(US\$ thousands)			
REVENUE	350,379	21,098	(3a)	371,477
COST OF SALES	(267,352)	17,132	(3a)	(270,878)
GROSS PROFIT	83,027	3,966		86,992
OTHER OPERATIONAL INCOME	7,865	458	(3c)	8,323
OPERATING EXPENSES:				
Distribution costs	(38,963)	(1,615)	(3d)	(40,578)
General and administrative expenses	(13,295)	(2,331)	(3e)	(15,626)
TOTAL OPERATING EXPENSES	(52,258)	(3,946)		(56,204)
OPERATING PROFIT (EBIT)	38,643	478		39,111
Finance costs, net.	(18,863)	(3,032)	(3b)	(21,895)
Foreign exchange (loss)/gain, net.	(768)	(54)	(3f)	(822)
Other (expenses)/income, net.	(2,311)	(392)	(3f)	(2,703)
PROFIT/ (LOSS) BEFORE INCOME TAX	16,692	(3,000)		13,692
INCOME TAX	1,904	(76)		1,828
NET PROFIT	18,596	(3,076)		15,520
NET PROFIT/(LOSS) ATTRIBUTABLE TO:				
Shareholders of Kernel Holding S.A.	19,539	(2,980)		16,559
Minority interest	(943)	(96)		(1,039)

Explanatory Notes to the Pro Forma Financial Information:

1. The consolidated balance sheet of the Group as of 30 June 2006 and the consolidated income statement for the year ended 30 June 2007 have been extracted without material adjustment from the historical financial information.
2. Adjustments to the pro forma balance sheet of the Group are as follows:
 - (a) adjustment is made to the amount of Share Capital and Share premium reserve in amounts of US\$175 thousand and US\$2,604 thousand respectively as if the issuing of new shares of Kernel Holding S.A. took place on 30 June 2006. This adjustment made on the base that new shares were issued for the purpose of the Acquisition;
 - (b) subordinated loan in amount of US\$7,532 thousand is shown on the basis that the loan was obtained as part of a transaction including subscription of shares in Kernel Holding S.A., described in point (a) for purpose of the Acquisition;
 - (c) long-term borrowing in amount US\$57,000 thousand is the amount obtained from two banks financing the Acquisition;
 - (d) Inventories increased by an amount of US\$9,835 thousand to reflect the cost of raw materials processed in July-September 2007, amount of US\$3,219 thousand is taken from financial reports of the entities acquired and is the level of other inventories as of 30 June 2006;
 - (e) US\$75,241 thousand is a fair value of the assets on the acquisition date with added back amortization and depreciation for the period 1 July 2006 to 1 December 2006 according to the accounting policy of the Group. Deferred tax liabilities arose from valuation of property, plant and equipment in amount of US\$10,436 thousand;
 - (f) US\$9,426 thousand is a fair value of the trademark "Stozhar" on the acquisition date (in the amount of US\$9,385 thousand) without any adjustments and other intangible assets according to the financial accounts of the entities in the amount of US\$41 thousand;
 - (g) Items were taken from accounts of entities that held the assets, without material adjustments but with intra-group liabilities having been eliminated;
 - (h) Goodwill arising on acquisition of Subsidiaries in the amount of US\$7,249 thousand;
 - (i) The difference between total consideration paid (US\$69,730 thousand) and the total amount of long-term financing and equity increase (US\$61,182 thousand) is shown as decrease in cash item for an amount of US\$6,000 thousand and increase of short-term financing in amount of US\$2,548 thousand (2j). As the level of cash on accounts of entities on the acquisition date was US\$650 thousand, total adjustment of cash item is made for an amount of US\$5,350 thousand;
 - (j) Short-term financing is increased by total amount of US\$12,383 thousand for financing inventories in amount of US\$9,835 thousand and the balance in the amount of US\$2,548 is used for financing as per 2i here above.
3. Adjustments to the pro forma income statement of the Group are as follows:
 - (a) As mentioned, the Group acquired the entities which held the production assets but not the trading company nor the logistics company. In order to eliminate transfer pricing effect in the books of the entities, sales and cost of goods sold are increased by an amount of US\$21,098 thousand and US\$17,132 thousand respectively, according to the Group's accounting records for the corresponding period for the same products. The utilization ratio of production capacities under the previous owner was 60%. The Group achieved almost 100% utilization ratio from October 1, 2007. Production and capacity utilization levels for the assets purchased from Evrotek have not been adjusted to reflect the production and capacity utilization levels reached following acquisition by our Group. For that reason the adjustment 3a will have a continuing impact on the Group but with the limitation explained;
 - (b) Financial expenses for additional indebtedness described in clause 2c and 2j is accrued in amount of US\$3,032 thousand for the period 1 July 2006 – 1 December 2006;
 - (c) Other operating income in amount of US\$458 thousand is taken from the accounting records of the entities and intra group transactions were eliminated;
 - (d) Distribution costs are adjusted for an amount of US\$1,615 thousand to show delivery cost of the products produced and sold from 1 July till 1 December 2006 according to the Group's accounting records;
 - (e) General and administrative expenses in an amount of US\$2,331 thousand are General and administrative expenses of the production entities following elimination of intra group transactions
 - (f) Other expenses, foreign exchange losses and profit tax items are extracted from the accounts of the entities without material adjustments but after elimination of intra group transactions.

All adjustments to the pro forma income statement of the Group described above (*i.e.*, adjustments under 3a–3f) will have a continuing impact on the Group.

Auditor's Report on the Pro Forma Financial Information



**BAKER TILLY
UKRAINE**

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The unaudited pro forma financial information set out below (the "Pro Forma Financial Information") has been prepared to provide information about how the Acquisition (as defined below) might have affected the financial information of the Group had the Acquisition taken place on 30 June 2006. This unaudited Pro Forma Financial Information has been prepared for illustrative purposes only on the basis of the accounting policies adopted by the Group in preparing its Consolidated Financial Statements for the financial year ended 30 June 2007 and, because of its nature, addresses a hypothetical situation and does not reflect the Group's actual financial position.

This unaudited Pro Forma Financial information has been prepared on the basis set out in the notes below and is based on the audited balance sheet of the Kernel Group as at 30 June 2006 as set out in the Consolidate Financial Statements included in this Prospectus, adjusted as described in the notes below.

Auditors' Report on the unaudited Pro Forma Financial Information

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

30 September 2007

Dear Sirs

KERNEL HOLDING S.A. (the "Company") and its subsidiaries (together, the "Group")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") set out in the Group's prospectus dated October 2007 (the "Prospectus"), which has been prepared by the Group on the basis described in the Prospectus, for illustrative purposes only, to provide information about how the acquisition of the production assets of Evrotek Group (the "Acquisition") which was undertaken in December 2006 and February 2007 might have affected the financial information of the Group presented on the basis of the accounting policies adopted by the Group in preparing the consolidated financial information for the period ended 30 June 2007. Because of its nature, the Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results had the Acquisition occurred at the beginning of the reporting period. This report is required by item 20.2 of Annex I to the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended (the "Prospectus Regulation") and is given solely for the purpose of complying with the Prospectus Regulation.

Responsibilities

It is the responsibility of the directors of the Group to prepare the Pro Forma Financial Information in accordance with the requirements of the Prospectus Regulation, in particular item 20.2 of Annex I and Annex II to the Prospectus Regulation.





**BAKER TILLY
UKRAINE**

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It is our responsibility to form an opinion, as required by item 7 of Annex II to the Prospectus Regulation as to the proper compilation of the Pro forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to the Prospectus Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with International Standards on Assurance Engagements 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Group.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Group.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
and
- (b) such basis is consistent with the accounting policies of the Group.

Yours faithfully,

Alexander Pochkun

BAKER TILLY UKRAINE
Independent member of Baker Tilly International



an independent member of
**BAKER TILLY
INTERNATIONAL**

MANAGEMENT DISCUSSION AND OPERATING AND FINANCIAL REVIEW

The following discussion and analysis generally relates to the Company's historical financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements as at and for the past three years ended June 30, 2007, 2006 and 2005 and related notes included elsewhere in this Prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in forward-looking statements as a result of a number of factors, including, but not limited to those set forth under "Risk Factors".

In accordance with IAS 14 (Segment Reporting) certain data in our Consolidated Financial Statements for the year ended 30 June 2007 have been provided in two separate segments, oil and grain. The data provided in our financial statements under grain segment relates to sales of grains, proceeds from services provided by silos of our Agribusiness division and to Farming division. The data provided under the oil segment relates to the Agribusiness division for all sales of bulk products derived from oilseed crushing, and to the Bottled oil division for all bottled oil sales.

Overview

We are an integrated bottled oil and agribusiness Group operating from the farm down to the final consumer. We originate and process our products in Ukraine. We sell agricultural commodities and the products derived from oilseed crushing, oil refining and bottling both on our domestic market and on international markets. Our two main divisions in terms of revenue and contribution to profit are bottled oil and agribusiness. Our third division, farming, is developed to capitalize on the expected future free market for agricultural land.

Our agribusiness manages grain and oilseeds origination and logistics with storage capacity in excess of 1.7 million tons, processing of oilseed in three production plants with sunflower seed crushing capacity of 730,000 tons/year of sunflower seeds, marketing of our bulk products to international markets and overall risk management related to commodities handled by our Group.

Our bottled oil division manages sales, marketing and distribution of our bottled oil products to final consumers.

Kernel Holding S.A. is a holding company incorporated in Luxembourg, whose principal assets are its equity interests in its operating subsidiaries the majority of which are incorporated and operate in Ukraine.

Major Events Affecting Our Historical Results

Overview

Over the previous ten years, our business has grown from an asset-light company trading agricultural commodities to an integrated company active in the production and marketing of agricultural commodities and edible oil products on wholesale and consumer markets. In this process, we have grown organically as well as by acquisition. We have purchased production assets in support of existing business, as well as acquired altogether new businesses. Following the acquisition of companies, we have also divested some of the acquired assets considered as not strategic.

Acquisitions

In April 2004, we decided to make a strategic move into the consumer business by acquiring "Schedry Dar", a bottled oil brand distributed primarily on the Ukrainian domestic market, together with the Milove crushing, refining and bottling plant where the brand was produced and bottled until June 2007. Following the acquisition, our sales in the consumer market and the relative stability of the bottled oil price have enabled us to improve our business model by providing an effective hedge against the volatility of bulk vegetable oil prices on the international market. The acquisition with a value of US\$14 million was finalized in September 2004 and bottled oil operations fully integrated in the course of the financial year to June 30, 2005.

In December 2006, our Group took a further step to strengthen Kernel's position in the bottled oil business and, by the same token, to consolidate the crushing industry in Ukraine. We acquired the bottled oil brand "Stozhar", and production assets of our competitor "Evrotek" including two crushing plants, state-of-the-art refining and bottling facilities, and a network of thirteen grain silos in the administrative region of Kharkov. Total consideration paid for this acquisition was US\$79 million. The production and marketing of "Stozhar" as well as the operating of the two crushing plants of Volchansk and Prikolotnoe was fully integrated in our existing oil business in the course of the financial year ended June 30, 2007.

In July 2007, we seized the opportunity to conclude with the company "Chumak" long-term licensing agreements for the production and marketing of the bottled oil brands "Chumak Zolota" and "Chumak Domashnya". The successful completion of this transaction of a value of US\$13.5 million has significantly consolidated the bottled oil market in Ukraine and made our Group the No 1 producer and marketer of bottled oil in Ukraine, with a 35% market share in terms of net sales. The transaction was completed and the new brands integrated in our existing brand portfolio in the first quarter of the financial year to June 30, 2008.

Divestitures

Towards the end of the financial year 2007, we disposed of the Milove production plant, considered as relatively inefficient and difficult to upgrade. Net proceeds from the disposal were US\$5.6 million. Acquired together with the bottled oil brand "Schedry Dar", the 80,000 tons/year

decrease in our sunflower seed processing capacity following the disposal of the plant was fully offset by the 160,000 MT increase in capacity of our crushing plant in Volchansk. This new capacity came on stream in October 2007.

Following the acquisition of the Evrotek production assets, we also disposed of a number of grain silos, the location of which was considered as not strategic and offering little upside in terms of grain and oilseeds origination. Net proceeds from sale of the Milove plant and from silos disposed of in the financial year to 30 June 2007 were US\$12.11 million.

Investments in significant fixed assets

We endeavor to regularly upgrade and improve the efficiency and reliability of our existing plants. Apart from usual and regular maintenance and replacement of equipment, two of our three crushing plants have been recently fitted with major new equipment. Both Poltava and Volchansk crushing plants have been fitted with new solvent extractor equipment, ensuring the highest oil yield and process efficiency.

In November 2005 we commissioned a green field refining and bottling plant built next to our Poltava crushing plant for US\$14 million. The plant has a production capacity of 70,000 MT/year of refined and 60,000 MT/year of bottled oil and was designed to accommodate at short notice and minimal cost a 100% increase in production capacity.

Other exceptional factors affecting our historical operations for the years ended 30 June 2005, 2006 and 2007

Results of our Company in the financial year ended 30 June 2005 were impacted by the poor sunflower seed harvest in autumn 2004. While Ukraine harvests in excess of 4 million tons of sunflower seed per year on average, poor weather conditions in 2004 brought the sunseed harvest down to 3.0 million tons. Prices for sunflower seed increased significantly, without a corresponding adjustment in margins on crude sunflower oil.

The financial year to 30 June 2007 was influenced by the imposition of export quotas on certain type of grains. The purpose of the decision by the government of Ukraine was in particular to limit wheat exports and prevent a possible shortage of grain in the domestic market. Following the decision to introduce a quota on grain export, licences were allocated to several grain exporters, among which our Group, in accordance with their share of grain exports in the previous season. As a consequence of the limitations on grain export, our Group's volume of grain originated and exported declined by 24% in volume terms, when compared with the financial year ended 30 June 2006. The shortage of grain on the domestic market as well as on international markets had, however, a positive impact on margins, which were substantially higher in 2007 than in 2006.

Major Factors Affecting Our Operations

Seasonality of our business

Our agribusiness division originates, processes and exports crops grown and harvested once a year. Due to external factors such as weather, crops will vary from year to year in quantity and quality. This in turn will affect the quantity and quality of the commodities we will originate and supply to the market and, finally, affect our financial results.

Crop pressure

With crops harvested once a year, the agribusiness industry experiences "harvest pressure", whereby large quantities of grain and oilseed will be offered directly from the field to market participants over a short period of time. After the harvesting period, grain and oilseed origination and trade among market participants will continue, but in a quieter mode. As a major buyer of agricultural commodities, crop pressure will, during harvest, temporarily inflate our inventories, working capital needs and short-term borrowings. Grain we purchase and store in grain silos will be sold as we buy, with actual execution of sales contracts and delivery of grain effected all through the season. The oil derived from the crushing of the oilseed will also be sold as we buy the seed, with oil sales contracts executed throughout the season. As we near the end of our financial year, having executed all our sales contracts, our stocks of grain will be at a low level or nil. Stock of sunflower seed will be sufficient to enable our plants to crush through the summer, while waiting for the new sunflower seed harvest.

Government intervention and regulations

Our Group originates in Ukraine large volumes of agricultural commodities, which we mostly export, free from either quotas or export duties. Due to crop seasonality and variations in volumes harvested, a specific crop might, however, be subject to some form of export restriction during a given amount of time. If implemented, such restrictions will usually affect staple diet crops such as wheat for the production of bread. As a result of such government measures, the volumes we trade and our margins on such crops may vary in opposite direction to each other.

Sunflower seed export tax

Ukraine is now the second largest producer and largest exporter of sunflower oil in the world. In the recent past, however, and following the demise of the Soviet Union, Ukrainian crushing plants had fallen into disrepair and the country started exporting sunflower seed instead of oil. To stem the outflow of seed and support investment into new and efficient crushing equipment, Ukraine introduced in October 1999 a 23% export tax on sunflower seed, reduced to 17% in July 2001. The export tax is applied on the sunflower seed indicative export price as set from time to time by the government. The export tax on seed is due for review upon WTO accession.

Edible oils import tax

Ukraine imposes customs duty of EUR0.8 per 1 kg on the import of edible sunflower oil, 10% duty on the import of oil used for technical or industrial purposes and olive oil, and 0% customs duty on the import of palm oil. In effect, with Ukraine a net exporter of edible oils, the duty will be applied primarily on palm oil, used in the food processing industry, and on premium oils such as olive oil, accounting for only a small percentage of consumption.

WTO accession

Ukraine has made a formal request to join the WTO. With its strong competitive advantages, the agricultural sector of the country stands to benefit from global free trade in agricultural commodities. The export tax on sunflower seed will, however, be decreased by 1% per annum following accession to the WTO, down to a minimum level of 10%. WTO accession could therefore affect our financial results, whether in our grain trading activity or our oil business.

Currency fluctuations

Approximately 70% of our sales are invoiced in US\$ for goods sold on the international markets. The remaining 30% represent our sales of bottled oil and agriservices in the Ukrainian domestic market. All domestic sales are in Hryvnia, which is not a freely tradable currency. The exchange rate is managed by the NBU and largely pegged to the US\$. In case of need or of general market pressure, the NBU could decide to devalue or revalue the currency. As a result, the dollar value of our domestic sales could vary. We would nevertheless expect domestic prices for bottled oil to adjust relatively quickly to changes in the exchange rate to the US\$, as a significant difference between the price of oil on the domestic market and the international price would bring oil producers to export the oil instead of selling it on the domestic market.

Trends

Rising global demand for vegetable oils

Rising population and consumers' income growth have been driving demand for sunflower seed products on the global market until recent past. Population and income growth assumptions are the principal elements of the global economic outlook, as they are the key drivers in demand developments. Furthermore, due to globalisation, differences in regional growth prospects increasingly determine both the future landscape of the world agricultural markets and global trade patterns. While recent fluctuations have some impact on short term economic growth expectations, over the longer term, projected growth rates are based on broad assumptions about the trends of such diverse underlying factors as fertility, ageing, urbanisation, land use and production technology, not to mention the structure and evolution of labour and capital markets. The assumed strong growth in demand in many developed and emerging economies will spur expansion in imports as well as provide the impetus to the development of domestic production capacity. As a result, developed countries as a group are projected to lose production and export shares in many commodities to developing countries over the mid term period.

With the emergence of bio fuel industry, demand for sunflower seed products intensified as some developed countries faced shortage in edible oil as demand for oilseeds as feedstock for biodiesel production rose considerably.

Biodiesel is a product derived from agricultural sources such as vegetable oils (mostly rapeseed oil, sunflower oil and palm oil), or other raw materials (used frying oils, animal fats), which can either be mixed with conventional fuels or used in pure form. It performs efficiently as both transport fuel and heating oil and represents a sound solution to tackle climate change.

The EU Commission has set the targets of 5.75% of bio-fuels in the fuel for transportation in 2010, and a minimum target of 10% in all Member States by 2020. As a result of such directives, the EU bio-fuels industry has been developing rapidly over recently.

The European Biodiesel Board confirms that the overall biodiesel production in the EU has increased from 3.2 million tons in 2005 to nearly 4.9 million tons in 2006. This represents a 54% yearly growth for the EU biodiesel production, which follows a 65% record high growth in the year 2005. Consequently, the EU biodiesel production has more than doubled in the last 2 years from 1.9 million tons in 2004 to 4.9 million tons in 2006. In 2002, 2003 and 2004 biodiesel production rose by a relatively lower 30–35% rate. Germany, France and Italy account for almost 80% of biodiesel production in the EU.

Biodiesel makes up 80% of the EU bio-fuels production (bio-ethanol production in 2006 was 1.2million tons) and is very likely to carry on being the bio-fuel most demanded in order to fill future ambitious EU targets. The EU is now the world leader in biodiesel production, both in terms of biodiesel capacities and production. In 2006 the EU produced 77% of biodiesel produced in the world. In terms of feedstock supply, the EU is historically one of the largest net importers of vegetable oils, and given the dynamic growth of demand for bio-fuels and limited crop acreage at present, we expect the EU imports of vegetable oil to grow considerably in the near future. As a result, we believe that competition between food and fuel, when it comes to distribution of agricultural products, will remain a key demand driver for vegetable oils in the foreseeable future.

Stocks of grains and vegetable oils worldwide are at historically low levels relative to consumption. The global production deficit in oilseeds of 17–18 million tons relative to the expected consumption could bring an unprecedented reduction of oilseed stocks in 2007/08.

Current global trends in sunflower oil market

Ukraine

We expect Ukraine to enhance its position as No. 1 exporter of sunflower oil with expected export of 1.5 million tons in 2007/2008. The Ministry of Agriculture of Ukraine has recently updated its forecast of the sunflower seed gross harvest in Ukraine from 3.5 million tons to 4.2 million tons this year, which is still lower by 1.2 million tons compared to the previous year when 5.4 million tons of sunflower seed were harvested (22% year-on-year decrease). Summer droughts affected yields in southern areas of Ukraine (Odessa and Crimea). Regardless of the droughts in the South, the average yield is expected to be around 1.2 tons/ha, as in the previous year.

Following improved estimates for this year's sunflower seed crop and the difficulties faced by small crushers to finance working capital needs, we observe a slight reduction of sunflower seed price in the domestic market by 3–5% to US\$450–460 per ton (CPT crushing plant) in October 2007 compared to September 2007 when the sunflower seed harvest campaign started. With completion of harvest, we expect the price to remain stable at those levels and then gradually increase to reach US\$500 per ton (CPT, crushing plant) in August 2008, just before the new harvest is due.

For the new crop in 2008, as a result of high prices this season and the sunflower seed crop being the leading crop in terms of margin, we expect an increase in acreage planted with sunflower.

Prices for crude bulk sunflower oil have reached an all-time high of US\$1,260 per ton (FOB Black Sea Ukraine) in October 2007, a 117% year-on-year increase. To the tightness in the overall supply of vegetable oils, we expect sunflower oil prices to remain in the range US\$1,190–1,260 per ton (FOB, Black Sea, Ukraine) over 2007/08, until the new harvest in Ukraine.

Sunflower meal prices have increased by 175% over last year prices and have reached US\$240 per ton (DAF, Ukrainian border) in October 2007. In view of the low level of grain available for animal feed, we forecast sunflower meal price to stay at such levels over 2007/08. We eventually expect a decline, due to the relative over-production of protein meals as a result of the bio-diesel industry development.

Argentina

Dryness and insufficient soil moisture have prevented timely plantings in northern parts of the country. The failure in completing planting intentions in the North is likely to curb this year's total Argentine sunflower plantings below the latest government estimate of 2.75 million hectares. Sunflower oil production volumes might therefore be below previously forecasted volumes and should help keep global sunflower oil prices at present levels.

Russia

Sunflower seed harvesting is in the final phase with an estimated 5.2 million hectares to be harvested this year. Preliminary reports suggest average yield of 1.1 tons per hectare, yielding an estimated 5.5 million tons of sunflower seed harvest this year. This is 650,000 tons lower than in the previous year or an 11% year-on-year decline. Russia, the 3rd largest exporter of sunflower oil in the world, is therefore expected to reduce its export volumes this year.

The EU

Prices remain firm in the EU, which is the largest importer of sunflower oil in the world. In the EU sunflower oil supplies are very tight with hardly any quantities currently being offered for November – December 2007 shipment. According to trade reports some buying occurred at a price of US\$1,285 per ton for November delivery. For January – March 2008 delivery, sunflower oil is currently offered at US\$1,260–1,270 per ton in the EU. Very little is currently offered in the EU, making it difficult for consumers to meet requirements.

Prices of rapeseed oil advances to US\$1,030 for November 2007 – January 2008 shipment at the beginning of October 2007 and are currently trading at a discount of US\$230–250 per ton relative to sunflower oil. Some demand switching is taking place from sunflower to rapeseed oil. But this switch is limited as there is strong demand for sunflower oil not only from the EU but also from Turkey, North Africa and other countries.

Sunflower seed production was higher than expected in Spain reaching 3-year high of 763,000 tons (against 607,000 tons last year), according to official data. This will give some relief to the tight EU sunflower seed balance. Altogether, the EU expects to harvest 4.6 million tons of sunflower seeds this year, which is 29% down compared to 6.4 million tons a year before.

Turkey

Being the world's largest importer of sunflower seed oil after the EU, Turkey attempts to alleviate the sharp price increase of oilseeds and vegetable oils on the domestic and the world market. The Turkish government has lowered import duties on sunflower seed to 12% (from 27% for WTO members and 45% for non-WTO members), on sunflower oil to 22% (from 36% and 60% respectively).

Sunflower seed harvesting is almost completed and this year's sunflower seed crop has turned out better than previously expected to reach around 580,000 tons, still down sharply from 790,000 tons a year ago and 780,000 tons two years earlier. Due to the expected decline in domestic production by 0.1–0.2 million tons, Turkish imports of oils and fats are expected to rise 0.2 million tons or 17% year-on-year to 1.3 million tons in 2007/08, of which 210,000 tons of sunflower oil.

Prices of sunflower oil have appreciated significantly. On September 24 prices stood at US\$1,240–1,270 per ton (CIF Turkey), against US\$620 per ton a year earlier.

Demand for bottled sunflower oil in Ukraine

We expect moderate growth of Ukraine's bottled sunflower oil market in the mid term perspective at a pace of 5%–8% per annum as a result of:

- *Growth of edible oils consumption.* Ukraine has annual edible oil consumption of circa 14 liters per capita, which leaves it behind its Eastern European peers. We estimate that Ukraine would reach consumption level of 21 liters per capita (the current consumption level in Russia) during the next 4–5 years.
- *Consumer preferences shift.* Consumers tend to buy quality bottled oil in modern retail, as opposed to crude bulk oil in the traditional outdoor marketplace, which still accounts for circa 30%–35% of total consumer sunflower oil market in Ukraine. Ukraine's modern retail grows on average 15% p.a. with its share to reach 56% of total retail by 2010 compared to 49% at present. We believe that bottled oil will reach 85%–90% of the total consumer sunflower oil market in Ukraine over the next 5 years, essentially as a result of growth in modern retail, the development of private label segment and a more selective customer.
- *Change of distribution pattern.* We believe the traditional outdoor markets and local distributors will be gradually displaced by the nationwide retail chains with own distribution centers throughout Ukraine. Those nationwide retail chains would tend to have a maximum of 4 brands of bottled oil and a private label on the shelf. This, we believe, will significantly limit the access of small regional bottlers to final consumers. The distribution pattern shift will reduce distribution costs incurred by the established producers and at the same time increase barriers to entry for new entrants.
- *Bottled oil market consolidation.* We believe the bottled oil market consolidation process will continue as regional marginal refiners and bottlers will be phased out as a result of their overall lower efficiency. Small regional producers currently account for more than 30% of domestic bottled oil market.

As a result of these trends and further promotion and marketing of the "Schedry Dar", "Stozhar" and "Chumak" brands, we believe that sales of bottled oil under Group brands and overall market share enjoyed by the Group will increase.

Consolidation of production and modernization of plants

The majority of the production facilities in Ukraine were built in Soviet times. Several production plants would require significant investments to increase their production capacity and ensure efficient and stable processing. Out of 6 million tons of declared crushing capacities in Ukraine only 4.5 million or 75% might be considered as fully operational. It is unlikely that old plants will be modernized to comply with up-to-date industry standards, as most are of a small size, which limits the ability to increase production capacity and produce at lower cost per ton.

As a result, we believe that Ukraine's oil crushing sector will consolidate further, with some possible merger and acquisition transactions and the phasing out of smaller, inefficient producers.

Current global trends in grain market

Unfavorable weather conditions remain a key factor behind the current upward trend in the grain markets. Prices of all major grains have surged of the past year reaching US\$330–370 per ton of wheat, US\$ 320–350 per ton of barley and US\$310–330 per ton of corn at the present. The price rally is fuelled by a further deterioration of the Australian wheat crops as well as by low soil moisture supplies in many parts of South America.

Wheat

The US wheat exports are forecasted to reach 30 million tons in 2007/08 or 20% increase compared to 2006/07. The Australian wheat crop will amount to just 15.5 million tons, according to recent announcement of ABARE, which is at low end of recent trade estimates and down steeply from initial expectations of 21–23 million tons. This would probably allow Australia to export around 8.5 million tons of wheat, slightly below 9.0 million tons exported last year. Canada expects to export only 14.0 million tons of wheat in 2007/08 compared to 19.2 million tons exported in 2006/07 (37% reduction on year-to-year basis). Argentina is also behind last year exports by 17% with an estimated 9.0 million tons for 2007/08. Russian wheat production is likely to turn out higher than expected and may reach around 47 million tons, which would allow to export circa 12 million tons of wheat in 2007/08 a 12% increase compared to last year, if no trade restrictions are imposed by the government. Kazakhstan also plans to increase wheat exports by 0.5 million tons to reach 6.0 million tons in 2007/08. Ukraine, as a result of the export ban, is expected to export 1.5 million tons in 2007/08, a 50% decrease over last year.

Barley

Australia is forecasted to double barley exports and reach 4.5 million tons this year. Canada also forecasts to export 33% more barley in 2007/08 (2.0 million tons). The EU is expected to export almost the same volume as in the last year (3.5 million tons). Russia and Kazakhstan are both expected to reach the level of previous year barley exports (2.2 million tons). In Ukraine, the ban on exports is expected to result in a 1.0 million tons decrease in barley exports to 3.9 million tons for the season 2007/08, compared to 4.9 million tons exported in 2006/07.

Corn

The US, the largest corn producer and exporter in the world, is forecasted to export 57 million tons of corn, a 6% year-on-year increase. Corn exports from Argentina will remain stable compared to 2006/07. China's corn exports are slightly down and expected at 3.0 million tons this year compared to 4.8 million tons a year before. Notwithstanding the export ban in Ukraine, corn exports are expected to reach 1.5 million tons in 2007/08, which is 0.5 million tons more than in 2006/07.

Change of the legal status of the land in Ukraine

We believe the Ukrainian market has matured sufficiently to lift the moratorium on sale of agricultural land. This may take place in 2008. We believe this should be a positive signal, which will attract new investments in the farming sector, substantially improve sector management and provide access to modern agricultural technology and equipment. This, we believe, will result in further growth of harvest yields, currently significantly lower than in the EU.

Once the moratorium is lifted, farming enterprises presently leasing land will have a right of first refusal to buy the land leased and, most likely, will exercise this right. In particular, our land bank is being developed specifically to capitalize on the expected lifting of the moratorium on sale of agricultural land.

Key Accounting Policies and Presentation of Financial Information

The critical accounting policies of the Group are described below. The Group's significant accounting policies with respect to the preparation of its Consolidated Financial Statements are described in Note 4 to the Consolidated Financial Statement.

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.

Basis of consolidation

The Consolidated Financial Statements incorporate the consolidated financial statements of Kernel Holding S.A. and companies controlled by the Group (the "Group Subsidiaries") made up as of 30 June 2007, 2006 and 2005. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities.

The purchase method of accounting is used for acquired businesses. The equity attributable to minority owners' interests is shown separately in the consolidated balance sheet. On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant inter-company transactions and balances between the Group enterprises are eliminated on consolidation. Unrealized gains and losses resulting from inter-company transactions are also eliminated unless for unrealized losses which cannot be recovered.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Group Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses. The goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

Intangible assets

Intangible assets acquired separately from a business are capitalized at primary cost. Amortization of intangible assets except for the "Schedry Dar" and "Stozhar" trademarks is calculated on a straight-line basis over 2–10 years, and is included in "General and administrative expenses".

The "Schedry Dar" and "Stozhar" trademarks have indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually and whenever there is an indication that the trademarks may be impaired.

Foreign currencies translation

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

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

Property, plant and equipment

Except for land, property, plant and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

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

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

Property, plant and equipment is depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisals under the straight-line method. Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20–50 years
Production machinery and equipment	10–20 years
Agricultural vehicles and equipment	3–10 years
Fixtures, fittings and other fixed assets	5–20 years
Transport vehicles	4–7 years
Construction in progress ("CIP") and uninstalled equipment	Not depreciated

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

Impairment of non-current assets

At each balance sheet date the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Segment Reporting

In accordance with IAS 14 ("Segment Reporting"), certain data in the financial statements is provided by segments. The segments are those used for internal reporting and provide an assessment of risk and returns. The aim is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities.

As of 30 June 2007 the Group defined two segments with activities consolidated according to economic characteristics, products, production processes, customer relationships and methods of distribution.

The segments' activities are as follows:

- *Oil*: production, refining, bottling, marketing and distribution of sunflower oil and meal.
- *Grain*: Trading of grain, provision of cleaning, drying and storage of grain, agricultural farming.

The segment data are calculated as follows:

- The intersegment sales reflect intragroup transactions effected on an arm's-length basis.
- The equity items are those reflected in the balance sheet and income statement. They are allocated to the segments where possible.
- Capital expenditures, amortization and depreciation relate to property, plant and equipment and intangible assets.

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

Reclassifications

Certain reclassifications have been made to the corresponding amounts for the year ended 30 June 2006 so as to conform to the current year presentation.

Results of Operations

The following table provides a summary of certain items in our consolidated income statements for the financial years ended 30 June 2007, 2006 and 2005.

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
REVENUE	350,379	215,242	143,763
COST OF SALES	(267,352)	(173,423)	(120,582)
GROSS PROFIT	83,027	41,819	23,181
OTHER OPERATIONAL INCOME	7,865	1,220	303
OPERATING EXPENSES:			
Distribution costs	(38,963)	(20,341)	(11,441)
General and administrative expenses	(13,295)	(10,685)	(7,087)
TOTAL OPERATING EXPENSES	(52,258)	(31,026)	(18,528)
OPERATING PROFIT	38,634	12,013	4,956
Finance costs, net	(18,863)	(9,303)	(6,640)
Foreign exchange (loss)/gain, net	(768)	(931)	1,124
Other (expenses)/income, net	(2,311)	(1,810)	883
PROFIT / (LOSS) BEFORE INCOME TAX	16,692	(31)	323
INCOME TAX	1,904	75	267
NET PROFIT	18,596	44	590
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
Shareholders of Kernel Holdings S.A	19,539	1,287	459
Minority interest	(943)	(1,243)	131

Source: the Company based on the Consolidated Financial Statements

Year ended 30 June 2007 compared to year ended 30 June 2006

Revenue

Total revenue increased from US\$215 million as of 30 June 2006 to US\$350 million as of 30 June 2007, a 63% year-on-year increase. The increase reflects first the acquisition of the bottled oil brand "Stozhar" and Evrotek production assets, accounting for 68% of total year-on-year increase, and secondly a buoyant market in vegetable oil with prices increasing steadily throughout the season, accounting for the balance 32% of total increase in revenue.

Our agribusiness division generated 83% of our total net sales over the financial year ended 30 June 2007, making the agribusiness division the largest contributor to sales. Of total agribusiness sales in the financial year to June 30, 2007, bulk products derived from the processing

of sunflower seed accounted for 55% of sales, grain sales accounted for 41% of sales, and revenues from agriservices accounted for the balance 3.8% of sales.

Revenues from our bottled oil division increased from US\$33.7 million for the financial year to 30 June 2006 to US\$56.6 million for the financial year to 30 June 2007, a 68% year-on-year increase. This year-on-year increase was due for 23% to organic increase in sales of our brand "Schedry Dar" and for 77% to the bottled oil brand "Stozhar", acquired in the course of the financial year to 30 June 2007. Agreements for bottled oil with the company "Chumak" were concluded in June 2007, and therefore did not impact sales to 30 June 2007.

Cost of goods sold

Cost of raw materials

Cost of raw materials is the main cost of sales item for both our agribusiness division and our bottled oil division. Raw materials have increased from US\$147 million for the year ended 30 June 2006 to US\$243 million for the year ended 30 June 2007, equivalent to 68.3% and 69.4% of sales respectively.

Payroll and related charges

Payroll and related charges have increased from US\$9.2 million to US\$13.6 million, a 48% year-on-year increase. The payroll increase is primarily due to additional plants and silos acquired from the company "Evrotek". In relative terms, payroll has remained at 5% of cost of sales in 2006 and 2007.

Depreciation

Depreciation of property, plant and equipment has increased twofold, due primarily to the acquisition of Evrotek production plants and grain silos. Depreciation expenses remain less than 2% of sales for the year ended 30 June 2006 and 2007.

Gross profit

Gross profit increased from US\$41.8 million as of 30 June 2006 to US\$83.0 million as of 30 June 2007, a 99% year-on-year increase. The overall increase reflects the acquisition of our competitor Evrotek, as well as the relative tightness of oil and grain supply on the international markets, with gross margins improving from 19.4% to 23.7% of sales for the year ended 30 June 2006 and 2007 respectively.

Operating expenses

Distribution costs

Distribution costs increased from US\$20.3 million in the financial year ended 30 June 2006 to US\$39.0 million in the financial year ended 30 June 2007, a 92% year-on-year increase. This is due to the significant increase in tonnage of commodities and bottled oil handled by our company and, to a lesser extent, to the regular increase in transport costs on our domestic market.

General and administrative expenses

General and administrative expenses have increased from US\$ 10.7 million as of 30 June 2006 to US\$ 13.3 million as of 30 June 2007, a 24% year-on-year increase. In relation to sales, however, general and administrative expenses have decreased from 5.0% to 3.8% of sales for the year ended 30 June 2006 and 2007 respectively.

Operating profit

Income from operations has increased from US\$12 million as of 30 June 2006 to US\$38.6 million as of 30 June 2007, a 222% year-on-year increase. The bigger increase in operating result than in gross profit reflects primarily the economies of scale and synergies achieved following the acquisition of Evrotek production assets.

Finance costs

Finance costs have increased from US\$9.3 million as of 30 June 2006 to US\$18.9 million as of 30 June 2007, a 100% year-on-year increase. In relation to sales, finance costs have increased from 4.3% to 5.4% of sales for the year ended 30 June 2006 and 2007 respectively. The increase reflects primarily additional financing of working capital through bank credits and, to a lesser extent, expenses related to the bank loans obtained as part of the financing of the Evrotek production assets.

Net income

Net income has increased from US\$0.04 million as of 30 June 2006 to US\$18.6 million as of 30 June 2007. As for increase in operating income, the increase in net income reflects the successful integration of the Evrotek operations without substantial increase in overheads, and a positive trend in gross margins in the agribusiness.

Year ended 30 June 2006 compared to year ended 30 June 2005**Revenue**

Total revenue increased from US\$144 million for the financial year ended 30 June 2005 to US\$215 million for the financial year ended 30 June 2006, a 49% year-on-year increase, due in particular to the full integration of our acquisition of the bottled oil brand "Schedry Dar" and the resulting increase in bottled oil sales and to a substantial increase in grain volume traded in the year to 30 June 2006.

Cost of salesCost of goods for resale and raw materials

Cost of goods for resale and raw materials has increased from US\$106 million for the year ended 30 June 2005 to US\$147 million for the year ended 30 June 2006, a 38.7% year-on-year increase resulting primarily from the 49% increase in revenue over the same period.

Payroll and related charges

Payroll and related charges have increased from US\$6.9 million to US\$9.2 million, a 33% year-on-year increase. In relation to sales, payroll and related charges have decreased from 5.7% of cost of sales to 5.3% of cost of sales for the year ended 30 June 2005 and 2006 respectively.

Gross profit

Gross profit increased from US\$23.1 million as of 30 June 2005 to US\$41.8 million as of 30 June 2006, an 81.0% year-on-year increase. In relative terms, gross profit margins improved from 16.1% to 19.4% of sales for the year ended 30 June 2005 and 2006 respectively, primarily due to the increase in bottled oil sales.

Operating expensesDistribution costs

Distribution costs have increased from US\$11.4 million for the year ended 30 June 2005 to US\$20.3 million for the year ended 30 June 2006, a 78.1% year-on-year increase, due to the increase in bottled oil marketing costs and to the increase in carriage and freight expenses as volumes of commodities traded have grown. In relative terms, distribution costs increased from 8% to 9.5% of sales for the year ended 30 June 2005 and 2006 respectively.

General and administrative expenses

General and administrative expenses have increased from US\$7 million for the year ended 30 June 2005 to US\$10.7 million for the year ended 30 June 2006, a 52.8% year-on-year increase. In relative terms, however, general and administrative expenses remained flat at 5% of sales for the year ended 30 June 2005 and 2006.

Operating profit

Operating profit increased from US\$4.96 million as of 30 June 2005 to US\$12 million as of 30 June 2006, a 143% year-on-year increase. Operating margins also improved from 3.4% to 5.6% of revenue for the year ended 30 June 2005 and 2006 respectively.

Finance costs

Finance costs have increased from US\$6.6 million as of 30 June 2005 to US\$9.3 million as of 30 June 2006, a 40.9% year-on-year increase as a result of increased bank borrowing, essentially for working capital purposes. In relative terms, finance costs stood at 4.6% and 4.3% of sales for the year ended 30 June 2005 and 2006 respectively.

Net profit

Net profit for the year to 30 June 2006 was US\$0.044 million as compared to US\$0.59 million for the year to 30 June 2005. Even though gross and operating margins improved slightly over 2006, the effect of synergies and economies of scale become apparent in 2007 with the acquisition of Evrotek assets and "Stozhar" brand name.

Liquidity and Capital Resources

The following table summarizes our statement of cash flow for the financial years ended June 30, 2007, 2006 and 2005.

	For the year ended June 30,		
	2007 (audited)	2006 (audited)	2005 (audited)
	(US\$ thousands)		
OPERATING ACTIVITIES:			
(Loss)/profit before income tax	16,692	(31)	323
Adjustments to reconcile profit before income tax to net cash used in operating activities:			
Amortization and depreciation	7,723	4,983	4,119
Finance costs	18,863	9,303	6,640
Bad debt expenses and other accruals	1,070	1,885	569
Loss on disposal of property, plant and equipment	1,035	159	483
Foreign exchange losses/(gains), net	768	931	(1,124)
Income from "DAK Asset"	(324)	(651)	(863)
Gain on sales of equity investments	(427)	—	(305)
Operating profit before working capital changes	45,400	16,579	9,842
Changes in working capital:			
Increase in trade accounts receivable	248	(2,708)	(5,047)
Increase in prepayments and other current assets	1,246	(4,449)	(1,828)
Decrease/(increase) in restricted cash balance	(100)	14	(370)
Increase in taxes recoverable and prepaid	(13,048)	(3,524)	(4,242)
Increase in biological assets	(6,253)	(1,044)	(925)
Increase in inventories	(3,204)	(21,664)	(212)
(Decrease)/Increase in trade accounts payable	1,965	(1,622)	1,325
(Decrease)/Increase in advances from customers and other current liabilities	4,406	(842)	1,646
Cash (used in)/obtained from operations	30,660	(19,260)	189
Finance costs paid	(18,358)	(9,423)	(5,355)
Income tax paid	(708)	(364)	(138)
Net cash used in operating activities	11,594	(29,047)	(5,304)
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(1,598)	(6,741)	(9,467)
Proceeds from sales of equity investments	—	—	381
Purchase of equity investment	—	—	(76)
Proceeds from disposal of property, plant and equipment	3,786	769	1,617
Sales/(Purchase) of intangible and other non-current assets	295	611	(628)
Disposal of Subsidiaries	8,934	—	—
Acquisition of Subsidiaries	(68,663)	—	(12,449)
Net cash used in investing activities	(57,246)	(5,361)	(20,622)
FINANCING ACTIVITIES:			
Proceeds from short-term and long-term borrowings	190,068	94,916	96,168
Repayment of short-term and long term borrowings	(135,907)	(73,552)	(62,178)
Proceeds from subordinated loan	7,532	—	—
Proceeds from share capital increase	176	—	—
Proceeds from share premium reserve increase	2,602	—	—
Corporate bonds issued	—	10,258	—
Withdrawals	—	(879)	(904)
Net cash provided by financing activities	64,471	30,743	33,086
NET INCREASE/(DECREASE IN CASH AND CASH EQUIVALENTS	18,769	(3,665)	7,160
CASH AND CASH EQUIVALENTS, at the beginning of the year	5,983	9,409	2,102
TRANSLATION ADJUSTMENT	(50)	239	147
CASH AND CASH EQUIVALENTS, at the end of the year	24,752	5,983	9,409

Source: the Company based on the Consolidated Financial Statements

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit, and issuance of bonds. Our bank credit lines are provided largely by international banking institutions, some of which operate in Ukraine through their domestic subsidiaries. Our bonds are purchased by international and domestic investors alike. Banks and bond investors provide financing to our Group either in US\$ or in Hryvnia. While the beneficiaries of the financing will be our various operating subsidiaries responsible for international or Ukraine domestic sales, all our credit facilities are under the management and control of our centralized financial department operating out of Kiev. For information on material loan facilities extended to our Group Subsidiaries see: "Our Business – Material Contracts – Financing agreements", "Our Business – Material Contracts – Corporate bonds issuance" and "Related Party Transactions".

In the financial year to June 30, 2006, with sales growing by 49%, our working capital requirements increased by US\$36 million, financed primarily through bank loans and bonds. In the financial year 2007, following the acquisition of the production assets of Evrotek and a further 63% increase in sales, our working capital needs increased by another US\$14 million, financed evenly from operating activities and from loans.

The development of our businesses in the financial years 2006 and 2007 has led to sizable increases in inventories of readily marketable inventories, essentially sunflower seed ready for processing and sunflower oil resulting from the seed crushing process. Both seed and oil are readily convertible to cash because of the strong liquidity of their respective markets, their overall commodity characteristics and our 'balanced book' trading policy. Due to our cash levels, the liquidity of our agricultural commodities inventory and our trading policy, we believe our working capital levels satisfy our present business needs.

Cash used in investing activities was US\$20 million for the year ending 30 June 2005, primarily reflecting the acquisition of the bottled oil brand "Schedry Dar" and related production assets. For the year ending 30 June 2007, cash used in investing activities was US\$57 million. Acquisition of the bottled oil brand "Stozhar" and the production assets of the company "Evrotek" was completed in the financial year to June 30, 2007. During the financial year 2007, we also disposed of a number of grain silos and of the Milove crushing, refining and bottling plant for a total consideration of US\$12.11 million.

Having duly considered the nature of our financial arrangements and sources of our capital, we believe that we do not depend on any financial agreement. Our management has not made any firm arrangements with respect to any of our future investments.

We believe that, working capital of the Group (i.e. its ability to access cash and other available liquid resources) is sufficient to meet its present requirements for at least 12 months from the date of this Prospectus.

Risk Management

Overview

In the course of our operations, we are exposed to a number of market risks, particularly the risk of change in commodity prices and the risk of change in the currency exchange rates and to the lesser extent interest rate risk and credit risk. Our company handles sizable volumes of agricultural commodities, the price volatility of which can be high and leading to significant changes in price within a short period of time. Our currency risk exposure derives from the fact that a third of our business is domestic and denominated in Hryvnia with the major portion being US\$ denominated, representing international trade.

Mitigation of commodity price risk

Our Group deals in commodities exposed to market price risk. We, however, do not use commodity derivatives to hedge against changes in market prices as derivatives available either on regulated commodity exchanges or over-the-counter do not presently offer efficient hedging tools to our Group. We therefore hedge ourselves against commodity price risk by largely matching volumes of goods originated with volumes of sales contracts concluded for immediate or future delivery of physical goods we originate or produce. We follow what, we believe, is a prudent approach to commodity markets and our open position, long or short, does not exceed 25,000 tons by commodity type or an aggregate amount of 50,000 tons for grains and 20,000 tons for oil. Furthermore, thanks to the relative stability of the bottled oil price, our expected future sales of branded oil offer an effective hedge against falling prices in bulk oil.

Mitigation of currency exchange rate risk

Insofar as grain and sunflower oil are primarily destined for export, the prices of agricultural commodities purchased on our domestic market are largely pegged to the US\$ value of these goods on the international market. Our working capital credit lines for financing of our export operations, representing over c.70% of our revenues, are therefore denominated in US\$ and no currency exchange risk is incurred here.

Financing requirements for our domestic sales, essentially our bottled oil sales, are covered by credit lines and bonds denominated in UAH. If the UAH were to devalue versus the US\$, losses incurred on our domestic sales would largely be offset by the decrease in the US\$ value of our UAH borrowings, our loans and bond issues in local currency providing therefore an effective hedge against a devaluation of the UAH.

Mitigation of credit risk

Our Agribusiness division sells bulk commodities, mostly for export. Our clients for goods in bulk are primarily international trading houses or wholesalers and processors in importing countries. While we entertain on-going commercial relationships and have usually been selling

to the same customers for a number of years, we regularly control their creditworthiness and sell usually through bank channel, on a cash against documents basis or against letter of credit. As to sales effected to CIS clients, delivery is effected against prepayment.

Clients of our Bottled oil division are selected distributors holding on-going and strong positions in their respective regions and retailers with supermarket networks covering a large part of Ukraine. While we entrust distributors and retailers with stock of bottled oil, we have put in place procedures to limit our risk on any one distributor or retailer, and follow our exposure on each client on a daily basis.

Key Margins and Ratios

The following table summarizes our key margins and ratios for the financial years ended June 30, 2007, 2006 and 2005.

	For the year ended June 30,		
	2007	2006	2005
	(audited)	(audited)	(audited)
	(US\$ thousands)		
EBITDA	46,357	16,196	9,075
EBIT	38,634	12,013	4,956
Margins:	(as a percentage of sales)		
Gross	23.7	19.4	16.1
EBIT (as a percentage of sales)	11.0	5.6	3.4
EBITDA (as a percentage of sales)	13.2	7.5	6.3
Ratios:			
EBITDA/Interest expense	2.5	1.7	1.4
Net Debt/Shareholder's equity	2.2	2.1	1.5
Debt/EBITDA	3.5	5.8	6.3
Net debt/EBITDA	3.0	5.4	5.2

Source: The Company based on management's accounts

Notes:

We present "EBITDA" and "EBIT" to enhance the understanding of our operating results. None of these measures are measures of financial performance under generally accepted accounting principle, including IFRS. We provide these measures because we believe that investors and securities analysts will find them to be useful measures for evaluating our operating performance and for comparing our operating performance with that of similar companies that have different capital. None of these measures should be considered in isolation or as an alternative to net profit for the period or other data presented in our Consolidated Financial Statements as indicators of financial performance. Because these measures are not determined in accordance with generally accepted accounting principles and thus susceptible to varying calculations, the measures we present may not be comparable to other similarly titled measures of performance of other companies.

"EBITDA": audited operating profit plus depreciation and amortization expenses;

"EBIT": is defined as earnings before net interest expense, income tax expense, and minority interest, assumed to be equal to operating profit.

INDUSTRY OVERVIEW

Vegetable Oil Industry

Overview

Vegetable oil is an essential element of the diet of people across the globe and is consumed daily either in the form of oil or in the preparation and processing of food. It is also the primary feedstock for the production of bio-diesel.

Since 2000–2001, world production of vegetable oils has increased by 38% in volumes according to USDA data. Two key trends drive the growth of the world vegetable oil sector. First, production is fuelled by population growth, especially in Asia, and by an accompanying increase in living standards and improved diet habits. Secondly, the growth of the bio-fuels industry, especially in the US and the EU, driven by concerns over energy security and climate change, have put further pressure on the industry to increase output.

Global Supply and Demand

Vegetable oil is obtained by processing oil-bearing crops. Oil palm, soy, rape (in Canada: canola, a variety of rapeseed) and sunflower account for over 80% of oil-producing crops. Upon completion of conditioning processes such as cleaning and possible de-hulling, oil bearing crops go through an industrial process of mechanical pressing followed usually by a solvent oil extraction process. Both processes separate the oil from the fibre component of the crop.

Vegetable oil is used in various industries, ranging from the food industry to the detergents and cosmetics industry and chemical and energy industries. The food industry is still the main customer for vegetable oil. The consumer will use oil either directly as salad oil or indirectly in food products such as margarine, frying fats and spreads. Vegetable oil is also a major component in the production of industrial margarines, shortenings, cocoa butter and, as a result of industrial process, a valuable nutrition ingredient such as lecithin and sterols. Industrial applications include the production of soaps, shampoo, cosmetics, detergents, paints and lubricants. The bio-fuels industry has in recent years added a new, important and growing dimension to the many industrial applications for vegetable oil, with the expected growth in volume of bio-fuels possibly outgrowing demand from the food industry.

Different crops will yield different amounts of oil with different specifications. Some oils will therefore be better suited for certain applications than others. Refined palm oil being semi-solid at room temperature, its primary use is as an industrial frying oil to produce chips, crisps and other snack foods, and also in the production of shortenings, ice cream, condensed milk, and soap. The crushing of soybeans produces primarily protein meal, which is the main driver in the soy market. The rapeseed oil market is driven increasingly by the development of the bio-diesel industry in Europe. Sunflower seed oil is considered among the healthiest oils and its primary market is the food industry, which uses it for salad dressing or frying oil. Due to its high quality, sunflower oil will generally command a premium over other oils.

The development of the bio-diesel industry, especially in Europe, is significantly affecting the balance of vegetable oil supply and demand. The predominant bio-diesel feedstock in Europe is rapeseed oil. The strong demand for rapeseed for bio-diesel production has, however, fuelled parallel demand for other oils such as sunflower oil. Also, as a future development and with the European Union recommending much higher contents of bio-fuels blended with traditional fuels derived from petroleum, it is expected that bio-fuel production levels will require the use of diverse feedstock, including used cooking oils, other vegetable oils and beef tallow.

The table below provides information on major vegetable oils: world supply.

<i>(in rounded million tons)</i>	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007 (estimates)	2007/2008 (forecast)
Production:						
Palm and palm kernel oil	31	33	38	40	41	44
Soybean oil	30	30	32	34	36	38
Rapeseed oil	12	14	16	17	18	18
Sunflower seed oil	8	9	10	11	11	10
Other ⁽¹⁾	15	16	15	16	16	16
World Total	96	102	111	118	122	126

Source: USDA circular "Oilseeds: World Markets and Trade" of September 2007

⁽¹⁾ cottonseed oil, olive oil, peanut oil and coconut oil

Oil bearing crops are processed mainly in the country where they are produced. The bulk of the trade is in the products derived from the processing and not in the crop itself and vegetable oil is primarily produced in the country in which the crop is grown and the trade relates to the oil and meal resulting from the crushing of the crops more than to the crops themselves.

Sunflower Oil Market

Global supply and demand

Sunflower oil accounts for about 9% of world oil. The main producing countries are Russia, producing up to 3 million tons of oil equivalent per year, then Ukraine, the EU, and Argentina, each producing on average 1.8 to 2.5 million tons of oil equivalent per year. A number of other countries such as China, India, and the USA produce sunflower seed, with production levels however being relatively small and not influencing international trade in any significant way.

Sunflower oil is destined essentially for the food industry. It is considered a vegetable oil of prime quality and will usually command a premium over other vegetable oils. It will therefore be consumed directly as salad oil or as frying oil. Sunflower oil will also be used as a component in the food processing industry and, sometimes, as a feedstock in industrial applications, when quality is below standard. It will also be used as a substitute to other vegetable oil feedstocks when the market is sufficiently tight.

The total volume of sunflower oil traded on the international market is in the range of 3.3 million tons per year, of which Ukraine will supply approximately 1.5 million tons. Argentina is the second largest exporter with an average export volume of 1.2 million tons/year. Other countries are, compared to Ukraine and Argentina, relatively marginal players on the international market, with export volumes ranging between 100 and 200 thousand tons/year per country. Traditionally, the demand for sunflower oil has been driven by the large importing regions of the EU, CIS, Northern Africa the Middle East and Turkey. Increasingly, however, the balance of supply and demand is influenced by the bio-diesel market, the largest such market being the EU.

Supply and demand on the Ukraine vegetable oil market

Ukraine and other former USSR countries have traditionally been large producers of sunflower and large consumers of sunflower oil. Sunflower is grown in most of the Eastern, Central and Southern parts of Ukraine, forming together the sunflower belt of Ukraine. Ukraine has an estimated 30 million ha of arable land, equivalent to 50% of its territory, of which 4 million ha on average are planted with sunflower. Black earth, reputed as one of the most fertile soils in the world, and a continental climate combine to provide excellent conditions for the crop. Production yields are, however, low by international standards. While average yield in the EU is 2.0 tons per ha, present average yield in Ukraine is circa 1.2 tons per ha, providing the country with an average yearly production of 4.8 million tons of sunflower seed. There are various reasons for the difference in yields, such as the low quality of seeds used to grow the sunflowers and insufficient investment in overall plant protection. Several large farming enterprises, such as our Farming division, do however successfully and regularly achieve yields in the range of 1.6 to 1.8 tons per ha. We estimate that, in time, production yields will be on a par with the EU and Argentina, if not higher.

On the demand side, oils other than sunflower oil have only a very limited market in Ukraine. The country, like the rest of the CIS countries, is traditionally and primarily a consumer of sunflower oil. Ukraine domestic consumption of vegetable oil is 600,000 to 650,000 tons per year. Out of this tonnage, consumer consumption is estimated at 300,000 to 350,000 tons/year, the remaining 300,000 tons being oil used and processed in the local food industry.

Prior to the break-up of the Soviet Union, the consumer bought whatever was available, that is unrefined sunflower oil supplied directly from the crushing plants and sold in bulk in traditional markets. Today, still 35% of the oil consumed by the final consumer is unrefined oil, sold on traditional markets throughout the country as a bulk product. As the country develops, the consumer becomes more sophisticated, requires healthier products, more control over the quality of the product, society's diet steadily changes and the consumer switches from bulk unrefined and undefined oil to branded bottled oil, which is a convenient and quality product. Also, the development of retail is progressively reaching small towns and rural areas, enabling producers to reach more distant consumers.

On the supply side, Ukraine is home to a crushing industry tradition going back to tsarist days. The earliest plants were built in the 19th century. Most were and still are located in the sunflower belt of Ukraine, extending from the North-East of the country down to the Southern border with Moldova, including the Poltava, Kharkiv, Nikolaev, Luhansk, Dnepropetrovsk, Kirovograd, Donetsk, Zaporozhie, Kherson and Odessa regions. Ukraine has a total official crushing capacity estimated in the range of 6 million tons of seed. However, part of the crushing industry suffers from a lack of investment and is significantly less efficient than modern or refurbished plants and, as a result, the utilization rate of the crushing capacity will vary significantly from one crushing plant to the other.

In view of the urgent need to invest in the country's production equipment, Ukraine imposed in 1999 a duty on the export of sunflower seed to support the domestic crushing industry. This duty is due to remain in effect until accession of Ukraine to the WTO, after which it is due to be decreased by one percent per year, until it reaches the minimum level of 10%.

Sunflower oil prices

The table below shows average prices for sunflower oil for a given marketing year (EU FOB NW Euro Ports).

(in US\$/ton)	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Average price	428	587	592	663	703	635	731

Source: the Company

Grain Market

World production, consumption and outlook

The world main crops are: wheat and coarse grains, primarily corn, barley, sorghum.

2006/2007 wheat crops are forecast at 594 million tonnes, whereas projections for 2007/2008 show a slight (3.9 per cent) increase to 617 million tonnes. 2006/2007 coarse grain yields reached 975 million tonnes and are forecast to improve in 2007/2008 to reach 1,057 million tonnes which corresponds to an 8.4 percent increase. The table below provides information on world grain production (total and by crop) in marketing years starting from 2003/2004 to 2007/2008.

(in million tons)	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Wheat	554.6	629.1	621.8	594.0	616.9
Coarse grain total	916.3	1,016.5	978.3	974.9	1,056.6
including:					
Corn	626.7	714.1	695.6	697.7	766.5
Barley	142.9	154.0	138.2	138.1	143.1
Sorghum	58.3	57.6	58.5	58.0	59.7
Oats	26.6	25.9	23.7	22.8	24.9
Rye	14.0	17.0	14.5	12.3	14.6
other	47.8	47.8	47.7	45.9	47.8
Total	1,470.9	1,645.6	1,600.1	1,568.9	1,673.5

Source: FAS USDA: "Grain World Markets and Trade, May 2007"

World trade in grain

The traditional five major wheat exporting countries are Argentina, Australia, Canada, the EU and the US. Their dominant position in the world wheat trade is expected however to be increasingly challenged by countries such as Kazakhstan and Ukraine. The US is expected to retain its position as the world's largest wheat exporter until at least 2015, but its market share of the international wheat trade, along with that of Canada, is expected to fall in favour of Australia, the EU, Argentina and a number of suppliers from the Black Sea area.

Increasing trade in coarse grain is closely tied to expansion in domestic livestock production and particularly by countries unable to meet their own feedstuff needs. Corn is the dominant feed grain traded in world markets, followed by barley and grain sorghum. The US remains the leading producer, consumer and exporter of corn. However, expanding corn-based ethanol production is projected to limit the country's export capacity in the future and the US is expected to face increased competition in international markets from other exporters such as Eastern Europe, Argentina and Brazil. The main growth markets for coarse grain imports are in Mexico, North Africa and the Middle East, China, Asia and Latin America, where higher incomes boost demand for animal products, leading to expanding livestock sectors and increased feed requirements. The increase in demand is likely to be met in large part by higher sales from Australia, Canada and the EU, with strong competition coming from Ukraine and Russia.

The table below provides information on major wheat exporters and wheat⁽¹⁾ export volumes

(in thousand tonnes)	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008*
Argentina	7,346	13,502	8,301	12,000	9,500
Australia	15,096	15,826	15,213	12,000	13,500
Canada	15,526	15,142	15,644	19,200	16,500
China	2,824	1,171	1,397	2,500	2,500
EU-27	9,834	14,745	15,694	13,500	12,000
Kazakhstan	4,110	2,700	3,000	5,500	5,500
Russian federation	3,114	7,951	10,664	10,700	10,500
Syria	1,200	600	600	1,500	1,000
Turkey	854	2,217	2,900	2,000	1,500
Ukraine	66	4,372	6,422	3,300	500
The United States	32,295	28,464	27,424	25,000	27,000
Others	11,103	5,677	5,221	4,620	4,705
World Total	103,368	112,367	112,480	111,820	104,705

Source: The Company based on FAS USDA "Grain: World Markets and Trade of July 2007"

* forecast / no – not recorded

⁽¹⁾ wheat statistics include wheat, flour, and selected pasta products on a grain equivalent basis

The table below provides information on major corn exporters and world corn export volume

(in thousand tonnes)	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008*
Argentina	10,439	13,752	10,707	14,000	17,000
Brazil	5,818	1,431	2,826	5,750	6,500
China	7,553	7,589	3,727	4,500	3,000
EU-27	455	678	449	500	300
India	1,222	481	497	200	250
Paraguay	548	386	1,314	1,400	1,000
Russian Federation	0	44	53	100	300
Serbia	no	no	no	1,200	1,000
Republic of South Africa	797	1,517	1,406	500	800
Ukraine	1,238	2,334	2,464	1,000	2,500
The United States	48,809	45,347	56,181	53,000	50,000
Others	2,182	2,405	3,066	1,585	1,145
World total	79,061	75,964	82,690	83,735	83,795

Source: FAS USDA "Grain: World Markets and Trade of July 2007"

* forecast / no – not recorded

The table below provides information on major barley exporters and world barley export volume

(in thousand tonnes)	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008*
Argentina	167	338	309	400	500
Australia	6,104	4,481	5,231	2,000	4,500
Canada	1,937	1,476	1,876	1,500	1,700
China	2	0	3	0	10
EU-27	986	4,240	2,587	3,700	3,000
Kazakhstan	613	100	100	600	600
Russian Federation	1,736	1,488	1,397	2,000	1,600
Serbia	No	No	No	5	5
Syria	320	50	50	50	50
Ukraine	2,557	3,992	4,926	4,000	3,500
The United States	384	771	357	500	450
Others	6	30	555	250	0
World total	14,812	16,966	17,391	15,005	15,915

Source: FAS USDA "Grain: World Markets and Trade of July 2007"

* forecast

Prices

Prices of all major grains have surged over the past year. US wheat prices reached record highs at 334 USD/ton (basis FOB US) as a result of tightened supplies from major exporters such as the EU-27, Canada and Ukraine, and also concerns about crop prospects in Argentina and Australia. Tightening exportable supplies have also caused barley prices to surge to 350 USD/ton (basis FOB Northern Europe).

The table below provides information on wheat, barley and corn export prices offered by U.S. and European suppliers.

(in US\$ per tonne)	2005			2006				2007	
	March	Sept.	Dec.	March	June	Sep	Dec	March	April
Wheat									
HRW No. 2 ^{a)}	158	167	168	182	205	208	216	211	208
SRW No. 2 ^{a)}	159	138	138	153	143	169	198	174	173
Argentinean Trigo Pan ^{b)}	134	137	130	137	156	165	186	185	207
French standard ^{c)}	132	128	124	137	146	184	201	206	218
German B quality ^{d)}	135	129	124	135	154	183	202	204	213

(in US\$ per tonne)

	2005			2006				2007	
	March	Sept.	Dec.	March	June	Sep	Dec	March	April
	Barley								
US Western	125	124	110	121	135	158	215	213	200
French ^{c)}	152	11	132	133	135	160	200	190	194
German ^{d)}	152	130	132	134	139	155	201	192	195
	Corn								
US YC No. 3 ^{a)}	101	101	103	108	111	122	165	173	155
Argentinean ^{b)}	85	97	95	108	109	114	161	161	146
Hungarian Feed ^{e)}	115	115	99	107	120	–	143	160	166

a) FOB Gulf, b) FOB Rosario, c) FOB Rouen, d) FOB Rostock, e) loco Hungary

Source: A Polish circular – "Grain Market – outlook and perspectives of June 2007"

Ukraine grain market

Overview

Prior to the demise of the Soviet Union, Ukraine had been producing, according to official state statistics, in the range of 45 million tons of grain per year. Following the Ukraine's gaining of independence, the nineties were characterized by the decline of the farming sector, resulting from a general lack of resources and disappearance of the farming cooperatives. This led eventually to production levels barely sufficient to cover domestic needs. The farming sector started recovering eventually from 2004 onwards. Now, with rising demand on the domestic market as well as export markets, the emergence of large farming enterprises and the general revival of the farming industry, we expect Ukraine to increase production regularly and reach at least pre-independence production levels in the near future.

Grain consumption

Yearly human consumption is in the range of 8 million tons of grains, of which 5.5 to 6 million are wheat. Domestic consumption of feed grain is in the range of 11 to 12 million tons per year. Altogether, Ukraine needs 20 to 22 million tons of wheat and coarse grains for human consumption and feed requirements.

Grain exports

Wheat and barley are the main export crops of Ukraine. Corn has not traditionally been a large export crop for Ukraine, however previous seasons show the volume of exported corn to be increasing regularly.

In respect of wheat, Ukraine is presently primarily an exporter of feed wheat.

The major destination of Ukrainian wheat are countries in the EU, especially Spain and Italy, with a 22 per cent share in total wheat exports, and the South-East, the Middle East, including Israel, Libya, Syria, and North Africa, including Algeria, Tunisia, Egypt and Morocco.

Ukraine is now one of the largest exporters of barley. Its main market is the Middle East, with Saudi Arabia being the key market, and North Africa.

The tables below provide information on wheat, barley and corn supply and demand balances over the period 1999 to 2008 (forecast), in thousand tons.

Wheat	2007/08*	2006/07*	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01	1999/00	1998/99
Opening stocks.....	1,895	1,976	1,287	928	1,428	1,261	437	657	622	2,249
Acreage seeded.....	6,511	5,633	6,794	6,077	7,226	7,441	7,144	6,750	7,019	6,886
Acreage harvested.....	5,971	5,211	6,453	5,633	2,625	6,784	6,764	5,300	5,837	5,641
Yield.....	2.29	2.65	2.78	2.93	1.62	2.91	3.0	2.1	2.4	2.8
Crop.....	13,700	13,809	17,910	16,529	4,250	19,756	20,204	11,005	14,000	15,600
Imports.....	5	10	10	5	3,400	403	20	465	400	1
SUPPLY.....	15,600	15,795	19,207	17,462	9,078	21,420	20,661	12,127	15,022	17,850
Food Industry.....	5,700	5,600	5,750	5,800	5,700	6,200	6,300	5,810	5,650	5,600
Feed Usage.....	3,500	3,200	3,000	3,900	1,000	4,700	4,600	3,450	4,865	5,360
Seeds.....	1,200	1,200	1,100	1,350	1,100	1,450	1,500	1,450	1,220	1,308
Exports.....	1,400	3,300	6,481	4,325	50	6,542	5,500	80	1,850	4,320
Losses.....	600	600	900	800	300	1,100	1,500	900	780	640
DEMAND.....	12,400	13,900	17,231	16,175	8,150	19,992	19,400	11,690	14,365	17,228
Ending stocks.....	3200	1,895	1,976	1,287	928	1,428	1,261	437	657	622
Stocks/Use %.....	25.8	13.6	11.5	8.0	11.4	7.1	6.5	3.7	4.6	3.6

Barley	2007/08*	2006/07*	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01	1999/00	1998/99
Opening stocks.....	522	312	671	186	246	456	137	150	421	137
Acreage seeded.....	5,055	5,379	4,511	4,695	5,795	4,577	4,003	3,740	4,319	4,003
Acreage harvested.....	4,150	5,194	4,266	4,460	4,719	4,287	3,520	3,341	3,562	3,520
Yield.....	1.48	2.18	2.07	2.38	1.58	2.29	1.8	1.9	1.7	1.8
Crop.....	6,150	11,300	8,824	10,615	7,450	9,828	6,165	6,250	6,000	6,165
Imports.....	5	5	20	15	40	20	30	12	1	30
SUPPLY.....	6,677	11,617	9,515	10,816	7,736	10,304	6,332	6,412	6,422	6,332
Food Industry.....	470	550	450	500	350	800	500	400	490	500
Feed Usage.....	3,000	3,800	3,300	3,900	4,600	4,675	3,520	3,930	3,900	3,520
Seeds.....	1,200	1,100	1,200	930	900	1,200	810	750	713	810
Exports.....	1,250	5,145	3,953	4,315	1,520	2,883	1,020	775	800	1,020
Losses.....	350	500	300	500	180	500	350	420	370	350
DEMAND.....	6,270	11,095	9,203	10,145	7,550	10,058	6,200	6,275	6,273	6,200
Ending stocks.....	407	522	312	671	186	246	132	137	150	132
Stocks/Use %.....	6.5	4.7	3.4	6.6	2.5	2.4	2.1	2.2	2.4	2.1

Corn	2007/08*	2006/07*	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01	1999/00	1998/99
Opening stocks.....	90	127	212	82	97	96	86	87	722	86
Area incl. corn for grain.....	2,202	1,890	1,762	2,564	2,266	1,461	3,400	3,597	3,924	3,400
Acreage harvested.....	1,800	1,800	1,648	1,680	2,016	1,151	850	560	908	850
Yield.....	3.17	3.42	3.99	4.14	2.85	2.72	2.6	2.0	2.8	2.6
Crop.....	5,700	6,156	6,570	6,950	5,745	3,127	2,200	1,100	2,500	2,200
Imports.....	15	17	15	0	30	6	25	120	0	25
SUPPLY.....	5,805	6,300	6,797	7,032	5,872	3,229	2,311	1,307	3,222	2,311
Food Industry.....	640	750	550	550	600	600	200	150	300	200
Feed Usage.....	3,650	3,830	2,750	3,000	3,400	1,200	1,400	765	1,900	1,400
Seeds.....	130	130	160	120	140	160	130	140	190	130
Exports.....	750	1,000	2,510	2,300	1,250	852	400	56	345	400
Losses.....	500	500	700	850	400	320	100	110	400	100
DEMAND.....	5,670	6,210	6,670	6,820	5,790	3,132	2,230	1,221	3,135	2,230
Ending stocks.....	135	90	127	212	82	97	81	86	87	81
Stocks/Use %.....	2.4	1.4	1.9	3.1	1.4	3.1	3.6	7.0	2.8	3.6
Total grain	2007/08*	2006/07*	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01	1999/00	1998/99
Opening stocks.....	2,774	2,704	2,456	1,342	2,027	2,030	1,161	1,247	3,899	1,161
Acreage seeded.....	15,467	14,771	15,100	15,790	17,485	15,868	14,747	15,454	16,363	14,747
Acreage harvested.....	13,494	14,018	14,319	14,032	11,282	14,500	11,870	12,275	12,756	11,870
Yield.....	2.05	2.45	2.56	2.71	1.80	2.50	1.9	2.0	2.2	1.9
Crop.....	27,713	34,396	36,622	37,957	20,320	36,273	22,410	24,501	27,464	22,410
Imports.....	205	177	185	160	3,725	693	573	626	45	573
SUPPLY.....	30,692	37,278	39,273	39,459	26,072	38,996	24,144	26,374	31,408	24,144
Food Industry.....	7,960	8,185	7,910	8,200	7,820	8,780	7,390	6,890	7,020	7,390
Feed Usage.....	11,047	12,030	10,575	12,400	10,535	12,165	9,910	11,335	13,013	9,910
Seeds.....	2,890	2,795	2,830	2,815	2,520	3,220	2,880	2,590	2,770	2,880
Exports.....	3,435	9,789	13,239	11,283	2,888	10,739	1,581	2,958	5,803	1,581
Losses.....	1,535	1,705	2,015	2,295	967	2,065	1,475	1,440	1,555	1,475
DEMAND.....	26,857	34,504	36,569	36,993	24,730	36,969	23,236	25,213	30,161	23,236
Ending stocks.....	3,835	2,774	2,704	2,466	1,342	2,027	908	1,161	1,247	908
Stocks/Use (%).....	14.3	8.0	7.4	6.7	5.4	5.5	3.9	4.6	4.1	3.9

Source: UkrAgroConsult
* forecast

OUR BUSINESS

Overview

We are an integrated bottled oil and agribusiness Group operating from the farm down to the final consumer. We own and operate oilseed crushing, oil refining and bottling facilities as well as an extensive network of grain silos in Ukraine. We market and deliver to our clients the products created through the processing of oilseeds, whether in bulk or bottled under our own brand names, and also a wide range of primary agricultural products grown in Ukraine. In the financial year to 30 June, 2007, we had total net sales of US\$350 million and net income of US\$19.539 million. We believe we are:

- the largest producer and marketer of bottled oil in Ukraine with an estimated domestic market share of 35%;
- the second largest oilseed crusher in Ukraine, processing about 15% of total sunflower seeds harvested in Ukraine;
- the third largest exporter of bulk sunflower oil in Ukraine with 200,000 tons exported over the financial year to 30 June 2007, equivalent to 11% of total sunflower oil export from Ukraine;
- among the top 10 originators and exporters of grain produced in Ukraine and
- the largest private grain silo network in Ukraine, with aggregate storage capacity of 1.7 million tons.

As of the date hereof, we own and operate three oilseed crushing plants with a total processing capacity of 730,000 tons of sunflower seeds per year. We own and operate two oil refining and bottling facilities installed next to the Group's crushing operations and capable of producing up to 140,000 tons of bottled oil per year, sold essentially under our Group brand names. We also own and operate 25 grain silos representing a total grain storage capacity of 1.7 million tons and two trucking companies providing logistic support to our grain and oil activities. Finally, we have developed a land bank totaling 30,000 ha of prime agricultural land, on which we grow various crops marketed or processed by our Group.

Kernel Holding S.A. is a holding company incorporated in Luxembourg, whose principal assets are its equity interests in its operating subsidiaries, the majority of which are incorporated and operate in Ukraine. All our production assets are owned by our two operating companies in Ukraine, LLC Kernel-Capital and LLC Kernel-Trade. We conduct our international marketing and sales activities essentially through our Swiss trading company Inerco Trade S.A. Our domestic origination, processing and bottled oil distribution activities are managed and handled by our Ukraine operating company LLC Kernel-Trade.

We conduct our operations in three divisions: agribusiness, bottled oil and farming.

The following table provides information regarding our Group's revenue by division for each of the two past financial years ended 30 June, 2007 and 2006.

	For the year ended 30 June			
	2007		2006	
	(US\$ in thousands)	%	(US\$ in thousands)	%
Agribusiness division:				
Bulk sunflower oil, cake and meal	159,976	45.6	53,797	24.9
Grain trade	119,248	34.0	107,608	50.0
Agriservices	11,098	3.2	10,340	4.8
Bottled oil division:				
Bottled oil	56,598	16.1	33,690	15.6
Farming division:				
Crops harvested	3,459	1.0	9,807	4.5
Total	350,379	100.0	215,242	100.0

Source: the Company based on the Consolidated Financial Statements

In the financial year to 30 June 2005, our revenue totalled US\$143,763 thousand, of which sales of finished products make up US\$74,071 thousand and sales of goods for resale make up US\$56,448 thousand. Our revenue from provision of services was US\$12,540 thousand, and all other revenues amounted to US\$704 thousand.

Our agribusiness division has three principal functions.

- Management of the supply chain of agricultural commodities, from originating grain and oilseeds at the level of the producer, to supplying oilseed to company plants and marketing grain, bulk oil and meal to our final customers;
- Risk management related to agricultural commodities handled by our Group;
- Coordination and management of our grain silo network.

In the financial year ending 30 June 2007, our agribusiness division marketed and distributed 550,000 tons of grain, 200,000 tons of bulk vegetable oil and 210,000 tons of animal feed meal, accounting for US\$289.86 million in revenue, representing 82.7% of total Group sales. Our agribusiness division operates from Head Office in Kiev, Ukraine, including marketing of bulk agricultural commodities and execution of international sales contracts.

Our bottled oil division manages the sales and marketing of bottled oil to final consumer markets. We refine, bottle and sell our oil mostly under the Group brand names "Schedry Dar", "Stozhar", "Chumak Zolota" and "Chumak Domashnya". We also sell refined and packaged oil to the main retailers operating in Ukraine for the purpose of their private labels. Our bottled oil division benefits from a safe and stable supply of crude oil directly produced by our crushing plants. On the Ukrainian domestic market, we distribute our bottled oil to all regions of the country. Bottled oil which we export will be mostly delivered at the Ukrainian border. Our bottled oil division is managed from our Head Office in Kiev.

In the financial year ended 30 June 2007, our Bottled oil division marketed and distributed 74 million litres of edible oils contributing US\$56.59 million to our Company revenue, representing 16.2% of total Group sales.

Our farming division manages the development of our agricultural land bank and also the growing of crops on the land we lease, currently 30,000 ha mostly concentrated in two geographical regions of Ukraine. Our long-term lease contracts range from 5 to 10 years. We mainly grow corn, barley, wheat, sunflower and soy, which, after harvest, are mainly sold at market prices to our agribusiness division. For the financial year ending 30 June 2007, our Farming division harvested 40,000 tons of grain and oilseeds, representing 3% of grain and oilseeds handled by our agribusiness division.

As of today, all our production assets are located in Ukraine. Our oilseed crushing, refining and bottling plants are located in the sunflower seed belt of Ukraine, to the East of Kiev, in the two adjacent oblasts ("administrative regions") of Poltava and Kharkov. Our grain silos are located in the same regions as our crushing plants and also to the South of Kiev. Our agricultural farms are located in the Poltava, Kharkov, Odessa and Tcherkassy oblasts. Our Group's headquarters are in Kiev.

Mr. Andrey Verevskyy, founder of the Group, is currently serving as Chairman of the Board of Directors and, through his Cyprus holding company Namsen Limited, holds an 85.7% beneficial interest in the shares of Kernel Holding.

Company History and Development

We started operating in 1995 as a trader and exporter of agricultural commodities produced in Ukraine, thereby filling the void left by the defunct Soviet marketing structures in charge of grain export and providing a marketing outlet for farmers' produce, organizing logistics within Ukraine and offering cargoes on a FOB basis to international trading houses.

In the second stage of our development, during the period from 1995 to 2000, we acquired several grain silos from the Ukrainian state, thereby building a network of strategic assets significantly increasing the grain generating capacity of our Group.

In 2002, we expanded into a new area of business by acquiring a sunflower seed crushing plant located in Poltava, a town situated east of the capital Kiev and in the sunflower seed belt of Ukraine. With this acquisition, our Group evolved from a pure trader to a processor of agricultural commodities. At the same time, we started building a portfolio of agricultural land by concluding long-term lease contracts for land, usually situated close to our Group silos.

In 2004, with growth firmly under way in Ukraine, our management decided to expand the business portfolio of the Group and move into consumer markets and branded oil products. For this purpose, we acquired the oil brand "Schedry Dar", together with crushing, refining and bottling facilities, located in the eastern region of Luhansk.

In 2006, with the sunflower oil industry entering consolidation phase, we seized the opportunity to effect a significant acquisition by purchasing the bottled oil brand "Stozhar" and the production assets of "Evrotek", a major domestic competitor active in both the edible oil business and agribusiness and benefiting from a dominant market position in a region, bordering the Poltava region. As a result, we significantly increased our sales and became a leading producer and marketer of vegetable oil in Ukraine, as well as a leading originator and exporter of grain from Ukraine. We also now operate the largest and most modern oil refining and bottling complex in Ukraine and control the largest private silo network in the country.

In 2007, we concluded a series of agreements with the company CJSC "Chumak", providing our Group with the right to market and distribute bottled oil under the brand names "Chumak Zolota" and "Chumak Domashnya". Following these agreements, we have become the no 1 marketer of bottled oil in Ukraine with an estimated 35% market share.

Our Business Strategy

Our objective is to continue developing our bottled oil business and agribusiness until they occupy sustainable and leading positions on our domestic market as well as to develop a strong platform for our international expansion, while ensuring the highest financial results and operational performance. To achieve our objectives we are implementing the following strategies:

Growth of both our core bottled oil business and our agribusiness through organic development

- We continue increasing processing capacity while improving operational performance and lowering cost per ton of production. As a result, we expect oilseed processing capacity at existing crushing plants to increase by 60% by 2010;

- We are commissioning the construction of a green-field multi-seed crushing plant with a 510,000 tons/year oilseed crushing capacity in order to capitalize on the expected increase in sunflower seed production yields in Ukraine and on the rapid increase in production of rapeseed and soybean in the country;
- We are significantly increasing throughput of grain through the Group's silos in order to capitalize on the growth of export crops from Ukraine;
- We are continuing to strengthen and expand our leading position on the bottled oil market by capitalizing on consumption growth on our domestic market, the phasing out of marginal refiners and bottlers and the gradual switch by the consumer from crude bulk oil sold on traditional markets to quality bottled oil sold through retail chains.

Seek new acquisition opportunities

We have completed several acquisitions in the course of our Group development and, on a selective basis, we intend to further acquire companies and/or production assets whenever the acquisition target corresponds to our selection criteria and strategic goals. To date we have effected acquisitions, which have strengthened both our core bottled oil business and our agribusiness and made us, we believe, the main driving force behind the consolidation process in our sectors in Ukraine. In the future, however, such opportunities could materialize in our domestic market as well as abroad. We base our acquisition policy on the following criteria:

- The acquisition provides the return required by our shareholders;
- The acquisition provides the opportunity to further consolidate our markets, creates synergies with our existing business lines and enhances the value chain of our products;
- The acquisition widens the geographical reach of our Group and
- Makes full use of our existing expertise.

In line with our strategy, we are now actively looking to strengthen our position in the supply chain for agricultural commodities by acquiring port transshipment facilities on the Black Sea, in Ukraine.

Focus on domestic and international markets

Both our domestic Ukrainian market and the international markets offer significant growth opportunities to our Group. With Ukraine's economy growing at an average rate of 6.8% per annum over the last 5 years, real household income growing by an estimated 20% in 2005 and 2006, and distribution networks developing ever faster, we are confident that our domestic market offers further growth opportunities in the bottled oil business. On international markets, with demand for grain and vegetable oil rising and supply from the farming sector in Ukraine, we anticipate significant growth of our grain, oil and protein meal export sales.

Our Competitive Strengths and Advantages

We believe our Group benefits from the following competitive strengths and advantages:

- *Strong origination base in agricultural commodities.* With Ukraine providing a unique combination of large stretches of extremely fertile soil, favourable climate and direct sea access to near-by consumer markets, our Group benefits from a cost-effective and abundant source of agricultural commodities.
- *Developed port infrastructure.* Our origination base in Ukraine is further enhanced by the extensive port infrastructure and deep-water ports of Ukraine on the Black Sea, providing us with direct access to our main export destinations, in particular the European Union and countries on the Southern and Eastern coasts of the Mediterranean.
- *Dominant position in two large agricultural regions of Ukraine.* Our production and logistics facilities are concentrated in the two regions of Poltava and Kharkov, situated in the sunflower and grain belt of Ukraine and among the largest agricultural regions in the country. As the only established crusher, refiner and bottler of vegetable oil in both regions and thanks to our extensive network of grain silos in both regions, we are the partner of choice for most farmers in those regions, providing our Group with a largely captive source of supply for oilseed as well as grain.
- *Balanced business portfolio.* We operate in different markets and on different products. Our balanced business portfolio provides protection against a downturn or lower margins in one of our markets or products, thereby supporting sustainable results and performance.
- *Added value through integration of value chain.* In both our core businesses we have built an integrated business model, which enables us to capture value all along the bottled oil and agribusiness supply chains.
- *Quality and reliability in production.* We ensure quality of our bottled oil through control of all three production stages of crushing, refining and bottling.
- *Synergies within and between our businesses.* Both our bottled oil business and our agribusiness draw on common operating resources. Resources are equally shared by separate business lines and also within divisions, thereby significantly improving operational efficiency of the Group.

- *Scalability of business.* Successful acquisitions and regular plant improvements have constantly increased the volumes traded by our Group and our sales, without however impacting significantly on our operating expenses. Having managed to accommodate substantial increases in activity with limited increase in overheads, we believe we still have further room for economies of scale and improved productivity in both our bottled oil business and agribusiness.
- *Natural hedge provided by our bottled oil business.* Our bottled oil business and the relative stability of the price for bottled oil provide an effective hedge against the volatility experienced in the price of bulk oil.
- *Significant portion of dollar-denominated business.* We derive a significant portion of our sales from the international market, thereby limiting the impact of a possible devaluation of the local currency on profitability of our agribusiness and farming divisions.
- *Strategic location of our crushing facilities.* Our three crushing plants are located in the sunflower seed belt of Ukraine, in regions traditionally growing significant amounts of sunflower and offering nearby supply of feedstock for our oil activity.
- *Advantageous negotiating position in bottled oil pricing.* With sunflower oil production easily covering domestic demand, estimated at 500,000 tons per year, Ukraine is a natural exporter of most of its produce and pricing of bottled oil on our domestic market is primarily a function of the international market. If the price of sunflower oil on the international market increases, the price of bottled oil will eventually follow or oil will tend to disappear from the supermarket shelves and be exported. Conversely, with oil prices decreasing on the international market, the price of bottled oil will tend to stay at levels reached previously.
- *Quality of our earnings.* The expertise of our Agribusiness division lies in management of the supply value chain. We do not create value by taking long or short positions on commodities markets, but essentially through our capacity to originate agricultural commodities at the lowest price, manage logistics and production efficiently and execute delivery contracts to the satisfaction of our customers, thereby ensuring sustainable margins.
- *Efficient management structure.* All management decisions are taken in Kiev, with the Management Team convening regularly and at short notice. Our flat management structure insures efficiency and speed in implementation of management decisions.

Markets and Destinations

We operate on the Ukrainian domestic market as well as on international markets. In Ukraine, we primarily sell bottled oil delivered to nationwide retailers or regional distributors, each distributor covering as a rule one region or large city of Ukraine. On the international markets, we will deliver our products either by rail or by sea vessel. Products delivered by rail will be sold primarily to Eastern Europe, the Baltic states and the CIS. Products delivered by ship are exported primarily through Black Sea ports or, to a limited extent and essentially for protein meal, sales, through ports on the Baltic Sea. Goods delivered through ports will be sold either free on board ("FOB") or delivered to the country of the buyer, on a cost, insurance and freight ("CIF") or cost and freight ("C+F") basis. Our main export destinations are EU countries and countries on the Southern and Eastern coasts of the Mediterranean Sea.

The following table provides information regarding our Group's sales by destination for each of the two past financial years ended 30 June 2007 and 2006.

	For the year ended 30 June	
	2007	2006
	(US\$ million)	
International sales	236.934	140.140
Domestic sales	113.445	75.102

Source: the Company

Our customers

Our customers for products in bulk are primarily international trading houses or wholesalers and processors in importing countries. Our customers include international trading houses and processors of agricultural commodities such as Glencore of Switzerland, Nidera in the Netherlands, Alfred C. Teopfer in Germany, Bunge in the USA. We sell bulk oil to refiners and bottlers producing for their home markets, such as SOS Cuetara and Migasa in Spain, Diem SA in Greece. We also sell increasing cargo to producers of bio-fuels such as Saipol in France. We sell protein meal to feed compounders such as Agro Supply A/S and DLA Agro in Denmark, Ravagricola in Italy. We sell bulk grain or oilseed cargo to wholesalers and processors in destination countries such as Shovre Bar, Zenziper and Shintraco in Israel, Tagol in Spain, Soya Hellas S.A. and Agroinvest S.A. in Greece.

Our customers for our bottled oil products are retailers with a nationwide network of supermarkets in Ukraine and regional distributors with a strong and established presence in a specific region or large urban area of the country. The retail chains which we supply include retailers such as Fozzy Group, Metro Cash and Carry, ATB Market, Intermarket, Furshet. Distributors include companies such as Foodservice in the Donetsk and Lugansk regions, LAN Ukraine and Alt-Agro in Kiev, Guerres in the Odessa region, Ukr-Trade in the Kharkov region.

We believe we are not dependent on any single customer in either of our business divisions. In our Agribusiness division, and given the commodity nature of our markets, our sales volumes would not be materially affected by the loss of one or more existing customers. As a rule, and as markets change and develop, no one customer consistently and regularly accounts for a significant portion of our sales from one year to the next. In the Bottled oil division, we work with a number of customers, none of which accounts for more than 2% of our bottled oil sales.

Our suppliers

Our suppliers are essentially the numerous farmers and regional traders active throughout the sunflower seed and grain belt of Ukraine. While we endeavour to maintain close and on-going commercial relationships with most of our suppliers, and no one supplier accounts for more than a few percent of our raw material purchases and the loss of a supplier would have no material effect on our activities.

Our Businesses

Agribusiness

Our agribusiness division manages three activities, each of which represents a specific stage of our bulk commodities supply chain: grain and oilseed origination, oilseed processing and marketing of bulk agricultural commodities on the international and domestic markets.

Grain and oilseed origination

Overview

Our grain and oilseed origination activity consists of purchasing, storing and managing logistics of agricultural commodities. We generate the commodities we trade or process in Ukraine. The principal agricultural commodities we handle are wheat, barley, corn, rapeseed and soy. We purchase grain and oilseeds already in grain silos primarily directly from the farmers and at market price. Of the total volume purchased over the season 2006–2007, 37% were purchased and stored in our Group silos, the balance being stored in third party silos, whether private or state-owned. As a rule, we do not engage in crop financing and will not purchase grain or oilseeds without having received evidence that it is safely stored in a warehouse, usually independent from the producer. We conclude mostly spot purchase contracts for immediate delivery, whereby the purchase price is defined for a specific quantity already in a silo and transfer of title is effected immediately upon payment for goods. Payment is usually effected on site. While price is the main factor influencing the trade of grain and oilseed, farmers will tend to bring their produce and eventually sell it to the closest elevator, which, when a Group silo, will act as a buyer on behalf of our Group. We endeavour to establish long-term relationships with the farming community within which our silos are located. We provide the farmer with a reliable partner, providing flexible storage terms and fast payment for the grain and oilseeds. In turn, the farmer provides us with a de facto right of first refusal on the goods. Also, our network of regional offices and purchasing managers operating in each of the principal agricultural regions of Ukraine help foster such relationships and have a direct impact on the volumes we generate.

Even though we have farming activity, the volume of grain and oilseeds obtained from our own farming operations is not significant in comparison to our overall volume of goods purchased and we originate most grain and oilseeds from third-party producers. With sunflower seed harvest pressure happening in September and October, we first purchase the oilseeds in the regions close to our crushing plants, then in further locations as we move through the season. From September through December, as a rule, we purchase large amounts of sunflower seed and accumulate feedstock for 3 to 4 months production ahead. As we progress through the season, our stock of oilseed decreases and is at a minimum in the first days of September.

Once purchased, oilseeds and grain is as a rule first stored in inland silos either Company or third-party silos. On average grain is stored for a period not exceeding 90 days, depending on the delivery dates of our export contracts and when the grain is to be ready at load port. Oilseeds, which are purchased essentially for the purpose of processing in our crushing plants and will be purchased largely in the first 4 months following beginning of the harvest, will be stored in silo over a period of up to 6 months, during which they will be progressively processed in our oilseed crushing plants.

Of the total amount of grains and oilseeds we generated over the season 2006–2007, 97% was supplied by third parties, the balance being supplied by our farming division.

Facilities

Our Group owns and operates a network of 25 inland grain silos in Ukraine, totalling storage capacity of 1.7 million tons. 21 silos are located in the oblasts of Poltava and Kharkov, the remaining 4 silos forming a string of storage facilities in the south-east of Ukraine, at a distance of 200 km from the Black Sea ports. The concentration of our silos in the regions of Poltava and Kharkov makes us the single largest private provider of grain storage, cleaning and drying services in those regions. Our average grain storage capacity per silo is 65,000 tons of grain. 71% of our storage capacity consists of flat storage capacity, the balance 29% being storage in vertical bins. All our grain silos are connected to the national railway network and situated in the black earth belt of Ukraine, where most of the grain and oilseed is produced.

Distribution and Logistics

Once purchased, and following a period during which the grain and oilseeds are stored in silos, goods are moved out of the silos and mostly exported. From the inland silos, grain is mostly loaded on railcars and transported to the ports on the Black Sea. Occasionally, some grain will be sold on DAF ("delivered at frontier") delivery terms and the grain is transported by rail to inland cross-border points. To manage our grain

export contracts requiring loading on board vessels, we conclude yearly contracts with grain storage and trans-shipment facilities in Ukrainian deep-water ports on the Black Sea. Starting from July when the first crops are harvested, we ship on an on-going basis to port the grains bought and temporarily stored in inland silos. At the peak of the season, we will be shipping monthly to port over 100,000 tons of grain in 1,700 railcars. For this purpose we signs contracts with private independent transport companies owning and operating fleets of railcars. Oilseeds, mostly purchased for our own crushing, are primarily transported by truck from inland elevators to our production facilities. We sign contracts with private local trucking companies and also, to a lesser extent, use our own fleet of trucks.

Oilseed processing

Overview

Oilseed processing involves crushing oilseeds to produce crude vegetable oil, oilseed protein meal and hulls. Countries of the former Soviet Union have traditionally been the main consumers of sunflower and, therefore, the crushing industry in Ukraine primarily processes sunflower seed. Also, a large part of Ukraine is blessed with a unique combination of a continental climate and rich black soil propitious to large-scale production of agriculture commodities in general and sunflower in particular. Ukraine produces vegetable oil not only for its own needs, but is also a major exporter and prime supplier of oil to CIS countries and to traditional consumers of sunflower seed oil such as Northern Africa and the Middle East. In terms of supply, all sunflower seed crushed in our oilseed processing operations is supplied by our oilseed origination operations. We do not process oilseed for third parties on a tolling basis. Altogether, our Group purchases and processes approximately 15% of the sunflower seed produced in Ukraine, making us, we believe, the second largest processor of oilseed in Ukraine.

Facilities

We operate three crushing plants in Ukraine with aggregated crushing capacity of 730,000 tons of sunflower seeds per year on about 12 hectares of leased land. When processing at full capacity, our plants produce on average 325,000 tons of crude oil and 281,000 tons of protein meal per year. All our plants are strategically located in the sunflower seed belt of Ukraine, extending from the North-Eastern border/frontier of Ukraine down to the Southern Oblast of Odessa. Two plants are located in the Oblast of Kharkov, and one plant in the Oblast of Poltava. All three plants were initially built in the Soviet days and have been extensively upgraded since privatization. Oilseed processing is a well-established activity in the regions in which we operate, and these regions provide an educated and experienced workforce. Our plants run on electricity and steam. Electricity is provided from the electricity grid of Ukraine on the basis of yearly contracts with private electricity companies. Steam is produced in boilers located at the plants and powered by the burning of the hulls (provided during the process of de-hulling of the sunflower seed) or, accessorially, by gas. All plants are connected to the national railway network, whether for the discharging of oilseed or the loading of oil and meal. Two of our oilseed processing plants have crude oil refineries and bottling plants directly attached, thereby eliminating any crude oil transport expenses in the production of refined bottled oil. Edible oil produced in our oil refineries and packaged in our bottling plants is generally sold to customers as part of our bottled oil division activity. All our plants are ISO 9001 certified.

Distribution

Our oilseed-processing plants produce crude vegetable oil, oilseed protein meal and hulls. We supply our crude oil to our bottled oil division and to third-party oil refining and packaging companies abroad, as well as to international commodity traders. Our bottled oil division accounts for 24% of our total crude oil output, which is then transferred to our adjacent refining and bottling facilities. Crude oil volumes not refined further in our plants are mostly sold on the international market. The oil is loaded into railcars at the plants and transported to a Black Sea port, usually Illychevsk, our main load port and the largest vegetable oil terminal in the Black Sea. We conclude yearly contracts with the oil terminal, giving us the right to discharge into the tank farm and load onto ship monthly pre-arranged volumes of crude sunflower oil. The protein meal we produce is mostly sold to feed manufacturers or trading companies specializing in supplying the animal feed industry. Our meal is essentially sold and exported by railway to Poland, the Baltic States or Scandinavia. Finally, we produce hulls, a by-product of the sunflower seed de-hulling process used in the preparation of the seed prior to crushing. 50% of the hulls produced is used by our own plants as fuel for our steam boilers, the remainder being disposed of as waste. As we install hull palletizing facilities, hulls presently disposed of shall be used as fuel for the boilers / sold as bio-mass fuels.

International Marketing

Our international marketing operations market all bulk products sold by our Group to customers overseas, as well as manage the execution of international sales contracts and the price risk associated with the commodities handled by our Group. Historically, our customers have been primarily international trading houses, several of which are our direct competitors in our home market. We are currently focusing on expanding our client base and directly supplying final buyers and processors in import countries, thereby by-passing the international trading houses and maximizing the value of our production and processing assets. In particular, we are developing our marketing outlets in Southern Europe and the Mediterranean basin, natural outlets for oil and agricultural commodities produced in Ukraine.

Competition

Our main competitor in the bottled oil business is Bunge. In the oilseed processing business, our major competitors are the international companies Cargill, Bunge and a local company Allseeds. In the grain origination business, our major competitors are the international grain traders such as Glencore, Cargill, Toepfer, Bunge, Louis Dreyfus Negoce.

Bottled oil

Overview

Our edible oil is produced by refining of our sunflower seed crude oil into oil fit for human consumption and ready for packaging. Our bottled oil is the result of our integrated production operations. We source the seed at the level of the producer, crush in our processing plants, refine and package in our plants adjacent to our crushing facilities and finally deliver the oil to the shelves and to the final consumer. We believe our integrated chain of operations benefits our customers by guaranteeing high quality oil and stability of supply, and benefits our Group by adding value all along the production chain as well as providing an effective hedge against the volatility of commodity markets.

Our bottled oil is sold in cartons. In packaged form we market the oil under our own brand names or as retailers' private labels. Private label sales in Ukraine are however still negligible as their development is yet at an early stage. We sell our branded oil on the domestic market through four channels: nationwide retailers, regional retailers, traditional markets and food service and processing companies. We handle regional retailers, traditional markets and food service and processing companies through selected distributors, with whom we sign yearly contracts. Nationwide retailers are managed directly by our sales and marketing team in Kiev head office. As the retail networks expand and the consumer becomes more sophisticated, we sell increasingly larger volumes to the nationwide retailers and to the food service and processing companies. In packaged form, we sell our brands to neighbouring countries, mainly CIS, and deliver the bottled oil at the border to selected distributors for each country. We are also developing sales of bottled oil for specific markets such as the Middle East under brand names requested by our customers. For the year ending 30 June 2007, approximately 25% of our bottled oil sales were generated on markets outside Ukraine.

Products

We market bottled oil packaged in PET bottles of 0.5, 1, 3 and 5 liters. In branded products, and following the recent acquisitions of two of our competitors, we believe we are now the no 1 producer and marketer of bottled oil in Ukraine. Taking advantage of our four brand names, we have implemented a strategy to cover the largest possible consumer demand and price spectrum by marketing our four brands at different price levels, from Chumak Zolota in the premium price segment down to Lyubonka at the low end of the price range. We also offer bottled oil to retailers in Ukraine for the purpose of their private labels or to overseas customers for the purpose of their own domestic markets. We sell bulk oil as a non-differentiated product.

Distribution and customers

In Ukraine, we distribute our products either directly to the nationwide retailers or through a number of selected distributors, together covering most of the territory of Ukraine, and selling to the regional retailers, traditional markets and food service and processing companies. Altogether, our products are represented in over 45,000 points of sale throughout Ukraine. Distribution abroad is provided by selected distributors operating in their respective domestic markets.

We utilise our own distribution center located in Poltava to more effectively manage the distribution of bottled oil. The total storage area of our distribution center is 8,000 m².

Competition

Following the acquisitions of the brands Stozhar, Chumak Zolota and Chumak Domashnya, the one remaining large competitor on our domestic market is Bunge with its brand Oleina. Together, Kernel and Bunge account for almost 65% of Ukraine's bottled oil market. On our export markets, particularly in CIS countries, our major competitors include Bunge, and domestic refiners and bottlers such as Yug Rusi.

Farming

Overview

Our farming activity is first and foremost a play on the farm land situation in Ukraine and an opportunity to create a land bank in, arguably, one of the largest and most fertile farming areas in Europe still to be efficiently developed. Central to the development of the farming sector in Ukraine is the lifting of the moratorium on sale of agricultural land. At present, farm land is owned by private individuals and farming cooperatives. The owners' right to dispose of their land is, however, restricted. In particular, farm land cannot be bought or sold. This moratorium will be reviewed by the Ukrainian government and, possibly, lifted in 2008.

We currently lease 30,000 ha of agricultural land and are in process of expanding our leased acreage, and concluding further lease contracts for a term ranging from 5 to 10 years. Our ultimate goal is, following review and lifting of the moratorium, to purchase the land. Once the moratorium is lifted, we will have legal right of first refusal on the land leased and therefore be in a vantage position to acquire the land. We believe this could provide a significant advantage when compared with prices for prime agricultural land in Europe or North and South America. When expanding acreage, we endeavor to lease land adjacent or close to the land we already lease. This policy enables us to make optimal use of our farming equipment and, we believe, should support higher prices when and if we sell the land.

Production and sales

Together with the lease of the land, we developed farming activity. We produce mostly feed wheat and feed barley for animal consumption, corn, soybean and sunflower seed. After harvest, all produce from our farming is sold at market prices to our Agribusiness division. Sunflower

seed is used as feedstock in our crushing plants and the grain is used in execution of our grain export contracts. The present produce from our land represents however less than 5% of the total grain and oilseeds we trade per year. We do not expect future production on increased acreage to be material to our agribusiness in the future.

Our Trademarks

Our Group is the owner of 43 trademarks, six industrial designs and one music track produced for a video clip. In addition, pursuant to licence agreements, we use five trademarks which are the property of CJSC Chumak. See: *"Material Contracts – License Agreement and Intellectual Property Rights Transfer Agreements with CJSC Chumak"* below.

We believe we have taken all appropriate steps to be the rightful owner of, or to be entitled to use, most intellectual property rights necessary to conduct our business.

As most of our bottled oil is sold under our brand names "Schedry Dar", "Stozhar", "Chumak Zolota" and "Chumak Domashnya", we believe these trademarks and the "Kernel" brand name are of material importance to our business. The other trademarks owned by the Group are not material to our business. Some of our trademarks are pledged as security for long-term loans to our Group.

Encumbrances

Most of the Group's assets, including our crushing, refining and bottling plants and our grain silos, are encumbered under a number of mortgage and pledge agreements concluded to secure our existing loan facilities agreements. See also *"Material Contracts – Financing agreements"* below. Some of our assets, including refining and bottling equipment installed at the Poltava plant, were acquired based on finance lease contracts.

As at 30 June 2007, property, plant and equipment with the carrying amount of US\$119.081 million was pledged by the Group as collateral against short-term and long-term bank loans. As at 30 June 2007 production equipment with the carrying amount of US\$4.573 million was held under finance lease.

Regulatory Matters

No special or significant concessions, permits or other administrative authorisations for conducting our businesses are required in Ukraine. The Government of Ukraine might, however, impose from time to time export quotas and require operators in the agricultural commodities markets to ask for licenses in order to export specific agricultural commodities during a certain period of time. Such licenses will be obtained in the ordinary course of business. Other permits or authorizations obtained in the ordinary course of business will include permits for passenger and cargo transportation services and certifications to provide grain storage services.

Environmental Matters

We are subject to various environmental protection and occupational health and safety laws and regulations relating to pollution, protection of the environment and protection of human health and safety in Ukraine. Our production facilities may release certain substances, which may be regulated or limited by applicable laws and regulations.

Ukrainian laws and regulations dealing with environmental protection are subject to frequent amendments, which forces us to respond quickly by adjusting to new and usually more stringent environmental requirements and standards. We make all the necessary efforts to comply with environmental regulations and to prevent and minimize all the environmental hazards associated with our activities.

To the best of our knowledge, the majority of the Group Subsidiaries have obtained and hold the necessary environmental permits to carry out their activities, such as permits relating to air emissions, water usage, waste disposal, centralized water supply and sewage, permit to start hazardous works and to use hazardous equipment, and sanitary permits for operation. No Group Subsidiary has ever experienced any material environmental incident.

Currently no Group Subsidiaries, which extract underground water, holds permits for the use of subsoil in connection with water extraction. The Group intends to file the applications for the respective permits in the nearest future and expects to obtain such permits in early 2008. However, due to ambiguity of the applicable Ukrainian legislation, the obtaining of such permits may be further delayed or temporarily refused by Ukrainian state authorities.

In the ordinary course of business, we are subject to inspections by Ukrainian environmental authorities. While such inspections have not reported any material irregularities in our businesses, we make every effort to eliminate any other irregularities, which could be revealed by Ukrainian environmental authorities.

While compliance with environmental laws and regulations is one of our main concerns and responsibilities, such compliance did not materially affect our capital expenditure or earnings in the financial year ended 30 June 2007, and, based on current laws and regulations, we do not expect that it will affect our financial year ended 30 June 2008.

Employees

The following table indicates staff organization according to business division as at June 30, 2005, 2006 and 2007.

	As at June 30,		
	2007	2006	2005
Non-Ukrainian Group Subsidiaries	2	2	2
Head offices	142	134	134
Regions	201	176	213
Oil crushing plants	1,260	1,100	1,200
Grain silos	1,620	1,701	2,390
Farming	560	450	450
Total	3,785	3,563	4,389

Source: the Company

The table below indicates the number and functional breakdown of our employees as at June 30, 2005, 2006 and 2007:

	As at June 30,		
	2007	2006	2005
Top management*	45	42	42
Middle management	373	205	361
Workers	3,367	3,316	3,986
Total	3,785	3,563	4,389

* including directors of departments and directors of enterprises

Source: the Company

In general, we consider our employee relations to be good. We have never had a strike at any of our plants. We have significantly improved the effectiveness and efficiency of manpower by motivating our employees with good salaries for Ukraine and satisfying work conditions.

We do not have any unfunded pension liabilities.

As at the date of this Prospectus, our employees do not have any shareholdings in the Company, do not hold any stock options or other rights to Shares and do not participate in any other way, in the capital of the Company. There are no arrangements relating to such participation.

Insurance Coverage

Our businesses and assets are subject to varying degrees of risk and uncertainty. Therefore, we maintain an insurance programme and hold various insurance policies covering activities, and the most significant assets, located in Ukraine.

Our key assets are insured against standard business risks such as natural disasters and business interruptions. Under the terms of our insurance policies, we are also insured against third-party liability for amounts which the Company believes are sufficient and customary in Ukraine.

Legal Proceedings

From time to time and in the ordinary course of business, we are involved in legal proceedings relating to our operational and trading activities.

To the best of our knowledge, there are no governmental, legal or arbitration proceedings which have arisen over the last 12 months prior to the date hereof and may have or have had in the recent past a significant effect on our Group's financial position or results of operations. To the best of our knowledge, no litigation or arbitration proceedings that are likely to have a significant effect on our Group's financial position or results of operations are pending or threatened against us.

Material Contracts

The following contracts are the only contracts (not being contracts entered into in the ordinary course of business) that (i) have been entered into by the Company or any of its Group Subsidiaries within the two years immediately preceding the date of this Prospectus which are or may be material to our business or (ii) have been entered into by the Company or any of its Group Subsidiaries at any other time but which contain provisions under which the Company or any of its Group Subsidiaries has an obligation or entitlement that is material to the Group as at the date of this Prospectus.

Agreements relating to Shares in Kernel Holding

Put and Call Option Agreement

On the basis of the *Agreement with respect to certain shares in Kernel Holding S.A.* entered into on 14 March 2007 (the "Put and Call Option Agreement") (i) Namsen, as the purchaser was granted by Evergreen Financial Limited, as the seller a call option (the "Call Option") to purchase Option Shares (as defined below) at a fixed option price per one Option Share and (ii) Evergreen Financial Limited as the seller was granted by Namsen as the purchaser a put option (the "Put Option") to sell Option Shares (as defined below) at a fixed option price per one Option Share.

At the date of the Put and Call Option Agreement the Put Option and Call Option covered 1,334 shares held by the seller in the capital of the Company, whereas, as a consequence of the changes in the Company's share capital (see: "*General Information about the Company and its Group – Corporate Resolutions and Share Capital*"), as at the date hereof each Option covers 6,670,000 Shares, representing 14.3 per cent of the Company's issued share capital (the "Option Shares").

Namsen may exercise the Call Option during the call option exercise period from March 2007 to midnight on 1 March 2008 inclusive, whereas Evergreen Financial Limited may exercise the Put Option during the period from 2 March 2008 to midnight on 1 March 2009, inclusive. If the Option is not exercised during the respective period, it will expire. Each Option must be exercised in respect of all, and not less than all, of the Option Shares at a fixed option price.

The agreement provides also for the mandatory sale by Evergreen Financial Limited and purchase by Namsen of the Option Shares in the event that prior to 1 March 2008 one of the following mandatory purchase triggers occurs: (i) there is a change of control of Namsen, (ii) the Company defaults on its obligations under the loan agreement between the seller and the Company (for further information on the loan agreement please see "*Related Party Transaction*") or (iii) the entire issued share capital of the Company or of another entity which controls the Company or owns directly or indirectly the business conducted on by the Company is subject to an agreement with a third party to sell, or an offer of a third party to acquire it.

The Option Shares were transferred to Fortis Intertrust (Luxembourg) S.A. as the escrow agent in accordance with the terms and provisions of the Fiduciary Escrow Agreement (See "*Fiduciary Escrow Agreement*").

Fiduciary Escrow Agreement

On 21 March 2007 the Fiduciary Escrow Agreement was executed between Namsen, Evergreen Financial Limited as the Company's minority shareholder, the Company and Fortis Intertrust (Luxembourg) S.A. as the fiduciary escrow agent. Under the Fiduciary Escrow Agreement:

- Evergreen Financial Limited transferred legal ownership title to the Option Shares to the fiduciary escrow agent and
- Namsen transferred legal ownership title to 1,684 shares in the Company* (the "Escrow Shares") as the escrow guarantee to the fiduciary escrow agent.

* as at the date of the Fiduciary Escrow Agreement; As a consequence of the changes of the Company's share capital (see: "*General Information on the Company – Corporate Resolutions and Share Capital*"), as at the date of this Prospectus, 1,684 shares are the equivalent of 8,420,000 Shares.

The escrow agent holds the Option Shares and the Escrow Shares in trust for the person or persons ultimately entitled to receive them and will release the Option Shares and, consequently, the legal ownership title to them will be transferred to Namsen once: (i) Namsen has duly exercised the Call Option and paid the fixed share price for the Option Shares or (ii) Evergreen Financial Limited has duly exercised the Put Option and Namsen has paid the fixed share price for the Option Shares or (iii) any event resulting in a mandatory purchase has occurred, mandatory purchase notice has been duly exercised by Evergreen Financial Limited and share price for the Option Shares has been paid by Namsen.

Under the Fiduciary Escrow Agreement, Namsen may, at any time, request in writing that the escrow agent substitute the amount equal to the share price for the Option Shares for the Escrow Shares.

The Fiduciary Escrow Agreement provides for a default procedure to be followed in the event that Namsen breaches the obligations arising thereunder and under the Put and Call Option Agreement. The agreement terminates on 2 March 2009 in the event that neither the Call Option nor the Put Option has been exercised, that no mandatory purchase has occurred and no default procedure has commenced. Upon such termination, the legal title to Option Shares is transferred to Evergreen Financial Limited and Escrow Shares to Namsen.

During the term of the Fiduciary Escrow Agreement Escrow Shares cannot be disposed of other than in accordance with terms and obligations of the Fiduciary Escrow Agreement.

Financing agreements

Kernel-Trade has been granted the major loans by Ukrainian and foreign banks among which are Ukrsotsbank, Ukrsibbank, HVB Bank Ukraine and Bayerische Hypo- und Vereinsbank Aktiengesellschaft.

The major of the loan agreements, concluded by Kernel-Trade and other companies of the Group with Ukrainian and foreign banks, are listed below.

- On 12 October 2007, Inerco Trade (the Borrower), Kernel Holding (acting as a Guarantor), and ING BANK N.V., Dublin branch (the Lender) entered into a Facility agreement for up to US\$35,000,000.00 to finance the purchase or procurement of sunflower seeds of Ukrainian origin by Kernel-Trade for the purposes of processing them into sunflower crude oil. Under the Facility agreement, the Borrower is obliged to repay each loan on the last day of its interest period, unless the Lender specifies otherwise. The Borrower may select an interest period of one, or three months or any other period agreed between the Borrower and the Lender. The Borrower's punctual performance of its payment obligations is guaranteed by Kernel Holding.
- On 8 October 2007 Inerco Trade (the Borrower) entered into a revolving credit agreement for up to US\$35,000,000.00 with Bayerische Hypo- und Vereinsbank Aktiengesellschaft, and UNICREDIT BANK (Ukraine) to finance the Borrower's trading operations. The facility is scheduled to be repaid on 30 June 2008, and secured by several suretyships, issued by Kernel-Trade, Kernel-Capital, Poltavsky CP – Kernel Group, and Vovchansky CP, as well as by a pledge, established on Kernel-Trade's inventory. The Borrower's obligations are also secured by two agreements, dated 9 October 2007, and concluded between the bank, the Borrower and Lanen, for an assignment of benefits of certain contracts, concluded by the Borrower and Lanen with third parties.
- On 12 September 2007 Uksibbank and Kernel-Trade entered into a facility agreement with the total facility amount being US\$2,000,000.00 and final repayment date on 12 March 2008. The interest rate due on the loan facility is 10% per annum. This debt is secured by (i) four pledges on Mr. Ruslan Verevskyy's property rights to cash deposits under four deposit agreements at the aggregate amount of UAH10,442,482.58 (approximately US\$2,067,818.33), which have been established on the terms and conditions provided for under four pledges agreements dated 12 September 2007 and (ii) the assignment of Mr Ruslan Verevskyy's rights for the cash deposits to the bank with a condition precedent (*i.e.*, default of Mr. Ruslan Verevskyy under pledge agreements).
- On 17 August 2007 Uksibbank entered into a loan facility agreement No. 11199804000 with Kernel-Trade with the total facility amount being US\$13,500,000.00 to finance the acquisition of several oil production trade marks. This loan facility is scheduled to be repaid on 17 August 2012, and secured by several pledge and suretyship agreements.
- On 17 November 2006 Uksibbank and HVB Bank Ukraine entered into a loan facility agreement No. 303-В-ДКБ with Kernel-Trade with the total facility amount being US\$45,000,000.00. This loan facility is scheduled to be repaid on 17 November 2009, and secured by mortgages and pledges established on buildings, property complexes, including crushing plants' facilities, inventory, equipment and movable property of the Group Subsidiaries.
- On 17 November 2006 Uksibbank, HVB Bank Ukraine and Bayerische Hypo- und Vereinsbank Aktiengesellschaft entered into a long-term investment facility agreement No. 302-В-ДКБ with Kernel-Trade, Kernel-Capital and two oil extraction plants of the Group, with the total facility amount being US\$57,000,000.00 to finance the acquisition of Eurotek (see "*Acquisition of assets from the company Evrotek*" below), and Kernel-Trade's share in the facility amount being US\$47,712,912.97. This investment facility is scheduled to be repaid on 17 November 2013. The due and punctual payment of the debt is secured by an irrevocable and unconditional guarantee in the amount of up to US\$102,000,000.00, issued by Lanen, and by mortgages and pledges, established on buildings, property complexes, including crushing plants' facilities, inventory, equipment and movable property of the Group Subsidiaries.
- In February – March of 2005, Uksotsbank and Kernel-Trade entered into two loan facility agreements, No. 710/013, dated 25 February 2005 and No. 710/015, dated 4 March 2005 with the total facility amount under the two agreements being US\$70,050,000.00. Under both of the agreements, the loan facility is scheduled to be repaid on 30 July 2010. Obligations of Kernel-Trade under these loan facility agreements are secured by numerous pledge and mortgage agreements, concluded by companies of Kernel Group.
- On 19 May 2003 HVB Bank Ukraine and Bayerische Hypo- und Vereinsbank Aktiengesellschaft, Germany entered into a loan facility agreement No. 183-CB with Prykolotnyansky CP with the total facility amount being US\$7,000,000.00. This loan facility is scheduled to be repaid on 16 December 2007, and secured by a suretyship agreement No. 183-CB/SUR, with CJSC Eurotek being a guarantor.

Under some of the pledge agreements, termination or reorganization of pledgors is considered to be an event of default and change of control (in particular, change in managing corporate bodies) requires the respective notification of the banks. Some of the loan agreements require notification of the banks in cases when debtors are expecting transfers of assets, including transfers made as part of merger, capital increase and other procedures.

Pledge agreements, guarantees, suretyships and mortgages

In the ordinary course of business, to secure the obligations arising under loan facilities extended to our Group, in particular debt repayment, our Company and Group Subsidiaries enter into various collateral agreements, including pledge agreements, agreements for the establishment of mortgages, corporate guarantees, suretyship and agreements on assignments of rights. For further information on such agreements see: "*Our Business – Material Contracts – Financing agreements*".

Corporate bonds issuance

Kernel-Trade issued registered interest-bearing corporate bonds with additional security, for unlimited circulation in the total amount of UAH 50 million (approximately US\$ 9.9 million). The bonds were issued in two series, A and B, each comprising 25,000 bonds, each bond

having a nominal value of UAH 1,000. A series bonds are repayable on 11 September 2008, whereas B series bonds are repayable on 6 October 2008. A and B series bonds were issued with 14% per annum interest rate, payable on a quarterly basis for the first four interest periods, which was reviewed and stated on 16% per annum rate for 5th – 8th bonds interest periods and 15% per annum rate for 9th – 12th bonds interest periods by the Kernel-Trade.

The issuance of both A and B series bonds were registered by the State Commission of Securities and Stock Market on 2 September 2005, as evidenced by Bonds Issuance Registration Certificates no. 218/2/05 and no. 219/2/05. The bonds are issued in non-documentary form.

Kernel-Trade registered with the State Commission of Securities and Stock Market its third issuance of registered interest-bearing bonds with additional security and with the limited circulation, having a total nominal value of UAH 100 million (the approximate equivalent of US\$19.8 million). The bonds were issued on September 7, 2007 in one series C, comprising 100,000 bonds. Each bond has a nominal value of UAH 1,000. The bonds are repayable in September 2010.

C series bonds are issued with 14% per annum interest rate, payable on a quarterly basis for the first four bonds interest periods, which will be reviewed and announced for further bonds interest periods.

License Agreement and Intellectual Property Rights Transfer Agreements with CJSC Chumak

On 11 June 2007 we entered into three agreements with CJSC Chumak regarding intellectual property rights: (i) an Exclusive Trademark Property Rights Transfer Agreement, (ii) an Exclusive Industrial Property Rights Transfer Agreement, and (iii) a License Agreement on utilization by us of the trade marks owned by CJSC Chumak; and (iv) an agreement for the purchase of equipment for the production of bottled oil, *i.e.*, Purchase of Tools Agreement. All these four agreements collectively constituted one transaction with CJSC Chumak.

- (i) According to the terms and conditions of the Exclusive Trademark Property Rights Transfer Agreement the CJSC Chumak assigned exclusive property rights to the trademarks "Zolota" and "Domashnya Oliya" to the Group. The contractual fee for the assignment of "Zolota" trademark is UAH 79,273,890 and for "Domashnya" trademark is UAH 1,636,200. Under this agreement the Group obtained the rights of trademarks proprietor indicated by Ukrainian Trademark law and secured by certificates of Ukraine on Marks for Goods and Services.
- (ii) In accordance with the Exclusive Industrial Property Rights Transfer Agreement CJSC Chumak assigned to the Group exclusive property rights to an industrial design – a bottle secured by a Patent of Ukraine. The contractual fee for industrial design assignment is UAH 81,810.
- (iii) Under the License Agreement the Group obtained an exclusive license for a term of 100 years to the trademarks: "Chumak" (word and image), "From field to Table", "Natural perfectness", and "Happiness Everyday" (hereinafter – the "Trademarks") *i.e.*, exclusive right to use the aforementioned Trademarks as follows: i) to apply the Trademarks to packaging in which the sunflower edible oil (hereinafter – the "Goods") is contained in combination with the trademarks "Zolota" and "Domashnya Oliya" to which the Group obtained exclusive intellectual property rights; ii) to print the Trademarks in combination with the trademarks "Zolota" and "Domashnya Oliya" on the label of the Goods produced/sold by the Group; iii) the Group is entitled to use the Trademarks for the purposes of selling, offering to sell or introduction of the Goods onto the market in some other way. However, the Agreement limits the rights of the Group to use the Trademarks to the extent defining the scope of the Trademarks utilization agreed by the parties in terms of the Agreement and Annexes 1, 2 thereto. Moreover, the Group is prohibited under the Agreement from utilizing the Trademarks for advertising purposes without prior written consent of Chumak. Under the Agreement Kernel is prohibited also from transferring the intellectual property rights to the Trademarks in the scope determined by the license to any third party. The agreement provides for a license fee flat payment in the amount of UAH 81,810.
- (iv) Under the Purchase of Tools Agreement we acquired from CJSC Chumak the equipment for the production of bottled oil for the total consideration of UAH 1,515,000.

As a result of the above-described transaction, we obtained the right to produce, bottle (using the purchased industrial design) and mark our products with well-known brand names previously owned by CJSC Chumak (in accordance with the terms and conditions of the agreements described above).

Acquisition of assets from the company "Evrotek"

The agreement between Mr. Verevskyy and the former beneficial owner of Evrotek concerning acquisition of Evrotek assets was concluded on 21 July 2006 and subsequently amended twice. Pursuant to this agreement and amendments, the former beneficial owner of the Evrotek assets undertook to arrange (i) for the sale of "not less than 79%" of the shares of fifteen Ukrainian closed joint-stock companies, and (ii) for the transfer of the exclusive proprietary rights to the trade marks "STOZHAR" to the benefit of Mr. Verevskyy for the equivalent in the Ukrainian currency of US\$75,000,000. To this effect, five agreements were concluded on 24 October 2006 as follows:

- (i) Pursuant to the first agreement executed between CJSC "Evrotek" and Kernel-Trade, CJSC "Evrotek" undertook to sell its shares held in 13 closed joint-stock companies for a total consideration of UAH 73,219,272 (approximately EUR 11,163,278).
- (ii) Under the second agreement concluded between the former beneficial owner of Evrotek and Kernel-Trade, the former beneficial owner of Evrotek undertook to sell 45,822 shares constituting 70% of the charter capital of CJSC "Prykolotnyanskyi Oil-extraction Plant" to Kernel-Trade, whereby the latter undertook to pay UAH 167,348,336.42 (approximately EUR 25,514,539.91) in consideration for the shares.

- (iii) The third agreement was executed between CJSC "Evrotek" and Kernel-Trade, whereby CJSC "Evrotek" undertook to sell 19,639 shares constituting 30% of its charter capital of CJSC "Prykolotnyanskyi Oil-extraction Plant" to Kernel-Trade for a UAH consideration equivalent of EUR 2,053,610 payable by 31 December 2007.
- (iv) The fourth and fifth agreements were concluded between CJSC "Evrotek" and Kernel-Capital. In accordance with these agreements CJSC "Evrotek" transferred the exclusive property rights to the trade mark "STOZHAR" and "ORIYA" to Kernel-Capital for a consideration on UAH 12,624,989.90 (approximately EUR 1,925,445.16) for the trade mark "STOZHAR" and UAH 628,997.70 (approximately EUR 95,928.84) for the trade mark "ORIYA".

All of the acquisitions were approved by the Anti-monopoly Committee of Ukraine on 12 October 2006. The transaction was completed in December 2006.

Significant Changes

Except as described below, no other significant changes in the financial or trading position of the Group have occurred since June 30, 2007. Please see *"Capitalisation and Indebtedness"*.

- (i) On 11 June 2007 we entered with CJSC Chumak into three agreements regarding intellectual property rights. For further information on these agreements see: *"Material Contracts – License Agreement and Intellectual Property Rights Transfer Agreements with CJSC Chumak"* and *"Management Discussion and Financial and Operating Review – Acquisitions"*. The transaction was completed in June 2007, with the new brands fully integrated in our existing brand portfolio in the first quarter of the financial year to June 30, 2008.
- (ii) In October 2007 Kernel-Trade registered with the State Commission of Securities and Stock Market its third issuance of registered interest-bearing bonds with limited circulation, having a total nominal value of UAH 100 million (approximately the equivalent of US\$19.8 million). For further information on this corporate bond issuance see: *"Material Contracts – Corporate bonds issuance"*.
- (iii) In August and September 2007 Kernel-Trade entered into two loan agreements with Ukrsibbank for the total amounts of US\$13,500,000.00 and US\$2,000,000.00. For further information on this loan transaction see: *"Material Contracts – Financing agreements"*.
- (iv) On 8 October 2007 Inerco Trade (the Borrower) entered into a revolving credit agreement for up to US\$35,000,000.00 with Bayerische Hypo- und Vereinsbank Aktiengesellschaft, and UNICREDIT BANK (Ukraine) to finance trading operations of Inerco Trade. For further information on this loan transaction see: *"Material Contracts – Financing agreements"*.
- (v) On 12 October 2007, Inerco Trade (the Borrower), the Company (acting as a Guarantor), and ING BANK N.V., Dublin branch (the Lender) entered into a Facility agreement for up to US\$35,000,000.00 to finance the purchase or procurement of sunflower seeds of Ukrainian origin by Kernel-Trade for the purposes of processing them into sunflower crude oil. For further information on this loan transaction see: *"Material Contracts – Financing agreements"*.

MANAGEMENT AND CORPORATE GOVERNANCE

Board of Directors

The Company has a one-tier corporate governance structure and is administered and managed by a Board of Directors.

Composition

In accordance with the Articles of Association: (i) our Board of Directors consists of at least three directors and (ii) at least two of our directors must be independent from Kernel Holding, affiliates of Kernel Holding and its shareholders holding at least five per cent (5%) of total votes at the General Meeting of Shareholders.

Directors of Kernel Holding are appointed by the General Meeting of Shareholders by a simple majority vote of the Shares present or represented for a term of office which may not exceed six years. The exact number of our directors, their remuneration and terms of their office are determined by the General Meeting of Shareholders. The directors may be dismissed at any time, with or without cause, at the sole discretion of the General Meeting of Shareholders, and may be reappointed without restriction for consecutive terms of office. In the event of a vacancy in the office of a director because of death, retirement or otherwise, such vacancy may be filled on a temporary basis until the next General Meeting of Shareholders is held, in compliance with applicable provisions of Luxembourg law.

Powers

The Board of Directors is vested with the broadest powers to perform all acts of administration in compliance with the Company's corporate scope of activity. All powers not expressly reserved by the Companies' Act of 1915 or by the Articles of Association for the General Meeting of Shareholders fall within the competence of the Board of Directors.

Any material agreement between the Company and related parties must be approved in advance by the Board of Directors, with at least one independent director voting in favor of such resolution. Typical transactions made in the ordinary course of business on arms-length' terms with entities in which the Company or other parties have a majority stake do not need to be approved by the Board of Directors.

The Board of Directors may delegate the power to perform daily management of the Company as well as the representation of the Company in relation to such management to an executive or other committee or committees formed from among its own members or not, or to one or more directors, managers or other agents who may act individually or jointly. The delegation of duties to a member of the Board of Directors imposes on the Board of Directors an obligation to report annually to the annual General Meeting of Shareholders the remuneration, fees and any advantages granted to the delegated person. The Board of Directors determines the scope of the powers, the conditions for withdrawal and the remuneration attached to these delegations of authority, including the authority to sub-delegate.

The Company is bound in any circumstances either (i) by joint signatures of two directors or (ii) by the sole signature of a managing director.

Functioning

The Board of Directors elects a chairman from among its members, who presides at all meetings of the Board of Directors.

The Board of Directors meets whenever a director requests a meeting. Any director may participate in a meeting of the Board of Directors by videoconference, which constitutes his presence in person at the meeting. Board resolutions can also be taken by circular letter.

Decisions are taken by a majority vote of the directors present or represented. In the event that in any meeting the number of votes for and against a resolution is equal, the chairman of the meeting does not have a casting vote. In the case of a tie, the proposed decision is considered as rejected.

In cases of a conflict of interest, it being understood that the mere fact that the director serves as an officer or a member of governing bodies of a shareholder or of an affiliated company of a shareholder does not constitute a conflict of interest, a director must inform the Board of Directors of any such existing or potential conflict and may not take part in the vote but will be counted in the quorum. A director having a conflict of interest on any item on the agenda must declare this conflict to the chairman before the meeting starts.

Any director having a conflict due to a personal interest in a transaction submitted for approval to the Board of Directors conflicting with that of the Company, is obliged to inform the board of directors thereof and to cause a record of his statement to be included in the minutes of the meeting. He may not take part in the business of the meeting, but will be counted in the quorum. At the following General Meeting of Shareholders, before any other resolution is voted on, a special report shall be made on any transactions in which any of the directors may have a personal interest conflicting with that of the Company.

Board committees

The Board of Directors may establish one or several committees composed of members of the Board of Directors and / or external persons to whom it may delegate powers and functions from time to time. If an audit committee is established, at least one independent director with finance and accounting expertise should be a member of that committee.

Members of the Board of Directors

As at the date hereof, our Board of Directors is composed of six directors. The table below sets forth the names, respective ages, positions, election date, and terms of office of the current members of our Board of Directors.

Name	Age	Position/Function	Appointment date	Term of office
Andrey Verevskyy	33	Chairman of the Board of Directors	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Patrick Conrad	45	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Victoria Lukyanenko	32	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Anastasia Usacheva	36	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Andrzej Danilczuk*	44	Non-executive director	October 12, 2007	until the end of the annual General Meeting of Shareholders of 2008
Ton Schurink*	61	Non-executive director	October 12, 2007	until the end of the annual General Meeting of Shareholders of 2008

* Indicates an independent director

Two of our Board members are fully independent from Kernel Holding, its affiliates and shareholders holding at least five per cent (5%) of total votes in Kernel Holding.

The following is a summary of the relevant expertise and experience of the current members of our Board of Directors.

Andrey Verevskyy founded the business of our Group in 1995. Since that time he has held various executive positions within the Group. At present and in his capacity of Chairman of the Board of Directors Mr. Verevskyy oversees the strategic development and overall management of the Group. As at the date hereof, he is the majority shareholder in the Company through his wholly-owned subsidiary Namsen Limited. In 2004, Andrey Verevskyy graduated from the Ukrainian Agrarian University with a degree in agronomy. Aside from his business interests, between 2002 and 2007 Andrey Verevskyy was a member of the Ukrainian parliament (Verkhovna Rada). He is a citizen of Ukraine and speaks fluent Russian, Ukrainian and English.

Patrick Conrad was appointed to our Board of Directors on September 21, 2007. He joined our Company in January 2003 to serve as a director and general manager of Inerco Trade S.A. Since joining the Group his time has been devoted primarily to business development and relations with our various international commercial and financial partners. Prior to joining the Group, Mr. Conrad was head of corporate banking of HVB Bank Ukraine. Mr. Conrad graduated from HEC Lausanne University with a degree in economics. He is a citizen of Switzerland and speaks fluent French, Russian and English.

Victoria Lukyanenko was appointed to our Board of Directors on September 21, 2007. As head of the legal department of our Group Mrs. Lukyanenko is responsible for providing legal support to all our business operations. She serves as a director of Namsen Limited and of the Group Subsidiaries: Etrecom Financial Limited and Kernel Capital. Prior to joining us in 2002, Mrs. Lukyanenko was head of the legal department in the oil-drilling company "Rudis". Between 1999 and 2001, Victoria Lukyanenko held the position of senior lawyer in Slovianly Limited and between 1998 and 1999 she was a leading specialist at the Licence Chamber of Ukraine's legal department on licensing and registration. In 1998 she graduated from the faculty of law at the Kiev State Shevchenko University and in 2003 she obtained a license to practice law. Victoria Lukyanenko is a citizen of Ukraine and speaks fluent Russian, Ukrainian and English.

Anastasia Usacheva was appointed to our Board of Directors on September 21, 2007. Anastasia Usacheva is a chief financial officer of the Group, head of the financial department of Kernel Trade and a deputy director of Kernel Capital. Mrs. Usacheva is responsible for financial reporting and auditing, budgeting, capital resources planning and financial risk assessment of our Group. Prior to joining us in 2003, for eight years Mrs. Usacheva was a chief financial officer of United Grain Group, a Kiev-based grain trading company. In 1993 Anastasia Usacheva graduated from the faculty of physics/mathematics at Poltava University and in 1994 from the High School of Entrepreneurship at the Kiev Economic University with a diploma in international business administration. In 2000 Anastasia Usacheva completed a professional re-training program *Practical Finance Management for Finance and Credit program* at the Russian Government Finance Academy and in 2006 Mrs. Usacheva was awarded a CFM/CMA (certified financial manager / certified management accountant) certification by the Institute of Management Accountants (USA). Anastasia Usacheva is a citizen of Ukraine and speaks fluent Russian, Ukrainian and English.

Andrzej Danilczuk was appointed to our Board of Directors on October 12, 2007, to serve as an independent non-executive director. Mr. Danilczuk is a senior executive with extensive experience in trading commodities and works as a senior trader for Risoil Grain S.A. in Switzerland. In the past Mr. Danilczuk held various positions in leading grain and oil seeds marketing and trading companies where he was primarily responsible for developing new business opportunities and logistical schemes as well as supervising execution of contracts and arbitration proceedings. He was a General Director in Nastyusha Paris S.A., a company trading wheat of Kazakh and Russian origin. For nearly 14 years, Mr. Danilczuk worked for Louis Dreyfus, from 1994 to 2005 as Vice-President of Louis Dreyfus Negoce S.A. (Paris), and for the preceding three years as a trader for Sofecia (Paris). Between 1987 and 1991, Mr. Danilczuk served in the Polish Ministry

of Foreign Affairs. Mr. Danilczuk graduated from the Moscow State Institute for International Relations with a degree in political science. He is a citizen of Poland and speaks fluent English, Russian and Polish.

Ton Schurink was appointed to our Board of Directors on October 12, 2007, to serve as an independent non-executive director. Mr. Schurink is a senior executive with extensive experience in trading commodities, risk management, barter trading, shipping, financial trading and structured finance acquired during a 32-year career with Cargill, where he held various managerial positions. Among other things Mr. Schurink was a manager for the Foreign Exchange Division, co-head of the Commodity Marketing Division and Head of the Ocean Transportation Division, managing Cargill's worldwide ocean freight exposure in chartering. From 1994 to 2000 Ton Schurink worked within the Financial Market Group as Vice-President of Cargill TSF Europe, Inc and Vice-President and Treasurer of Cargill International S.A. covering a wide variety of financial trading and structuring activities. As of 1997 he was responsible for all trade and structured finance activities of Cargill group in Europe and Africa, making Cargill the leading company in this field and a major partner for trade finance banks. In 2001 Mr. Schurink started his own consulting company, CFT Advisory Services. Since that time he has been providing consultancy services on commodities, finance and trading. He also acts as agent for SJB SA. Ton Schurink graduated from Nyenrode Business School and INSEAD Advance Management Program. He has Dutch and Swiss citizenship.

The business address for Mrs. Victoria Lukyanenko, Mrs. Anastasia Usacheva and Mr. Andrey Verevskyy is: 16 Nemirovicha-Danchenka Str., Kiev, 01133, Ukraine. The business address for Mr. Patrick Conrad is: c/o Inerco Trade S.A.: rue de l'Arquebuse No 7, 1204 Geneva, Switzerland. The business address for Messrs. Danilczuk and Schurink is the Company's registered office at 65, boulevard Grande-Duchesse Charlotte, L-1331 Luxembourg.

Directorships of Members of the Board of Directors

The following table sets out our additional past and current directorships held by our Board of Directors' members in the past five years:

Name	Positions Held
Patrick Conrad	Current: Sole Director and General Manager of Inerco Trade S.A.*
Victoria Lukyanenko	Current: Member of the Board of Directors of Namsen Limited* Member of the Board of Directors of Etrecom Financial Limited* Legal Services Director of Kernel Capital*
Anastasia Usacheva.	Current: Deputy Director of Kernel Capital* Director of the Financial Department of Kernel-Trade *
Ton Schurink	Former: Member of the board of directors in Helica SA Geneve (2003–2006) Current: Member of the board of directors of Cefetra BV, Rotterdam, The Netherlands; Member of the board of directors of Navemar SA, Fribourg, Switzerland; Member of the board of directors of Oceana Shipping SA, Chur, Switzerland; Member of the board of directors of Banque Cantonale de Geneve, Switzerland; Member of the board of directors of SJB SA, Switzerland; Member of the board of directors of SJB International Trading SA, Carouge, Switzerland

* Indicates Group Subsidiaries and affiliates

Management Team of our Group

The management of our Group is vested in three management committees: the Strategic Committee, the Trading Committee and the Budget Committee (referred to collectively as the "Management Committees").

The Strategic Committee oversees the strategic development of our Group, approves its investment projects, and controls and assesses Group performance. In fulfilment of its duties, the committee will hold regular meetings throughout the year. It is composed of seven members: our Chief Executive Officer and the directors of the following six departments: (i) Business Development Department, (ii) Trade Department, (iii) Financial Department, (iv) Marketing and Sales Department, (v) Production Management Department and (vi) Agribusiness Development Department.

The Trading Committee supervises the trade policy of our Group, in particular the planning and development of our bulk products sales as well as compliance with our risk management principles. It is headed by the Honorary Chairman of the Group and composed of the directors of (i) Trade Department, (ii) Sales and Marketing Department, (iii) Financial Department and (iv) Business Development Department. Meetings of the Trading Committee are held regularly and convened at short notice whenever required by market developments and conditions.

The Budget Committee is responsible for development and approval of the financial budget of our Group, and exercises control over budget execution and changes, if required. It is composed of three members: the Honorary Chairman of the Group, the Chief Financial Officer and the

Financial Controller of the Group. Budget Committee meetings will be held regularly throughout the year to follow up on observance of the budget and review any possible changes in the course of the financial year.

The members of our Management Committees (the "Management Team") are:

Name	Age	Position
Andrey Verevskyy	33	Chairman of the Board of Directors
Patrick Conrad	45	Business Development Director
Anastasia Usacheva	36	Chief Financial Officer, Director of Financial Department
Konstantin Litvinsky	35	Director of Trade Department
Inna Ivanova	34	Director of Marketing and Sales Department
Andrey Nepochatov	43	Director of Production Management Department
Igor Konovalov	35	Director of Agribusiness Development Department
Victoria Lukyanenko	32	Head of Legal Department of the Group
Natalia Khvostova	32	Director of Human Resources, Organizational Development and Public Relations Department
Nadezhda Utkina	32	Financial Controller of our Group

The following is a summary of the relevant expertise and experience of the current members of our Management Team (except for Mr. Andrey Verevskyy, Mr. Patrick Conrad, Mrs. Anastasia Usacheva and Mrs. Victoria Lukyanenko already described under "*Members of the Board of Directors*").

Konstantin Litvinsky as a director of our Trading Department is primarily responsible for export of grains and sunflower oil, silo operations, logistics, purchases of grains and sunflower seeds as well as day-to-day management of commodity trade. Mr. Litvinsky also develops and implements trade strategy. According to the results of the all-Ukrainian rating program "Management Guards", Konstantin was named the most successful top manager in the agribusiness sector for 2006. Prior to joining our Group in October 2006, for seven years (from 1998 to 2005) Mr. Litvinsky held various positions in the Kiev-based grain trading company "Ramburs", United Grain Group, including the position of head of foreign trade department. For four years, between 1994 and 1998, Mr. Litvinsky also worked for "Transoil", Odessa, as head of department. In 1994, Mr. Litvinsky graduated from the Odessa Marine Engineering Institute as a sea transport engineer and in 1998 Mr. Litvinsky completed a "Maritime Management" Course at the College of Central London in the United Kingdom. Konstantin Litvinsky is a citizen of Ukraine.

Inna Ivanova, director of the Marketing and Sales Department, is responsible for domestic and export sales, marketing and logistics of bottled oil, day-to-day management of bottled oil division, and bottled oil development. Before joining our Group in September 2004, Mrs. Ivanova worked as a regional manager for the Ukrainian subsidiary of Bunge. Inna Ivanova graduated from Cherkassy State Pedagogical Institute in 1995 and since that time has completed several business training courses. She is a citizen of Ukraine.

Andrey Nepochatov as head of our Production Management Department is primarily responsible for development and implementation of investment projects for modernization, construction and development of our plants and oil extraction facilities as well as for their operations. Prior to joining us in 2006, for almost four years Mr. Nepochatov worked for Evrotek, the Ukrainian sun oil crushing company that was acquired by us in late 2006, as head of the refinement department at Prikolotnoye oil-extracting plant and then as a chief technologist at the Prikolotnoye and Vovchansk oil-extracting plants. Between 1994 and 2003 Andrey Nepochatov was head of the extraction department at OJSC Prikolotnoye oil-extracting plant. In 1990 Mr. Nepochatov graduated from the National Technical University "Kharkiv Polytechnical Institute" (department of electric drive and industrial engineering). Andrey Nepochatov is a citizen of Ukraine.

Igor Konovalov joined our Group in July 2001 to work as a leading economist at the Agribusiness Development Department, of which he became head in July 2007. He is responsible for overseeing the development and operations of our agricultural division. Igor Konovalov gained the relevant experience working as an economist at LLC "Unigrain-Agro" (in 2001), "Reylin" (in 2000), CJSC "Kiev-Atlantik Ukraina" (between 1997 and 2000) and the Agricultural Enterprise of I. Franko (between 1994 and 1997). In 1994 Mr. Konovalov graduated from Kyiv National Economics University with a degree in economics. Mr. Konovalov is a citizen of Ukraine.

Natalya Khvostova joined our Group in November 2001 as an administrative adviser to the Chairman of our Board of Directors. In March 2004 she became HR director and since September 2005 she has been head of the Human Resources, Organizational Development and Public Relations Department of our Group responsible for organizational development, human resources and public relations management. Between 1997 and 2001 Mrs. Khvostova worked as an administrative adviser for a Kiev-based company Ukrinterproduct. In 1997 Mrs. Khvostova graduated from the philology department of the Donetsk State University. In 2005 Mrs. Khvostova completed the Human Resource Management Program organised by Kyiv Mohila Business School and received an ISO 9001 International Auditor Certificate for a quality management system, and in 2007 Mrs. Khvostova completed a program on corporate management at the UK Open University. Natalya Khvostova is a citizen of Ukraine.

Nadezhda Utkina joined our Group in November 2003 as an experienced project and finance manager with extensive knowledge of management accounting, planning and budgeting, cash flow management and management information system implementation. Mrs. Utkina is currently Financial Controller of our Group. For five years Nadezhda Utkina worked for Emergex Business Solutions as a finance consultant, then a project manager and finally, from November 2002 to July 2003 as head of the Management Consulting Department.

Previously Mrs. Utkina held the position of accountant with a Dutch-Ukrainian Joint Venture U-Page. In 1997 Nadezhda Utkina graduated from the Kyiv National Economics University with a degree in banking accounting and auditing. Mrs. Utkina completed the intermediate level of London's Chartered Institute of Management Accountants and received an advanced diploma in management accounting.

The business address for each member of the Management Team described above is 16 Nemirovicha-Danchenka Str., Kiev, 01133, Ukraine.

Directorship of Members of our Management Team

The following table sets out current and past directorships held by our Managements Team members (other than the members of the Board of Directors) in the past five years:

Name	Positions Held
Andrey Nepochatov	Former Member of the Supervisory Board of OJSC "Prikolotnoye oil-extracting plant"
Konstantin Litvinsky	Former Board member of "Ramburs" United Grain Group

Committees of the Board of Directors

As at the date of this Prospectus, the Board of Directors has established the Audit Committee, chaired by a non-executive director, and the Remuneration Committee. Members have not been appointed to specific Board committees. Instead, our Board of Directors as a whole will be sitting on both the Audit Committee and the Remuneration Committee. Going forward, the Board of Directors will review the organization and the necessity to appoint a restricted number of directors, including at least one non-executive director, to each of the Audit and Remuneration Committees.

Certain Information on the Members of the Board of Directors and of the Management Team

Except as described below, within the past five years, no member of our Board of Directors and no Management Team member:

- has been convicted of any offences relating to fraud;
- has been the subject of any official public incrimination or has been sanctioned by statutory or regulatory authorities (including professional associations) or
- has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conducting the affairs of any company;
- has been associated with any bankruptcy, receivership or liquidation, or similar proceedings, in their capacity as members of any administrative, managing, or supervisory body or as a senior executive.

There are no family relationships among the members of the Board of Directors and the Management Team members.

Except as described above, no member of the Board of Directors and no member of the Management Team holds a supervisory or a non-executive position in any other listed company or performs principal activities outside the Company which are significant with respect to the Company.

Apart from these potential conflicts of interest and the transactions and legal relations described in "*Related Party Transactions*", there are no other actual or potential conflicts of interest between the obligations of the members of the Board of Directors and the Management Team members toward the Company and their respective private interests and duties or obligations to the Company.

There are no arrangements or understandings with principal shareholders of the Company, customers, suppliers or others pursuant to which any member of the Board of Directors or of the Management Team was selected as a member of the Board of Directors or appointed as a member of the Management Team.

Shares and Share Options Held

Except for Mr. Andrey Verevskyy, no other member of our Board of Directors and no other member of our Management Team holds any Shares or stock options over such Shares in the Company. For information on the shareholding of Mr. Andrey Verevskyy see "*Principal Shareholders and Selling Shareholder*".

Remuneration and Terms of Service Contracts

In accordance with the Articles of Association, the remuneration of the members of the Board of Directors is determined by the General Meeting of Shareholders. Although as at the date of this Prospectus our shareholders have not adopted any formal remuneration policy, in practice our general remuneration policy is structured in such a way as to allow us to attract, retain and motivate members of the Board of Directors who have the character traits, skills and background to successfully lead and manage the Company.

As at the date of this Prospectus, our executive directors are not entitled to remuneration in their capacity of Board members. They are reimbursed, to a reasonable extent, for any expenses incurred in performing their duties, including expenses incurred for attendance at the

meetings of the Board of Directors and travelling expenses. None of our executive directors have concluded any service contract or any other contract of a similar nature with the Company to perform services in the capacity as Board member.

Non-executive directors provide their services pursuant to letters of appointment and service contracts. These contracts, which are established for an unlimited period of time, may be terminated at any moment and without reason by Kernel Holding or by the executive director upon serving of written notice of termination. Our executive directors are bound by certain non-competition and non-solicitation provisions. They have further agreed not to accept any appointment which might involve a conflict of interest with any other duties and undertaken not to disclose any confidential information received in connection with, or related to, the service agreement. Our executive directors are not entitled to remuneration for their services as Board members but are refunded, to a reasonable extent, for any expenses incurred by them in performing their duties, including reasonable travelling expenses.

We have entered into employment contracts with members of the Management Team on the following terms:

Name	Date of the Agreement	Counterparty	Duration	Termination
Patrick Conrad	1 February 2003	Inerco Trade	unlimited	effective on the 1 st calendar day of the seventh month following the month when the termination notice was delivered
Anastasia Usacheva	14 January 2005	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine
Konstantin Litvinsky	4 August 2006	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine
Inna Ivanova	4 January 2006	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine
Andrey Nepochatov	29 January 2007	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine
Igor Kononov	21 August 2007	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine
Victoria Lukyanenko	1 April 2004	Kernel Capital	unlimited	as defined by the Labor Code of Ukraine
Natalia Khvostova	11 January 2005	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine
Nadezhda Utkina	28 January 2005	Kernel Trade	unlimited	as defined by the Labor Code of Ukraine

No member of the Board of Directors and no Management Team member is entitled to any particular benefit in the event of dismissal from office or termination of any service or employment contracts or any contract of a similar nature.

The aggregate remuneration (including benefits in kind) paid to our members of the Board of Directors for services in all capacities provided to the Group totalled US\$435,600 whereas the aggregate remuneration paid to the Management Team members (other than the Board members) for services in all capacities provided to the Group was US\$465,750. The members of the Board of Directors and the Management Team members are not granted any pensions, retirement or similar benefits by the Company. Under general Luxembourg legislation (*section 65 (1) °12 of the law of 19 December 2002 concernant le registre de commerce et des sociétés ainsi que la comptabilité et les comptes annuels des entreprises*), we are not required to disclose the remuneration of members of our Board of Directors or Management Team members on an individual basis. As such information is not disclosed otherwise, we have decided not to provide it in this Prospectus.

Stock/Management Incentive Plan

As at the date of this Prospectus, we have no stock incentive plan implemented and, therefore, no member of our Board of Directors nor any member of the Management Team nor any of our employees participate in any stock/management incentive plan. It is, however, our intention to implement a management incentive plan following the closing of the Offering, through which we will seek to retain and motivate the Management Team members and align their interest with the interests of our shareholders. We anticipate that under the management incentive plan we will offer to Management Team members and other eligible participants, if any, up to 3.5% of our issued and outstanding stock as at the adoption of such plan. On 23 October 2007 our Board of Directors approved in principle the adoption of such a management incentive plan. The Board of Directors further selected a management incentive plan committee composed of non-executive directors and delegated to it the authority to determine the terms and conditions of such a management incentive plan, subject to the approval of the General Meeting of Shareholders. Moreover, the Board of Directors decided to recommend to the General Meeting of Shareholders or to other authorised directors of the management incentive plan, if any, that: (i) each of Mr. Patrick Conrad, Mrs. Anastasia Usacheva and Mr. Konstantin Litvinsky be granted such number of options or other rights to shares under such a management incentive plan that will entitle each of them to Shares representing 1% of the issued and outstanding share capital of the Company upon the closing of the Offering and (ii) that the remaining options or other rights to shares under such a management incentive plan (*i.e.*, up to 0.5% of our issued and outstanding stock as at the adoption of such plan) be granted to the other Management Team members and to eligible employees at the discretion of the General Meeting of Shareholders or other authorised directors of the plan.

Corporate Governance

Luxembourg

As a Luxembourg *société anonyme* that will be listed solely on a regulated market in Poland, we are not required to adhere to the Luxembourg corporate governance regime which is applicable to companies that are listed (i) on a regulated market in Luxembourg or (ii) both

on a regulated market in Luxembourg and on one or more foreign regulated markets. Therefore, we do not intend to comply with the provisions of the Luxembourg corporate governance code. Instead, we have decided to observe the majority of the WSE Corporate Governance Rules.

Poland – WSE Corporate Governance Rules

Pursuant to the WSE by-laws, and in connection with the listing of our Shares on the WSE, we will be required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules we intend to comply with, as well as to enumerate the principles which we do not intend to comply with and state the reasons for this non-compliance.

The WSE Corporate Governance Rules will change significantly as of January 1, 2008. Bearing that in mind, when adapting our corporate structure for the listing on the WSE, we decided to structure it in a way allowing us to comply to the extent most possible and practicable with the new WSE Corporate Governance Rules.

We have decided to observe the majority of the WSE Corporate Governance Rules, especially new versions thereof effective as of January 1, 2008. However, certain principles will apply to us only to the extent allowed by Luxembourg corporate law and subject to certain reservations stemming from our corporate structure and especially the single board structure as opposed to the two-tier system assumed in WSE Corporate Governance Rules.

Therefore, we comply partially or are unable to comply with the some principles of WSE Corporate Governance. In cases where we are unable to comply with a certain principle directly, we will endeavour to create procedures maintaining the spirit of such principle.

Detailed information regarding non-compliance, as well as required explanations, will be included in the full text of our declaration regarding compliance with the WSE Corporate Governance Rules which will be filed with the WSE at the time of our application for listing, published by way of a Current Report and available on our website (www.kernel.ua).

GENERAL INFORMATION ON THE COMPANY

The Company

Kernel Holding S.A. is a public limited company (société anonyme) of unlimited duration that was incorporated, exists and operates under the laws of Luxembourg, in compliance with the Companies' Act of 1915, other applicable Luxembourg regulations, and in accordance with its Articles of Association.

The Company was incorporated as a public limited holding company in the form of a notarial deed certified by Maître Jean Seckler, a notary residing at Junglinster, Luxembourg, on 15 June, 2005, under the name Kernel Holding S.A. On 15 July, 2005, the Company was registered with Registre de Commerce et des Sociétés in Luxembourg under registration number B109.173. The Articles of Incorporation of the Company were published in the Mémorial, Recueil des Sociétés et Associations (the "Mémorial C") number C-N° 1261 of 24 November, 2005. The Company's registered office is at 65, boulevard Grande-Duchesse Charlotte, L-1331 Luxembourg, Grand Duchy of Luxembourg. The telephone number of the Company's registered office is +352 26 44 91 and its fax number is +352 26 38 35 06. Our Group's headquarters in Kiev are located at 16, Nemirovicha-Danchenko Street, Kiev, Ukraine, 01133. Its telephone number is +380 44 461 88 00 and its fax number is + 380 44 461 88 64.

Corporate Purpose

Article 4 of the Articles of Association provides that the principal areas of business activity of the Company are:

- acquisition, enhancement and disposal of participations in whichever form in domestic and foreign companies;
- contracting loans and granting all kinds of support, loans, advances and guarantees to companies, in which the Company has a direct or indirect participation or which are members of the same group;
- acquisition and disposal of all other securities by way of subscription, purchase, exchange, sale and otherwise;
- acquisition, enhancement and disposal of patents and licenses, as well as rights deriving therefrom or supplementing them;
- acquisition, management, enhancement and disposal of real estate located in Luxembourg and abroad.

The Company may carry out all commercial, industrial and financial operations, whether in the area of securities or of real estate, likely to enhance or to supplement the above-mentioned purposes.

Corporate Resolutions and the Share Capital

As at the date of this Prospectus, the issued share capital of the Company is US\$1,232,368.02 divided into 46,670,000 ordinary bearer shares without indication of the nominal value of each. All of the Shares are fully paid up. Our Articles of Association authorise the Board of Directors to issue up to 17,779,048 new shares as described below.

Upon the Company's incorporation on 15 June, 2005, its issued and paid-up share capital was €800,000 divided into 8,000 Shares with a nominal value of €100 each. All the Shares were fully paid up in cash at their nominal value without any share premium.

On 21 November, 2006, pursuant to a resolution adopted by the extraordinary General Meeting of Shareholders, the Company's share capital was increased by the amount of €133,400 to the amount of €933,400 through the issue of 1,334 new Shares with a nominal value of €100 each, having the same rights and obligations as the then existing Shares. All 1,334 newly issued Shares with a nominal value of €100 each and a share premium of €1,481 each were subscribed and fully paid up by a contribution in cash of €2,109,054. As a consequence of the above-mentioned increase of the share capital, the Articles of Association were amended accordingly and published in Memorial C No. 259 of February 27, 2007.

Pursuant to the resolutions passed by the extraordinary General Meeting of Shareholders held on 31 July, 2007: (i) the nominal value of each Share was cancelled; (ii) US\$ was adopted as the currency of the Company's capital currency with effect from 1 January 2007; (iii) the corporate capital in the amount of €933,400 was converted into US\$1,232,368.02 at the exchange rate of one € equal to US\$ 1.3203; (iv) 9,334 existing Shares with a nominal value of €100 each were exchanged for 9,334 Shares without indication of a nominal value, (v) the Articles of Association were amended accordingly.

On 12 October, 2007, shareholders at the extraordinary General Meeting of Shareholders resolved to:

- split the then existing Shares at a split ratio of one to five thousand (1:5,000) and to consequently split the existing 9,334 Shares of the Company without indication of a nominal value into 46,670,000 Shares without indication of a nominal value;
- authorise the Board of Directors to issue, from time to time, up to 17,779,048 new shares without indication of a nominal value and without reserving for the existing shareholders any preferential subscription rights, hence creating an authorised share capital of US\$469,473.53 in accordance with Article 32 of the Companies' Act of 1915. The authorisation pursuant to which the Board of Directors is authorised to issue new shares and to grant options to subscribe for such shares has been granted to the Board of Directors for a limited period to expire right after the closing of the initial public offering of Shares in Poland or the closing of any other offering of the Shares, whichever event occurs first, in any case no later than a term of five (5) years from the date of publication of the authorisation in Mémorial C;

- convert all the then existing registered shares in the Company into bearer shares. Consequently, 46,670,000 registered shares were converted into 46,670,000 bearer shares.

In connection with the Offering, our Board of Directors will issue up to 17,779,048 New Shares, while pre-emptive rights of the existing shareholders will be excluded (as contemplated by Article 5 of the Articles of Association). For information on resolutions adopted for the purpose of the Offering and Admission see *"The Offering and Plan of Distribution – Corporate Resolutions"*.

The sale of the Sale and Overallotment Shares by the Selling Shareholder does not require any approval by the Company.

Independent Auditors

LLC "Baker Tilly Ukraine", an independent member of Baker Tilly International, with its registered office at Turhenevska St. 71, Kyiv, Ukraine, 04050 audited the Consolidated Financial Statements for each of the financial years ended 30 June 2007, 2006 and 2005 and issued reports on the Consolidated Financial Statements for each of the financial years ended 30 June 2007, 2006 and 2005 and on the unaudited Pro-Forma Financial Information included in the Prospectus. LLC "Baker Tilly Ukraine" is registered with the professional organisation of auditors in Ukraine – the Ukrainian Chamber of Audit under registration number 2091 as of 26 January, 2006. The qualifications of the signatory of the independent auditors' report on the Consolidated Financial Statements for each of the financial years ended 30 June 2007, 2006 and 2005 as well as the unaudited Pro-Forma Financial Information is confirmed by certificate A no. 003710 of March 26, 1999. LLC "Baker Tilly Ukraine" has no interest in the Company and no interest in the Offering. LLC "Baker Tilly Ukraine" was entrusted with auditing of the Consolidated Financial Statements on July 24, 2006, April 4, 2007, and July 12, 2007.

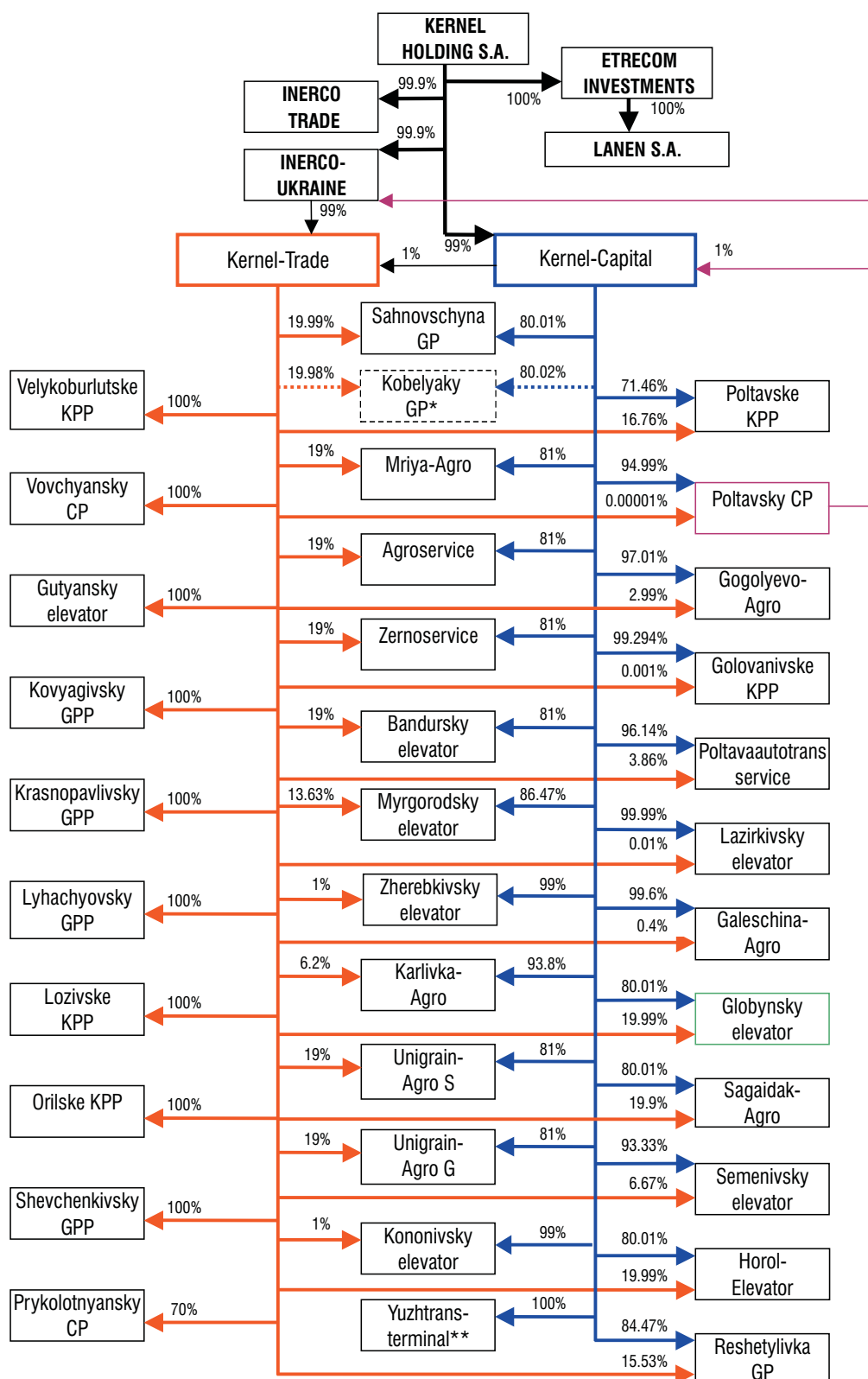
LLC "Baker Tilly Ukraine" Ukraine have given, and have not withdrawn, their written consent to the inclusion of their reports and the reference to themselves herein in the form and context in which they are included.

On 21 September, 2007, shareholders in the Company resolved to appoint Mr. Jean Bernard Zeimet, a certified auditor in Luxembourg, with its registered office at 67, rue Michel Welter, L-2730 Luxembourg, an independent member of Baker Tilly International, as the Company's statutory auditor in Luxembourg until the end of the annual General Meeting of Shareholders of 2010. Mr. Jean Bernard Zeimet is registered as a independent auditor with the official table of company auditors drawn up by the Luxembourg Ministry of Justice and is a member of the Institute of Auditors (*l'Institut des Réviseurs d'Entreprises*).

On 21 September, 2007, COMCOLUX S.a.r.l., the Company's statutory auditor since the Company's incorporation, resigned from its function and was discharged for the performance of its mandate.

GROUP STRUCTURE

The diagram below shows the structure of our Group as at the date of this Prospectus except for our participatory interest in Kobelyaky GP the acquisition of which will be effected once it has been approved by the AMC.



Source: The Company

* As at the date of this Prospectus Kobelyaky GP does not form a part of our Group. Its acquisition will be effected once it has been approved by the AMC.

** The Company intends to dispose of its shareholding in Yuzhtrans-terminal in the future.

The Company is a parent company of the Group and all production assets of our Group, including our plants and network of grain silos, are located in Ukraine and, have been split between two Group Subsidiaries incorporated therein: Kernel Capital and Kernel-Trade. Within domestic operations, Kernel-Trade acts as our key operating company involved in origination, processing, exports and domestic sales of our Group's products. Kernel-Trade is responsible for sunflower seed and grain origination, it stores seeds and grains in own silos, rented ones and those belonging to third parties. Kernel-Trade also deals with crushing facilities, which process sun seeds on tolling basis. Under such tolling scheme Kernel-Trade orders sunflower seed processing at crushing plants that render this service to Kernel-Trade. Kernel-Capital and Inerco-Ukraine are holding companies for our operations in Ukraine. Lanen S.A. and Inerco Trade S.A. are engaged in international trade of sunflower oil and grain supplied by Kernel-Trade. Inerco Trade S.A. cooperates with ultimate purchasers of sunflower oil and grains on the international market place.

We believe that the allocation of our production assets among our two Group Subsidiaries and division of our managing and trade operations facilitate the management and transparency of our Group. Such organisation of our Group allows us to conduct our operations, manage the entire Group and generate profits in the most efficient, flexible and beneficial way to create additional value for our shareholders.

Links and relations existing between companies from our Group are of a stable organizational, business and technological nature.

Our Group's headquarters in Kiev are located at 16, Nemirovicha-Danchenko Street, Kiev, Ukraine, 01133. Its telephone number is +380 44 461 88 00 and its fax number is + 380 44 461 88 64.

Principal Subsidiaries

Below we indicate general information on our principal Group Subsidiaries as at the date of this Prospectus:

Inerco Trade S.A.

Legal form:	private joint stock company (<i>societe anonyme</i>)
Country of incorporation:	Switzerland
Registered office:	7 rue de l'Arquebuse, CH-1204, Geneva, Switzerland
Date of Incorporation:	14 January 2003
Registration Number:	the Register of Commerce of Geneva, CH-660-0103003
Profile of business:	Trade, holding of intellectual property rights, charter of ship/vessel and provision of services in these areas
Subscribed share capital:	CHF 4,000,000 divided into 4,000 shares with a nominal value of CHF1,000 each
Company's (direct/indirect) shareholding:	3,999 shares representing 99.975% of the share capital and voting rights (held directly)

Etrecom Investments Limited

Legal form:	private company limited by shares
Country of incorporation:	the Republic of Cyprus
Registered office:	Agiou Prokopiou, 13, Egkomi, P.C. 2406, Lefkosia, Cyprus
Date of Incorporation:	The incorporation deed was executed on 29 June 2007, and the company was registered with the Registrar of the Companies on 21 July 2007
Registration Number:	Register of Companies – HE 204363
Profile of business:	Holding company having a wide-defined profile business
Subscribed share capital:	€5,000 divided into 5,000 ordinary shares with a nominal value of €1 each
Company's (direct/indirect) shareholding:	5,000 ordinary shares representing 100% of the issued share capital and total voting rights (held directly)

Lanen S.A.

Legal form:	Stock corporation (<i>Sociedad Anonima</i>)
Country of incorporation:	The Republic of Panama
Registered office:	c/o law firm Riera, Diaz & Asociados P.O. Box 871040 Zone 7, Panama City, Republic of Panama
Date of Incorporation:	The public deed was executed on 30 November 2005, and the company was registered with the National Public Register on 9 December 2005
Registration Number:	National Public Register at the Microjacket 510924 Document 880103
Profile of business:	International trade in sunflower seed oil, meal and grain, and financing operations
Subscribed share capital:	US\$10,000 divided into 10 shares with a nominal value of US\$ 1,000 each
Company's (direct/indirect) shareholding:	10 shares representing 100% of the share capital and total voting rights (held by the Company indirectly – through Etrecom Investments)

LLC Kernel Capital

Legal form:	limited liability company
Country of incorporation:	Ukraine
Registered office:	16 Nemirovicha-Danchenka Street, Kyiv, Ukraine
Date of Incorporation:	24 December 2003
Registration Number:	The Unified State Register of Legal Entities of Ukraine 32768392
Profile of business:	Holding company for grain silos and other Group Subsidiaries in Ukraine, transactions with financial instruments.
Subscribed charter capital	UAH106,050,000
Company's (direct/indirect) shareholding:	100% of the charter capital and total voting rights (held by the Company directly and indirectly – through Poltavsky CP)

LLC "Joint Venture" Inerco Ukraine

Legal form:	limited liability company
Country of incorporation:	Ukraine
Registered office:	17 Marshala Biryuzova Street, Poltava, Kyivskyi Region, Poltavskyi District, Ukraine
Date of Incorporation:	13 May 2003
Registration Number:	The Unified State Register of Legal Entities of Ukraine 32461187
Profile of business:	Holding company
Subscribed charter capital:	UAH30,673,322
Company's (direct/indirect) shareholding:	100% of the charter capital and total voting rights (held by the Company directly and indirectly – through Poltavsky CP)

LLC Kernel Trade

Legal form:	limited liability company
Country of incorporation:	Ukraine
Registered office:	16 Nemirovicha-Danchenka Street, Kyiv, Ukraine
Date of Incorporation:	12 June 2001
Registration Number:	The Unified State Register of Legal Entities of Ukraine 31454383
Profile of business:	Operating company – trade of sunflower seed oil, meal and grain, Holding company for our Group Subsidiaries incorporated in Ukraine
Subscribed charter capital:	UAH9,500,000
Company's (direct/indirect) shareholding:	100% of the charter capital and total voting rights (held by the Company indirectly – through Inerco Ukraine and Kernel Capital).

Prykolotnyansky CP

Legal form:	closed joint stock company
Country of incorporation:	Ukraine
Registered office:	45 Lenina Str., smt. Prykolotne, Velykoburlutskyi District, Kharkivsiy Region, Ukraine
Date of Incorporation:	7 September 1999
Registration Number:	The Unified State Register of Legal Entities of Ukraine 30142319
Profile of business:	Production company
Subscribed share capital / total number of shares issued:	UAH16,365,250.00 divided into 65,461 ordinary, registered shares with a nominal value UAH250.00 per each
Company's (direct/indirect) shareholding:	70% of the share capital (held by the Company indirectly)

Vovchyansky CP

Legal form:	open joint stock company
Country of incorporation:	Ukraine
Registered office:	11 Pryvokzalna Str., Vovchansk, Vovchanskyi District, Kharkivsiy Region, Ukraine
Date of Incorporation:	17 January 2007
Registration Number:	The Unified State Register of Legal Entities of Ukraine 00373936
Profile of business:	Production company
Subscribed share capital / total number of shares issued:	UAH8,541,639.56 divided into 1,533,508 ordinary, registered shares with a nominal value UAH5.57 per each
Company's (direct/indirect) shareholding:	99% of the share capital (held by the Company indirectly)

Poltavsky CP

Legal form:	closed joint stock company
Country of incorporation:	Ukraine
Registered office:	17 Marshala Biryuzova Street, Kyivskyi Region, Poltava, Poltavskyi District, Ukraine
Date of Incorporation:	26 December 1991
Registration Number:	The Unified State Register of Legal Entities of Ukraine 00373907
Profile of business:	Production company
Subscribed share capital /	UAH18,807,130.00
total number of shares issued:	
Company's (direct/indirect) shareholding:	over 95% of the share capital (held by the Company indirectly)

As at the date hereof we do not hold any participating interest in any undertaking likely to have a significant effect on the assessment of our own assets and liabilities, financial position or profits and losses other than holdings in companies from our Group as disclosed elsewhere in this Prospectus.

As at the date of this Prospectus, as far as we are aware, there is no portion of capital of any Group Subsidiary under option or agreed conditionally or unconditionally to be put under option.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

Principal Shareholders

Beneficial owners of our Shares

As at the date of this Prospectus all Shares issued in the Company's share capital are beneficially owned by the following shareholders:

- 40,000,000 Shares representing 85.7 per cent of the Company's issued share capital and giving in total 40,000,000 votes at the General Meeting of Shareholders are beneficially owned by **Namsen Limited**, a company incorporated, existing and operating under the laws of Cyprus with its registered office in Nikosia, P.C. 2406 Egkom, 13 Aqiou Prokopiou Street, Cyprus, registered with the National Public Register under registration number HE 175712 and
- 6,670,000 Shares representing 14.3 per cent of the Company's issued share capital and the total voting rights at the General Meeting of Shareholders are beneficially owned by Evergreen Financial Limited, a company incorporated, existing and registered in the Territory of the British Virgin Islands with its registered office at Drake Chambers, Tortola, British Virgin Islands, and registered under registration number 215050.

Legal owners of our Shares

Based on the Fiduciary Escrow Agreement (see "*Our Business – Agreements relating to Shares in the Company – Fiduciary Escrow Agreement*") the legal title to all 6,670,000 Shares held by Evergreen Financial Limited and the legal title to 8,420,000 Shares held by Namsen has been transferred to Fortis Intertrust (Luxembourg) S.A. as the escrow agent. Fortis Intertrust (Luxembourg) S.A. holds these Shares on trust for the person or persons ultimately entitled to receive them and is then regarded as the legal owner of these Shares.

As a result, as of the date of this Prospectus the legal owners of Shares are:

- **Namsen Limited**, which holds direct legal title to 31,580,000 Shares representing 67.7 per cent of the Company's issued share capital and giving in total 31,580,000 votes at the General Meeting of Shareholders; and
- **Fortis Intertrust (Luxembourg) S.A.** a company incorporated as a *société anonyme* under the laws of Luxembourg, whose registered office is at 65, boulevard Grande Duchesse Charlotte, L-1331 Luxembourg, which holds as an escrow agent legal title to 15,090,000 Shares representing 32.3 per cent of the Company's issued share capital and 15,090,000 votes at the General Meeting of Shareholders.

Agreements relating to Shares in the Company

Mutual relations between Evergreen Financial Limited and Namsen are regulated by three related agreements: (i) the loan agreement and two agreements serving as a guarantee for the repayment of the loan facility (ii) the Put and Call Option Agreement, and (iii) the Fiduciary Escrow Agreement. For information on the loan agreement see "*Related Party Transactions – Loan Agreement with Evergreen Financial Limited*", and for information on the Put and Call Option Agreement and the Fiduciary Escrow Agreement see: "*Our Business – Material Contracts – Agreements relating to Shares in the Company*".

Exercise of the Call Option

In connection with the Offering, Namsen has undertaken to exercise the Call Option on or about the Settlement Date, upon anticipated successful completion of the Offering. As a consequence, the legal title to the Option Shares and the Escrow Shares, in total 15,090,000 Shares, will be transferred from Fortis Intertrust (Luxembourg) S.A. to Namsen.

Shareholding Structure

The tables below indicate the Company's shareholding structure as at the date of this Prospectus and after the Offering:

Beneficial owners of our Shares

Shareholder	Shares beneficially owned prior to the Offering		Shares owned after the Offering ⁽¹⁾		Shares owned after the Offering ⁽²⁾	
	Number	%	Number	%	Number	%
Namsen	40,000,000	85.7	not less than 43,170,000	not less than 67	not less than 39,978,143	not less than 62
Evergreen Financial Ltd. .	6,670,000	14.3	0	0	0	0
Public	–	–	up to 21,279,048	up to 33	up to 24,470,905	up to 38
Total	46,670,000	100.00	up to 64,449,048	100.00	up to 64,449,048	100.00

(1) Once the Call Option has been exercised on or about the Settlement Date and assuming no exercise of the Over-allotment Option;

(2) Once the Call Option has been exercised on or about the Settlement Date and assuming full exercise of the Over-allotment Option.

Legal owners of our Shares

Shareholder	Shares owned prior to the Offering		Shares owned after the Offering ⁽¹⁾		Shares owned after the Offering ⁽²⁾	
	Number	%	Number	%	Number	%
Namsen	31,580,000	67.67	not less than 43,170,000	not less than 67	not less than 39,978,143	not less than 62
Fortis as the escrow agent.	15,090,000	32.33	0	0	0	0
Public	—	—	up to 21,279,048	up to 33	up to 24,470,905	up to 38
Total	46,670,000	100.00	up to 64,449,048	100.00	up to 64,449,048	100.00

(1) Once the Call Option has been exercised on or about the Settlement Date and assuming no exercise of the Over-allotment Option;

(2) Once the Call Option has been exercised on or about the Settlement Date and assuming full exercise of the Over-allotment Option.

As the Company has only one class of Shares outstanding, all of which have equal voting rights, neither of the Company's principal shareholders have different voting rights attached to Shares held. The voting rights of the Company's principal shareholders with respect to their Shares will not differ in any respect from the rights attached to any Offer Shares. The greater or lesser voting power at the General Meeting of Shareholders is inherent in the percentage ownership in the Company's share capital.

Control over the Company

The ultimate beneficial owner of 40,000,000 Shares in the Company constituting 85.7 per cent of the issued share capital and giving 40,000,000 voting rights, representing 85.7 per cent of the total voting rights at the General Meeting of Shareholders, is Mr. Andrey Verevskyy, the founder of our Group, currently serving as the Chairman of our Board of Directors, who indirectly, through his wholly-owned subsidiary, Namsen, controls the Company. Namsen does not perform any operations other than holding Shares in the Company and performing financial activity within our Group.

Namsen has been the Company's principal shareholder since 2006.

As at the date of this Prospectus, as far as we are aware, there is no arrangement that might result in a change of control over the Company in the future. The exercise of the Call Option, as described above, that is expected to be effected on or about the Settlement Date, will not result in a change of control over the Company. After the Offering, once the Call Option has been exercised and assuming the full exercise of the Over-allotment Option, Mr. Andrey Verevskyy will hold indirectly not less than 39,978,143 Shares in the Company constituting not less than 62 per cent of the issued share capital and giving not less than 39,978,143 voting rights representing not less than 62 per cent of the total voting rights at the General Meeting of Shareholders.

Restrictions on the transfer of the Escrow Shares under the Put and Call Option Agreement and the Fiduciary Escrow Agreement are the only agreements, arrangements or undertakings of a similar nature which limit the right of our Selling Shareholder to transfer Shares.

There are no provisions in our Articles of Association that would have the effect of delaying, deferring or preventing a change of control over the Company. Art. 10(2) to (3) of the Public Takeover Bids Law apply to the Company.

Selling Shareholder

Namsen, the Company's majority shareholder, as the Selling Shareholder, is offering for sale up to 3,500,000 Sale Shares in the Offering. Moreover, in connection with the Offering the Selling Shareholder has granted ING, as the Global Coordinator and Bookrunner, on behalf of the Managers, the Over-allotment Option to make available additional 3,191,857 Overallotment Shares representing up to 15 per cent of the aggregate number of the Offer Shares available in the Offering (before any exercise of the Over-allotment Option). For further information see: "Placing and Underwriting – Over-allotment Option" and "Placing and Underwriting – Over-allotment and Stabilisation".

RELATED PARTY TRANSACTIONS

In the ordinary course of business the Company, Group Subsidiaries and other related parties thereof, including the members of the Board of Directors, enter into transactions with related parties as defined in Regulation (EC) no 1606/2002 (IAS 24).

While some of our related party transactions, in particular loans granted to management, have been carried out on terms not necessarily available to third parties, they have been restricted solely to employees and granted as a form of bonus. The management believes the following related party transactions to be relevant:

Loan Agreement with Evergreen Financial Limited

On 26 November, 2006, Evergreen Financial Limited, as the lender, entered into a loan agreement with the Company to extend a loan of a total maximum amount of €5,703,371 to be used for the acquisition of Evrotek production assets and trademark "Stozhar". The loan final repayment date is December 31, 2008, but it may be repaid earlier. The principal amount of the loan does not bear any interest. In the event of late repayment the borrower shall pay the interest at the rate of EUROBOR + 4% per annum, payable weekly. As security for the loan provided by Evergreen Financial Limited, Mr. Andrey Verevskyy issued a personal guarantee. In accordance with the arrangements between the parties, the loan must be repaid by the Company before the Selling Shareholder exercises the Call Option. Therefore, the loan facility will be repaid before the Settlement Date. Please see: *"Our Business – Material Contracts – Agreements relating to Shares in the Company"* and *"Principal Shareholders and Selling Shareholder"*.

Agreements relating to Shares in the Company

For information on the Put and Call Option Agreement see *"Our Business – Material Contracts – Agreements relating to Shares in the Company – Put and Call option agreement"* and on the Fiduciary Escrow Agreements see *"Our Business – Material Contracts – Agreements relating to Shares in the Company – Fiduciary escrow agreement"*.

Agreements with members of the Board of Directors and the Management Team members

For information on service contracts, employment contracts and contracts of a similar nature entered into with members of the Board of Directors and with the Management Team members see *"Management and Corporate Governance – Service Contracts and Remuneration"*.

The following unsecured loans have been granted to the Management Team members by our Group Subsidiaries:

	The Lender	Date of the Agreement	Loan Amount	Interest Rate (per annum)	Repayment Date	Outstanding Loan Amount as at 30 September 2007
Victoria Lukyanenko	Kernel Trade	12 June 2007	US\$30,000	no	31 December 2007	US\$30,000
Natalya Khvostova	Kernel Trade	26 May 2006	US\$180,000	no	26 May 2009	US\$70,380

Agreements with Relatives

Mr. Ruslan Verevskyy, a relative of the Chairman of the Board of Directors, is employed by the Group under a service contract containing standard provisions. Moreover, Mr. Ruslan Verevskyy has provided security for the loan facility granted by Ukrsibbank to Kernel Trade. See: *"Our Business – Material Contracts – Financing Agreements"*.

DESCRIPTION OF OUR SHARES AND CORPORATE RIGHTS AND OBLIGATIONS

Set forth below is the information concerning our share capital and related summary information concerning the material provisions of our Articles of Association and applicable Luxembourg law. Because it is a summary, it does not contain all of the information in the Articles of Association and is qualified in its entirety by reference to our Articles of Association which are attached hereto as Annex II and the Companies' Act 1915. See also "Management and Corporate Governance".

Our Share Capital

Since the incorporation of the Company our share capital has comprised one class of shares, giving the same rights and obligations to our shareholders. Our Shares are issued under Luxembourg law and are subject to the provisions of the Articles of Association, the Companies' Act 1915 and all other applicable laws. The Shares are in bearer form, however, in accordance with the Articles of Association, shares issued by the Company may take the form of registered or bearer shares. Shareholders can sell or transfer Shares subject to the relevant statutory limitations and contractual restrictions, if any. Our Articles of Association do not provide for any restrictions or limitation on the transfer of Shares. Our Shares are without nominal value. US\$ is the currency of our authorised share capital.

As at July 1, 2006 our issued and fully paid up share capital was €800,000 divided into 8,000 registered shares with a nominal value of €100 each, whereas as at June 30, 2007 our issued and fully paid up share capital was US\$1,232,368.02 divided into 9,334 registered shares. As at June 30, 2007, there was no authorised capital created.

As of the date of this Prospectus our authorized share capital is US\$469,473.53, divided into 17,779,048 Shares, without indication of nominal value. Our issued share capital as of the date of this Prospectus is US\$1,232,368.02, divided into 46,670,000 Shares without indication of nominal value each. All of the issued Shares are paid up in full.

In connection with the Offering, our Board of Directors will issue up to 17,779,048 New Shares, under exclusion of pre-emptive rights of the existing shareholders (as contemplated by article 32–3 (5) of the Companies' Act 1915).

For information on the history of our share capital, please see "General Information about the Company – Corporate Resolutions and Share Capital".

Voting Rights

At the General Meeting of Shareholders, each Share confers the right to cast one vote. Each shareholder is entitled to attend the General Meeting of Shareholders either in person or through a proxy attending the meeting in person, and to address such meeting and exercise voting rights, in accordance with our Articles of Association.

The annual General Meeting of Shareholders shall be held each year on 16 October at 5 p.m. at the registered office of the Company or at the place indicated in the convening notice (Central European Time). General Meetings of Shareholders may be convened by the Board of Directors. Shareholders that represent alone or in aggregate at least 10% of our issued share capital may, pursuant to the Companies' Act 1915, request the Board of Directors to convene a General Meeting of Shareholders, the request being made in writing with an indication of the agenda. The Board of Directors must then convene the General Meeting of Shareholders within a period of one month starting on the date of receipt of the written request from the Shareholders. An extraordinary General Meeting of Shareholders can be held whenever the Board of Directors deems it necessary. The Board of Directors shall determine the items on the agenda of such meeting.

At the annual General Meeting of Shareholders, the shareholders shall consider the following matters:

- written annual report prepared by the Board of Directors;
- written report established by the independent auditor (*réviseur d'entreprises*);
- adoption of the annual accounts;
- the Company's reserves and dividend policy and any proposal to pay dividends;
- in connection with the adoption of the annual report, a formal release of the Board of Directors from legal liability under Luxembourg law for their business role over the previous year;
- appointment and dismissal of the Board of Directors' members; and
- any proposals placed on the agenda by the Board of Directors.

Unless otherwise required by the Articles of Association or Luxembourg law, all resolutions of the General Meeting of Shareholders shall in principle be adopted by a simple majority of votes cast, no quorum being required.

However, a quorum of half of the nominal share capital of the Company and a supermajority of two-thirds of votes cast are required in respect of certain matters, some of them being listed below. If the quorum requirement of half of the nominal share capital of the Company is not met at the first General Meeting of Shareholders, then the shareholders may be re-convened to a second General Meeting of Shareholders. No quorum is required in respect of such meeting and the resolutions are adopted by a supermajority of two-thirds of the votes cast. The matters reserved to such General Meeting of Shareholders are, amongst others, the following:

- the creation of an authorised share capital and within such authorisation, the authorisation granted to the Board of Directors to limit or waive the pre-emptive rights of the shareholders;
- the increase or reduction of the Company's share capital; and
- the voluntary dissolution of the Company.

Notices for every General Meeting of Shareholders shall be published twice, with a minimal interval of eight (8) days, the last notice having to be published eight days before the General Meeting of Shareholders in a Luxembourg national daily newspaper and the Luxembourg official gazette. The convening notices shall also be sent to the registered shareholders of the Company by registered mail at least eight days before the General Meeting of Shareholders. In addition, the shareholders' meetings shall be called in the manner used for communicating with investors on the WSE. Furthermore, information on the convening and the date of the General Meeting of Shareholders will be available on our website at www.kernel.ua.

A shareholder shall have the right to vote Shares that are subject to a right of usufruct or a right of pledge. The usufructuary or the pledgee shall, however, have the right to vote Shares if so determined upon the establishment of the usufruct or pledge.

All shares in the Company carry the same voting rights.

Dividends and Other Distributions

In accordance with the Articles of Association of the Company, every year five per cent (5%) of the net profit of the Company will be set aside in order to build up the legal reserve. This deduction ceases to be compulsory when the legal reserve amounts to ten per cent (10%) of the issued share capital. The remaining balance of the net profit will be at the disposal of the General Meeting of Shareholders. Dividends, when payable, will be distributed at the time and place fixed by the Board of Directors within the limits of the decision of the General Meeting of Shareholders. Furthermore, interim dividends may be paid by the Board of Directors within the conditions provided for by the Companies' Act 1915. The General Meeting of Shareholders may decide to assign profits and distributable reserves to the reimbursements of the capital without reducing the corporate capital.

Distributions are made to shareholders *pro rata* to the aggregate amount of Shares held by each shareholder.

Distributions that have not been claimed within ten years as from the date that they have become available shall lapse in favour of the Company. See also "*Dividends and Dividend Policy*" and "*Certain and Polish Securities Markets Regulations and Procedures and the Warsaw Stock Exchange – Dividend Payments. Paying Agent*".

Specific procedures

More information about voting and dividend distribution procedures applicable in connection with listing of the Shares on WSE is included in "*Certain Luxembourg and Polish Securities Markets Regulations and Procedures and the Warsaw Stock Exchange – Voting at the General Meetings of Shareholders*" below.

Form and Transfer of Shares

Our Shares are in bearer form. More information about transfer of our Shares applicable in connection with listing of the Shares on WSE is included in "*Certain Luxembourg and Polish Securities Markets Regulations and Procedures*" below.

Bearer shares

Under Luxembourg law, the ownership of bearer shares is established by possession of the bearer certificate. To be valid, a bearer share shall be signed by at least two Directors and must contain the following information:

- date of the constitutive instrument of the Company and the date of its publication;
- capital of the Company, number and type of Shares as well as the nominal value of the Shares;
- brief description of the contributions made to the Company and the conditions on which they are made;
- any special advantages conferred upon the founders;
- duration of the Company; and
- the day and time of the annual General Meeting of Shareholders and the municipality in which it is to be held.

One or more bearer shares can be represented by a single certificate, which shall contain the identification number of each share represented by such certificate.

Registered shares

A register of registered shares will be kept at the registered office of the Company, where it will be available for inspection by any shareholder. Ownership of registered shares will exclusively be established by an entry in this register of registered shares.

Where Shares are recorded in the register of registered shares on behalf of one or more persons in the name of a professional depository of securities or any other depository (such systems, professionals or other depositories being referred to hereinafter as "Depositories")

or of a sub-depository designated by one or more Depositories, the Company – subject to it having received from the Depository with whom those shares are kept, an attestation in proper form – will permit those persons to exercise the rights attaching to those shares, including admission to and voting at general meetings, and shall consider those persons to be shareholders. The Board of Directors may determine the formal requirements with which such attestations must comply. Notwithstanding the foregoing, the Company will make payments, by way of dividends or otherwise, in cash, Shares or other assets only into the hands of the Depository or sub-depository recorded in the register of registered shares or in accordance with their instructions, and that payment shall release the Company.

Certificates confirming that an entry has been made in the register of registered shares will be provided to the shareholders at their request. Certificates representing the Shares in registered form may be issued but they do not constitute conclusive evidence. Title to the Shares in registered form passes solely upon the registration of the transfer in the register of registered shares of the holders of the Shares.

Without prejudice to the modalities for the transfer of fungible shares in the case provided for in the paragraph above, the transfer of Shares shall be made by a written declaration of transfer inscribed in the register of registered shares and dated and signed by the transferor and the transferee, or by their agents provided that they can prove they have the necessary powers. Transfers may also be carried out by handing the share certificate in to the Company endorsed for the benefit of the transferee. The Company may accept any other document, instrument, writing or correspondence as sufficient proof of the transfer.

According to article 40 of the Companies' Act 1915, transfers in respect of shares in registered form shall be carried out by means of a declaration of transfer entered into the register of registered shares, dated and signed by the transferor and the transferee or by their duly authorised representatives, and in accordance with the rules on the assignment of claims laid down in article 1690 of the Luxembourg Civil code. The Company may accept and enter in the register of registered shares a transfer on the basis of correspondence or other documents recording the agreement between the transferor and the transferee.

Articles 39 and 40 of the Companies' Act 1915 provide that ownership of registered shares shall be established by an entry in a register of the registered shares, which shall be maintained at the registered office of the Company. The register shall specify (i) the precise designation of each shareholder and the number of shares or fractional shares held by each shareholder; (ii) the payments made on the shares; and (iii) transfers and the dates thereof or conversion of the shares into shares in bearer form (as provided for in the Articles of Association).

Issue of Shares and Pre-emptive Rights

Our Shares may be issued pursuant to a resolution of the General Meeting of Shareholders. The General Meeting of Shareholders may also delegate the authority to issue new Shares to the Board of Directors for a renewable period of maximum five years. The General Meeting of Shareholders, pursuant to its meeting held in Luxembourg on October 12, 2007, authorised the Board of Directors to issue, from time to time, a definite number of up to 17,779,048 Shares, up to the current authorised share capital of US\$469,473.53 for a limited period to expire right after the closing of the initial public offering of Shares in Poland or the closing of any other offering of the Shares, whichever event occurs first, in any case no later than a term of five (5) years from the date of publication of the authorisation in *Mémorial C*.

Each holder of Shares shall have a pre-emptive right to subscribe for any issue of Shares *pro rata* to the aggregate amount of such holder's existing holding of the Shares. Each holder shall, however, have no pre-emptive right on Shares issued for a non-cash contribution. In addition, each shareholder shall have no pre-emptive right with respect to a person who exercises a previously acquired right to subscribe for Shares.

Pre-emptive rights may be restricted or excluded by a resolution of the General Meeting of Shareholders, or by the Board of Directors if so delegated by the General Meeting of Shareholders within the scope of the authorised capital. This shall apply *mutatis mutandis* to the granting of rights to subscribe for Shares, but shall not be applicable to the issue of Shares to persons exercising a previously granted right to subscribe for Shares.

At present, the Company does not have any plans regarding future issues of Shares after the Offering.

Repurchase of our Own Shares

We may acquire fully paid-up Shares for consideration, subject to certain provisions of the Companies' Act 1915 and our Articles of Association, if (i) our shareholders' equity minus the payment required to make the acquisition does not fall below the sum of the called-up and paid-up share capital and any statutory reserves and (ii) we and our direct subsidiaries would thereafter not hold Shares with an aggregate nominal value exceeding ten per cent (10%) of the Company's issued share capital.

An acquisition of Shares by the Board of Directors for consideration should be authorised by the General Meeting of Shareholders. Such authorisation may apply for a maximum period of eighteen (18) months and must specify the number of Shares that may be acquired, the manner of this acquisition and the price limits within which the Shares may be acquired. Any Shares held by us, or by our direct or indirect subsidiaries, in our own capital may not be voted or counted for quorum purposes.

In principle, we have no obligation to sell or cancel the Shares held by us in treasury. However, according to the Companies' Act 1915, we shall either sell or cancel the Shares that we keep in treasury after three (3) years as from the date of their acquisition if the Shares were acquired under certain circumstances, such as the acquisition of the Shares as a result of a merger or a de-merger.

Capital Reduction

The General Meeting of Shareholders may, subject to Luxembourg law and our Articles of Association, resolve to reduce the issued share capital.

Annual Accounts

Annually the Board of Directors is required to prepare and approve the statutory financial statements and/or the consolidated financial statements, which must be accompanied by an annual report and an auditor's report.

The financial statements, the annual report and the auditor's report must be made available to the shareholders for review at the Company's registered office, at least fifteen (15) days before the annual General Meeting of Shareholders. The financial statements shall be approved by the annual General Meeting of Shareholders.

Liquidation Rights

In the event of our dissolution, we must be liquidated according to applicable Luxembourg law. The balance of our equity remaining after the payment of debts (and the cost of liquidation) shall be distributed to our shareholders *pro rata* to the aggregate amount of Shares held by each shareholder.

Luxembourg Mandatory Takeover Bids

The Luxembourg law on public takeover dated 19 May 2006 (the "Public Takeover Law") applies to the securities of a Luxembourg company, where all or some of those securities are admitted to trading on a regulated market in one or more Member State of the European Union or the European Economic Area. The term "securities" refers to the shares and the global depository receipts.

As far as the competent authority is concerned, the Public Takeover Law states that if the offeree company's securities are not admitted to trading on a regulated market in the Member State in which the company has its registered office, the competent authority to supervise the bid shall be the authority of the Member State on the regulated market of which the company's securities are admitted to trading, *i.e.* in the present case the competent financial authority in Poland.

Matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the offeror's decision to make a bid, the content of the offer document and the disclosure of the bid shall be dealt with in accordance with the rules of the Member State of the competent authority, *i.e.*, the competent financial authority in Poland.

In matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the bid, the applicable rules and the competent authority shall be those of the Member State where the offeree company has its registered office, *i.e.* the CSSF which is the competent financial authority in Luxembourg.

Squeeze-out Rules

No general principle of squeeze-out is set out under Luxembourg law. However, under the Public Takeover Law if any natural or legal person holds a total of at least 95% of a company's share capital carrying voting rights and 95% of such company's voting rights as a result of a public bid regarding the shares of a target company, such person may acquire the remaining shares in the target company by exercising a squeeze-out against the holders of the remaining shares. The price shall take the same form as the consideration offered in the bid or shall be in cash. Cash shall be offered at least as an alternative. Following a voluntary bid, the consideration offered in the bid shall be presumed to be fair where, through acceptance of the bid, the bidder has acquired securities representing not less than 90% of the capital carrying voting rights comprised in the bid. Following a mandatory bid, the consideration offered in the bid is presumed to be fair. The CSSF shall ensure that a fair price is guaranteed. The squeeze-out must be exercised by the bidder no later than three months after the end of the period of acceptance of the bid.

Sell-out Rules

According to the Public Takeover Law, if any natural or legal person, alone or together with persons acting in concert with it, hold(s) a total of at least 90% of a company's share capital carrying voting rights and 90% of such company's voting rights as a result of a public bid regarding the shares of a target company, any shareholder may exercise a sell-out with respect to his/her shares. Such right must be exercised no later than three months after the end of the period of acceptance of the bid. The price shall be determined in the same manner as the one described above in respect of the squeeze-out procedure.

Voting at the General Meetings of Shareholders

For a general description of the provisions of Luxembourg law relating to the invitation to, and participation in shareholders' meetings, please see "*Voting Rights*" above.

According to the Companies' Act 1915 and the Articles of Association, in principle, General Meetings of Shareholders shall be held in the place where the Company's registered office is situated, or any other place within Luxembourg as may be specified in the notices convening the General Meeting of Shareholders.

Shareholders may take part in the General Meeting of Shareholders and vote in person, or by a proxy attending the meeting in person. If so specified in the notice calling the General Meeting of Shareholders, any shareholder may participate in any General Meeting of Shareholders by conference call, by videoconference or by other similar means of communication allowing (i) all the persons taking part in the meeting to hear and speak to one another, (ii) all the persons taking part at the meeting to be identified and (iii) effective participation in the meeting being broadcasted without disruption.

Shareholders who attend the General Meeting of Shareholders by conference call, by videoconference or by other similar means of communication may vote by remote transmission in accordance with the procedure set forth by the Board of Directors in the notice convening the General Meeting of Shareholders.

No resolution of the General Meeting of Shareholders may be adopted on a matter not included in the agenda, except where the entire share capital is represented at the General Meeting of Shareholders.

Each shareholder may take part in the General Meeting of Shareholders personally or may appoint an individual proxy and vote through such a proxy. The Board of Directors may also designate a proxy to attend and vote at the General Meeting of Shareholders on behalf of shareholders. The Company will bear the costs of the proxy indicated by the Company. The shareholders recorded in the Company's register of registered shares shall receive at their place of domicile all the documents relating to the General Meeting of Shareholders and, in particular, the notice of the meeting with the agenda, the proposed resolutions together with a justification from the Board of Directors as well as (i) a form that allows them to indicate their intention to attend the General Meeting of Shareholders in person or by proxy and (ii) a form that allows them to vote by a proxy designated by the Company, if any. The shareholders not recorded in the Company's register of registered shares must, upon the publication of the notice, contact the financial intermediary holding the shares for their account in order to receive a document confirming their shareholding in the Company. They can also download from the Company's website all the documents relating to the meeting, together with a form that allows them to indicate their intention to attend the General Meeting of Shareholders in person or by proxy and a form that allows them to vote by a proxy designated by the Company, if such proxy has been designated by the Company; said form must be accompanied by a document confirming their shareholding in the Company, issued by the authorised entities in accordance with applicable securities regulations of a jurisdiction where the regulated market on which the Shares are listed, is located. The shareholder may on each occasion, both before and in the middle of the General Meeting of Shareholders, revoke the authorisation given to the proxy.

The proxy designated by the Company will follow the voting instructions of a shareholder that has granted the authorization to him. The shareholder may also abstain from voting in particular resolutions. Abstentions will be excluded from the vote, but they will count for purposes of determining whether a quorum is present. The proxy may be revoked at any time prior to its exercise by a revocation notice mailed or delivered in person to the Company's registered office. The proxy should also receive the revocation notice. A Shareholder may also revoke the voting instruction by voting in person at the General Meeting of Shareholders. In the event that during the General Meeting of Shareholders the content of a draft resolution has been changed, the proxy will vote in a manner which, in his/her opinion, is the closest to the intentions of the principal. If due to a mistake or malicious intentions a proxy while voting on behalf of the shareholder does not follow the shareholder's instruction, such vote will be valid and the shareholder may demand the redress of damages from such a proxy. Even though the Company designated a proxy, a shareholder may attend the General Meeting of Shareholders and vote on it by itself.

The shareholders that are not registered in the Company's register of registered shares may request a copy of the invitation to the General Meeting of Shareholders, together with any accompanying documents, free of charge, by sending a request to the investors relations office of the Company at its registered office.

We may also decide to allow shareholders to participate in the General Meetings of Shareholders by videoconference or similar means of telecommunication allowing their identification, subject to technical and legal conditions allowing for proper identification of the shareholders and exercise of the voting rights. Detailed instructions on participating in General Meetings by means of telecommunication will be provided to the shareholders at the time of convening the relevant General Meeting of Shareholders.

Should we decide to introduce a different voting procedure for the shareholders in the future, we will publicise such details in the form of a press release and in a manner consistent with applicable laws.

Pre-emptive Rights

For a general description of the provisions of Luxembourg law relating to the execution of subscription rights, see *"Issue of Shares and Pre-emptive Rights"*.

If the Company decides to issue new Shares in the future and if the pre-emptive rights of existing shareholders are not waived then the Company will publish the decision by placing an announcement in the Luxembourg official gazette and in two newspapers published in Luxembourg. The announcement will specify the period in which the pre-emptive right may be exercised. Such period may not be shorter than 30 days from the date of publication in the Luxembourg official gazette. Luxembourg law does not provide for any procedure for determining the pre-emptive right exercise date and such date is always defined in the relevant resolution on the issue of shares. The announcement will also specify the details regarding procedure for exercise of the pre-emptive rights. The announcement will also be

published in Poland in the manner used for communicating with investors on the WSE. The pre-emptive right is exercised by placing an order with the Company and paying for the newly issued shares. Under Luxembourg law pre-emptive rights are transferable and tradable property rights.

Amendments to the Rights of Shareholders

Any amendments to the rights of shareholders require an amendment to the Articles of Association and are subject to the same quorum and majority requirements as for an extraordinary General Meeting of Shareholders. Any resolution to amend the Articles of Association must be taken before a Luxembourg notary and such amendments must be published in accordance with Luxembourg regulations. Our Articles of Association do not provide for any specific conditions that are more stringent than is required by law.

Challenging Resolutions of General Meetings of Shareholders

Under Luxembourg law and the conflict of law rules, a resolution of the general meeting of shareholders of a Luxembourg company may only be appealed to a Luxembourg court in accordance with the Luxembourg commercial and civil proceedings law.

Pursuant to Luxembourg law, a resolution of the general meeting of shareholders may be appealed by each shareholder regardless of the number of shares held by such shareholder if the resolution is, amongst others, (i) in conflict with the statutory law, the provisions of the Articles of Association or the procedure for taking resolutions, (ii) made to the sole benefit of the majority shareholder and not in the Company's best interest (*abus de majorité*).

The appeal should be filed with a district court having jurisdiction over the relevant company's registered office. The statute of limitation to file an appeal is ten years or thirty years as of the day of passing of the resolution, the duration of such period depending on, amongst other things, the nature of the rule that has been breached.

As regards the Company, the competent courts are the Courts of Luxembourg-City, Grand-Duchy of Luxembourg. The plaintiff should show that it has a legal interest in appealing against the resolution. Under Luxembourg commercial proceedings rules, the appeal may be made in the French, Luxembourg or German language and can be made by an attorney qualified to practice in the Grand-Duchy of Luxembourg. Generally, the appeal will be subject to court fees. If the court finds in favour of the appealing shareholder, then the resolution will be nullified.

Similarly, under Luxembourg law each shareholder also has a right to appeal any action of the Board of Directors on the same grounds as specified above. The same appeal procedure will apply.

CERTAIN LUXEMBOURG AND POLISH SECURITIES MARKET REGULATIONS AND PROCEDURES AND THE WARSAW STOCK EXCHANGE

Based on this Prospectus, we intend to apply for admission to trading, and to list all our Shares issued and representing the entire corporate capital of the Company (*i.e.*, up to 64,449,048 Shares), including the Offer Shares, on the main market of the WSE. As a result, we and our shareholders will be subject to certain Polish securities and capital market regulations. Moreover, our Company, being an entity incorporated under the laws of Luxembourg, and our shareholders will be also subject to certain aspects of Luxembourg securities and capital market regulations and supervision of relevant regulatory authorities, in particular the CSSF and the PFSA, as the case may be.

The information set out below describes certain aspects of Luxembourg and Polish securities market regulations relevant in connection with the acquisition, holding and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg and Polish securities market regulatory considerations that may be relevant to a decision to acquire, hold or dispose of our Shares. Each prospective investor should consult a professional legal adviser regarding legal consequences of acquiring, holding and disposing of our Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

European Union Tender Offer Regulations

In the absence of regulatory guidance, a clear resolution to conflicts of laws issues relating to various tender offer regulatory regimes cannot be provided. The relevant conflict of laws provisions of the Takeover Directive explicitly state that if the offeree company's shares are not admitted to trading on a regulated market in the Member State in which the company has its registered office, and if the offeree company's shares are admitted to trading on regulated markets in more than one Member State, the authority competent to supervise the bid shall be that of the Member State on the market on which the shares were first admitted to trading, or if first admitted to trading on more markets simultaneously, the offeree company should determine which of the supervisory authorities of those Member States shall be the authority competent to supervise the bid by notifying those regulated markets and their supervisory authorities on the first day of trading. In the case of absence of such notification the supervisory authorities of the Member States shall agree on the competent authority to supervise the bid.

In respect of governing law, matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the Manager's decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be dealt with in accordance with the rules of the Member State of the competent authority. In matters relating to the information to be provided to the employees of the offeree company and in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the applicable rules and the competent authority shall be those of the Member State in which the offeree company has its registered office.

Subject to the due implementation of the Takeover Directive in Poland and with regard to the fact that the Takeover Directive will be implemented with a delay into the Polish regulation, the Company expect that an offeree company having its registered office in Luxembourg and the shares of which are admitted to trading on the Polish regulated market without being admitted to trading on the Luxembourg regulated market, will have the option to determine the Polish authority competent to supervise the bid by declaring the regulated market and its supervisory authority. Notwithstanding the above in matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the Luxembourg laws shall apply and the Luxembourg authority shall be competent.

Luxembourg and Polish Tender Offer Regulations

Luxembourg tender offer obligations

The Takeover Directive and the Public Takeovers Law, which has implemented the Takeover Directive into Luxembourg law, provide that the law applicable to a takeover bid for the Company (and related questions) would be the law of the EU Member State (or an EEA Member State) in which the shares are admitted to trading on a regulated market (as determined by Directive 2004/39/EC). On the other hand, provisions regarding company law (and related questions), such as for instance the question relating to the percentage of voting rights which give control over a company, will exclusively be governed by the applicable rules of the EU Member State in which the company in question has its registered office. It follows that applicable Luxembourg provisions would apply in that respect to the Company. Please refer to "*Description of the Company's Shares – Luxembourg Mandatory Takeover Bids/Squeeze-out/Sell-out Rules*".

Polish tender offer regulations

Pursuant to Article 72 of the Polish Public Offerings Act, any acquisition of shares in a public company in secondary trading and within a period of less than 60 days by a shareholder who holds shares entitling it to less than 33% votes at a general meeting of shareholders in a public company, leading to the increase of its share in the total number of voting rights by more than 10%, shall be effected exclusively through a public tender offer.

Furthermore, any acquisition of shares in a public company by a shareholder who holds shares entitling it to at least 33% of votes at a general meeting of shareholders, in secondary trading and within a period of less than 12 months, leading to the increase of its share in the total

number of voting rights by more than 5% shall be effected exclusively through a public tender offer. However, as a rule, if the indicated thresholds are exceeded due to the occurrence of events other than the legal action the shareholder must sell the appropriate number of shares within three months from the date of the event so that the number of votes at the general meeting of shareholders to which the shareholder is entitled is no more than 10% or 5% of votes, respectively. Additionally,

- (a) a shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes; and
- (b) a shareholder that wishes to cross the 66% voting rights threshold is obliged to launch a public tender for all the remaining shares in a listed company.

However, if the indicated thresholds are exceeded due to acquisition of shares in a public offering, in-kind contribution, merger or division of a company, amendments to the articles of incorporation of the company or occurrence of certain other events, the shareholder must either launch a public tender as described above within three months, or sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% or 66% of votes, respectively.

The regulations set a number of detailed conditions to be followed in connection with a tender offer, including without limitation the rules for determining the tender price, required security and settlement.

Luxembourg Securities Regulations

Disclosure obligations

The Luxembourg Act dated 4 December 1992 relating to the information to be published when acquiring or disposing of an important participation in a listed company, as amended (the "Luxembourg Disclosure Act"), requires persons, directly or indirectly, acquiring or disposing of shares in a public limited liability company (*société anonyme*) incorporated under the laws of Luxembourg and whose shares are listed on a stock exchange within the European Union (the "Target Company") to give written notice of such acquisition or disposal simultaneously to the Target Company and the CSSF in certain circumstances. Article 4 of the Luxembourg Disclosure Act provides that such written notice must be given where, as a result of an acquisition or disposal of the shares in the Target Company, the purchaser's or seller's percentage of voting rights reaches or exceeds one of the thresholds of 10%, 20%, $\frac{1}{3}$, 50% and $\frac{2}{3}$ of the total voting rights or falls below these thresholds.

A violation of the Luxembourg Disclosure Act triggers a fine of €250 to €25,000. Furthermore, the voting rights attached to the shares of the Target Company owned by any person who has failed to duly notify the Target Company and the CSSF any circumstances described above pursuant to the Luxembourg Disclosure Act are suspended as long as sufficient information regarding the acquisition or disposal of the shares in the Target Company is not duly provided and published in accordance with the Luxembourg Disclosure Act. In addition, upon request of the Target Company, a shareholder in the Target Company or a third party having an interest, or a Luxembourg court (if competent) may nullify a resolution adopted by the general meeting of the shareholders of the Target Company, if it determines that such resolution has only been adopted through the exercise of the suspended voting rights.

As at the date of this prospectus, the Transparency Directive (Directive 2004/1009/EC of the European Parliament and of the Council of 15 December, 2004, on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC) has not yet been implemented in Luxembourg. Despite the fact that the date set out in the Transparency Directive for its implementation into national law was January 20, 2007, it is not expected that the implementing law will be enacted in Luxembourg before the end of 2007.

The current continuous and ad hoc information obligations to which issuers whose home Member State is Luxembourg and whose securities are listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange are subject, will be modified.

Provisions on insider dealing and market manipulation

The Luxembourg Act dated 9 May 2006 relating to market abuses (the "Market Abuse Act") provides for two main offences, namely insider dealing and market manipulation. The prohibitions and obligations of the Market Abuse Act will only apply to actions carried out in Luxembourg as the shares will be admitted to trading on a regulated market operating in Poland.

Pursuant to the Market Abuse Act, inside information means information of a precise nature, which has not been made public, which relates, directly or indirectly, to financial instruments (including the Shares) or their issuers and which, if it were made public, would be likely to have a significant impact on the price of those financial instruments ("Inside Information").

Any person who has acquired Inside Information by virtue of (i) being a member of the administration, management or supervisory body of the issuer, (ii) holding capital in the issuer, (iii) having access to the Inside Information in the course of their employment, profession or duties or (iv) criminal activities, is potentially subject to the prohibition mentioned below.

Article 8 of the Market Abuse Act prohibits any person who possesses or has access to Inside Information from:

- using that information to buy or sell or trying to buy or sell (for their own account or the account of someone else), either directly or indirectly, financial instruments to which the Inside Information relates; and

- communicating that information to another person unless this is done in the normal course of their employment, profession or duties; or
- advising another to buy or sell on the basis of the Inside Information (together "Insider Dealing").

The CSSF co-operates with other Member States' regulatory authorities to eliminate instances of cross-border market abuse, for example by providing them with requested assistance and/or information. The CSSF may, amongst other things, organize on-site investigations and suspend trading of financial instruments on the regulated market. The Market Abuse Act imposes on persons who have committed Insider Dealing imprisonment for between three months and two years and a fine of a sum between €125 and €1,500,000. Recipients of Inside Information risk a shorter period of imprisonment of between eight days and one year and a fine from €125 to €150,000.

The Warsaw Stock Exchange

The WSE operates one of the two regulated markets in Poland within the meaning of the MiFID and is the sole exchange where shares may be traded. The other regulated market (MTS-CeTO) concentrates on bond trading and OTC transactions. The WSE is a private joint-stock company and is 98.8 per cent controlled by the Polish State. Members of the WSE include banks and Polish and international brokers.

The WSE is one of the most developing regulated market in the EU, which is shown by the number of newly-listed companies on the floor (as at 22 October 2007, there were 59 debuts). In this respect, it is second only to the London Stock Exchange. More often it is chosen by foreign companies, which perceived it as the heart of the financial market in the region.

Shares listed on the WSE may be traded in a continuous price-setting system or in the single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: Basic and Parallel, the latter being for smaller, less liquid issuers. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. The Basic Market includes a Plus segment, and the Parallel Market includes a Prim segment. The Plus segment of the Basic Market represents the highest ranking market segment of the Warsaw Stock Exchange and is comprised of stocks of companies that agree to fulfil more stringent reporting, quality and disclosure requirements. Settlement of all transactions executed on the WSE is handled by the National Depository of Securities, a joint-stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland)

As of October 22, 2007, shares of 331 companies were listed on the WSE.

Prices for shares on the WSE are set in PLN.

Regulation of the Polish Securities Market

We intend to list our Shares on the WSE and will therefore be subject to certain Polish laws and regulations, such as the Polish Public Offerings Act, the Trading in Financial Investments Act and secondary regulations. Violation of the obligations summarised below may lead to civil, criminal and/or administrative sanctions.

Shareholders' disclosure obligations

The Polish Public Offerings Act provides for disclosure obligations when acquiring or selling shares in a public company. In accordance with Article 69 of the Polish Public Offerings Act an investor must, within four days from the date the appropriate entry was made on its securities account, notify the Polish PFSA and the company concerned (and the company concerned should reveal that information to the public through an information agency and the stock exchange) about:

- reaching or exceeding 5, 10, 20, 25, 33, 50 or 75 per cent of the total number of voting rights at the general shareholders' meeting of the company;
- selling shares owned by the investor so that they constitute less than 5, 10, 20, 25, 33, 50 or 75 per cent of the total number of voting rights at the general shareholders' meeting;
- a change in the number of shares currently owned by the investor by at least two per cent if it currently holds more than 10 per cent (but less than 33 per cent) of the voting rights at the general shareholders' meeting;
- a change in the number of shares currently owned by the investor by at least one per cent if it currently holds more than 33 per cent of the voting rights at the general shareholders' meeting.

The notification shall include information on the date and type of transaction resulting in the change in the number of shares held, the number of shares held prior to the transaction, the number of shares held after the transaction as well as information concerning further acquisitions or disposals of shares during the next 12 months, if the notification is made in connection with reaching or exceeding the 10% threshold.

The Company's disclosure obligations

Once the Shares will be admitted to trading on the WSE, the Company will be required to comply with disclosure obligations regarding the publication of information under Polish law, including:

- the disclosure of inside information (e.g. any events that may substantially affect the price or the value of the shares); and
- publication of current and periodic information,

- publication of large shareholding notifications received from shareholders pursuant to the Polish Public Offerings Act, and
- disclosure of transactions undertaken by the Company's insiders.

In the case of an issuer listed on the WSE, both inside information and current and periodic information should be disclosed to the PFSA, the WSE and, after 20 minutes, to the public via the ESPI system, which is the electronic reporting system in Poland with regard to the information and data which the Company is obliged to publish in the form of current reports in accordance with Polish regulations.

The regulations set a number of other disclosure obligations on the Company, including, without limitation, an obligation to draw up and maintain a list of persons with access to inside information, and an obligation to disclose information on certain transactions effected by the Board of Directors. Additionally, under Article 10 of the Polish Public Offerings Act, the Company is obliged to provide the PFSA with information concerning the closing of the subscription of securities being subject to a public offer within 14 days following such closing.

Upon the implementation of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC in Poland the scope and content of disclosure obligations imposed on the Company will be regulated by Luxembourg law. In that event the Company may decide whether it will publish its current and periodic information only in English or also in the Polish language.

Polish provisions on insider dealing and market manipulation

Insider trading

The Trading in Financial Instruments Act defines "insider information" as specific information relating to, directly or indirectly, the issuer, financial instruments (including securities) or acquisition or disposal of such financial instruments, if such information has not been disclosed to the public and, if so disclosed, it could materially influence the price of such financial instruments (or the price of derivative rights arising from such financial instruments).

Subject to certain exceptions, the issuer is obliged to disclose the insider information promptly upon the occurrence of events or circumstances which require the disclosure, or upon becoming aware of such events or circumstances, but not later than within 24 hours. The issuer is also obliged to disclose such information on its website, except for personal data of any persons to whom such information refers.

Subject to certain exceptions, any individual who acquires insider information as a result of his position in a company's governing bodies or as the owner of a company's shares, or as a result of his employment in such company, or any other similar legal relationship, is prohibited by law from using or disclosing such information to third parties. The above also applies to individuals who illegally obtain insider information or obtain such information in another manner, but should have known that such information was insider information.

Market manipulation

The Trading in Financial Instrument Act forbids share price manipulation, defined by reference to a number of activities, including, without limitation, taking actions of which effect could be misleading as to the actual demand, supply or price of the shares in question or actions involving placing orders or executing transactions that cause an artificial fixation of the share price, unless the grounds on which such actions were effected are legitimate and such actions have not infringed the established market trading rules. Manipulation may also include disseminating false or inaccurate information that may mislead investors, as well as placing orders or executing transactions in order to profit from investors having been misled as to the price or value of the shares in question.

Form and Transfer of our Shares

As at the date of this Prospectus, all our issued Shares are in bearer form. For information on Luxembourg regulations relating to the form and transfer of bearer and registered shares see: "*Description of our Shares and Corporate Rights and Obligations – Form and Transfer of our Shares*".

Book-entry form in Poland

Pursuant to the Public Offering Act, as a rule, securities which are offered in a public offering or admitted to trading on a regulated market in Poland, such as the WSE, exist in uncertificated form as of the date of their registration under the relevant depository agreement (dematerialization) with the NDS. In particular, before the commencement of a public offering or trading on a regulated market, an issuer of securities is obliged to conclude with the NDS (Krajowy Depozyt Papierow Wartosciowych S.A., with its registered seat in Warsaw, Książęca 4), an agreement to register therewith the securities offered in a public offering or to be traded on a regulated market.

Therefore, all Shares will be registered with the NDS and held by shareholders in book entry form through the NDS and its participants. No Shares in physical form will be issued to our shareholders. Transfer of Shares will take place in book entry form through the facilities of the NDS. Shareholding in the Company will be evidenced by share depository certificates issued at the request of the securities account holder by authorised entities operating its securities account. A share depository certificate confirms the title to exercise all rights arising from the securities which are not, or cannot be, exercised purely on the basis of entries in a securities account.

Dividend Payments. Paying Agent

Dividend payments and other payments made by the Company and relating to the Shares held with NDS shall be made through the NDS which is a Polish central clearinghouse and depository for securities with its seat at ul. Książęca 4, 00-498 Warsaw, Poland.

All payments due on Shares will be made in accordance with the rules and practices of the NDS, in the amount transferred by the Company to the NDS that will transfer the respective amounts to accounts of its respective participants, for the purpose of their further distribution to holders of securities accounts on which our Shares will be registered.

THE OFFERING AND PLAN OF DISTRIBUTION

General

We are offering for subscription up to 17,779,048 New Shares to be newly issued by us. In addition, our Selling Shareholder is offering for sale up to 3,500,000 Sale Shares, and up to 3,191,857 additional Over-allotment Shares in connection with the Over-allotment Option. The Offer Shares are being offered at the Offer Price, which shall be determined through a book-building process. In total, up to 21,279,048 Offer Shares (excluding the Overallotment Shares) are being offered in this Offering.

The Offering consists of a public offering in Poland and an international private placement to institutional investors in certain jurisdictions outside Poland. No public offering in Luxembourg will take place, although for the purpose of the public offering in Poland we have taken and will take certain actions in Luxembourg as our home Member State.

Corporate Resolutions

On October 16, 2007, our Board of Directors approved in principle to issue the New Shares. Our Board of Directors further approved the required application to the CSSF for approval of this Prospectus and its further notification to the PFSA for the purposes of conducting the public offering in Poland, the entering by us, the Selling Shareholder and the Managers into the Underwriting Agreement in respect of the Offering; the registration of the Shares, including the Offer Shares, with the NDS and the listing of all of the Shares issued in its share capital, including the Offer Shares, on the WSE; and the making of all other filings necessary or desirable in connection with this Offering. On October 16, 2007, the Board's resolutions mentioned above were approved by the General Meeting of Shareholders that, thereby, approved and gave its consent to the Offering and all the actions to be taken in connection therewith.

The Board of Directors further selected a pricing committee and delegated to it authority to determine, jointly with the Selling Shareholder, the final terms on which the Offer Shares will be offered, including: (i) the final number of Offer Shares offered, including the final number of the New Shares and, (ii) the final Offer Price. Upon the decision of the pricing committee, the Board of Directors will issue of the New Shares. For information on applicable selling restrictions in respect of the Offer Shares, please refer to "Selling Restrictions" and for information regarding the rights pertaining to the Shares, please refer to "Description of Our Shares and Corporate Rights and Obligations". Exclusion of the pre-emptive rights will be made for the benefit of the Company, its prospective shareholders and existing shareholders. It will allow for the increase of the investor-base in the Company and enable the Company to receive proceeds with a view to their utilisation for investment purposes.

Timetable of the Offering

The timetable below lists key dates relating to the Offering. All times and dates referred to in this timetable are based on Warsaw local time and may be adjusted by us. Should we decide to adjust the dates set out in the timetable, we will notify the CSSF, and the PFSA, and publish information on such fact in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland.

Announcement of the Price Range, if any	not later than 1 November 2007
Subscription by Institutional Investors and Book-building*	1–13 November 2007
Subscription by retail investors in Poland*	2–13 November 2007
Pricing and Allotment Date	not later than 14 November 2007
Announcement of the Offer Price and final number of Shares allotted to Investors	not later than 14 November 2007
Settlement Date	19 November 2007
Listing Date (listing of, and start of trading in, the Shares on the WSE)	on or around 23 November 2007

(*) Retail subscriptions will be accepted on the last day until 17.00 Warsaw time. Institutional subscriptions will be accepted and bookbuilding will finish on the same day at 18.00 Warsaw time.

Eligible Investors

The Offer Shares may be acquired in the Offering within the territory of Poland by individuals, which we refer to as Polish retail investors and by corporate entities (legal persons) and non-corporate entities, other than individuals, having their registered offices within the territory of Poland, which we refer to as Polish institutions.

In addition, we are offering the offered shares in a private placement to selected investors in certain jurisdictions outside Poland, where such an offering may be lawfully conducted. We refer to such investors, together with Polish institutions as "Institutional Investors".

We and the Selling Shareholder have not created separate tranches in this Offering for the various categories of investors. Consequently, we reserve the right to allocate the offered shares between such groups of investors at our and the Selling Shareholder's absolute discretion,

following consultation with the Manager. Should that happen, all of the Offer Shares may be subscribed solely by Institutional Investors or by retail investors, as the case may be.

All investors that intend to acquire any of the Offer Shares, and in particular Polish retail investors, should acquaint themselves with the relevant laws of their countries of residence prior to making a decision to subscribe for the offered shares.

Currency of the Offering

All monetary amounts used in this Offering will be expressed in PLN. In particular, the Offer Price and the price range (if any) will be set and the bookbuilding process carried out in PLN.

Maximum Offer Price

The maximum price at which the Offer Price may be set (the "Maximum Price") is PLN 50 per share. The Maximum Price does not necessarily reflect what the Offer Price will be in the Offering.

Price Range and Determination of the Offer Price

Prior to the start of subscription period, we may announce, after consulting with the Manager, an indicative price range for the Offering (the "Price Range"). The Price Range, if such is announced, will be announced through a press release and in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland. The maximum price in the Price Range, if announced, will not be higher than the Maximum Price and the Price Range will be expressed in PLN.

During the Subscription Period, a book-building process amongst Institutional Investors invited by the Managers will take place, during which such Institutional Investors interested in subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, not higher than the Maximum Price, which they will be willing to pay. Retail investors will not participate in the book-building process.

The final Offer Price will be determined jointly by us and the Selling Shareholder upon recommendation of the Managers and will not be higher than the Maximum Price. The Offer Price will take into account results of the book-building amongst the Institutional Investors. We will announce the Offer Price through a press release in Poland and in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland.

More specifically, in accordance with article 10 of the Prospectus Act 2005 and Art. 54 of the Public Offering Act, the Offer Price will be filed with the CSSF and the PFSA and publicised in the same manner as this Prospectus on or around 14 November 2007, in particular on the website of the Company at www.kernel.ua and the Listing Agent at www.ingsecurities.pl in accordance with article 16 of the Prospectus Act 2005.

The final Offer Price will be the same for the New Shares, for the Sale Shares and for the Overallotment Shares and for all categories of investors and will be set in PLN.

Final Number of the Offered Shares

The final number of the Offer Shares in this Offering will not be higher than 21,279,048 Offer Shares, which amount may be increased by additional up to 3,191,857 Over-Allotment Shares. When determining the final number of the Offer Shares, we and the Selling Shareholder will first seek to ensure that the placement of the New Shares yields approximately between US\$120 million and US\$160 million in order for us to utilise the proceeds as described under "*Use of Proceeds*".

Then the Selling Shareholder will sell such number of the Sale Shares as to ensure, subject to there being a sufficient demand for the Sale Shares at the level of the Offer Price which shall be satisfactory to the Selling Shareholder, that the number of Shares held by the Selling Shareholder after this Offering is completed, once the Call Option has been exercised and assuming exercise by the Global Coordinator and Bookrunner of the Overallotment Option in full, does not fall below 62 per cent of all our Shares, including the New Shares. For further information see "*Placing and Underwriting*".

Until completion of the book-building process we and the Selling Shareholder reserve the right to allocate in total a smaller number of the Offer Shares than the total maximum number. This may happen, for instance, as a result of insufficient demand at a price level satisfactory to us or the Selling Shareholder.

We will publicise the final number of the Offer Shares through a press release in Poland and in the same manner as this Prospectus in accordance with applicable regulations, as well as market practices in Luxembourg and Poland. More specifically, in accordance with article 10 of the Prospectus Act 2005 and Art. 54 of the Public Offering Act, the final number of the Offer Shares offered in the Offering will be filed with the CSSF and the PFSA and publicised in the same manner as this Prospectus on or around 14 November 2007, in particular, on the website of the Company (www.kernel.ua) and the Polish Manager (www.ingsecurities.pl) and other entities accepting subscription for the Offer Shares, if any, in accordance with Art. 16 of the Prospectus Act 2005.

Number of Offer Shares that may be covered by one subscription order

Each eligible investor has a right to place a subscription order for not less than one and not more than the total number of the Offer Shares, including the Overallotment Shares. Subscriptions placed for more than total number of the Offer Shares including Overallotment Shares will be deemed to have been placed for total number of the Offer Shares including Overallotment Shares.

Supplements to the Prospectus

In accordance with the relevant regulations in force in Luxembourg and Poland applicable to public share offerings and admission of securities to trading on a regulated market, any significant change to this Prospectus, as defined in the aforementioned regulations will be communicated through a supplement to this Prospectus, if required. In case the supplement is published after commencement of the Subscription Period and relates to events or circumstances which occurred prior to the Allotment Date and about which we, the Selling Shareholder or the Managers have learnt prior to the allotment, investors who have placed their subscription orders before publication of the supplement will have a right to withdraw their subscriptions within two business days from the publication of the supplement to this Prospectus. In such case if necessary the Settlement Date will be adjusted in order to enable the investors to withdraw their subscriptions.

Cancellation of the Offering

We may cancel this Offering, upon recommendation of the Managers or at our own initiative, at any time prior to the Allotment Date. We may also change the dates of opening and closing of the Subscription Period, or decide that the Offering will be postponed and that new dates of the Offering will be provided by us later. Information on change of dates or suspension of the Offering will be published in the form of a supplement to the Prospectus.

We may also cancel this Offering, upon recommendation of the Managers, at any time after opening of the Subscription Period, but not later than on the Settlement Date, if we consider it impracticable or inadvisable to proceed with the Offering. Such reasons include, but are not limited to: (i) suspension or material limitation in trading in securities generally on the WSE, as well as any other official stock exchange in the United States and the EU; (ii) sudden and material adverse change in the economic or political situation in Poland, Luxembourg, Ukraine or worldwide; (iii) a material loss or interference with our business; (iv) any material change or development in or affecting the general affairs, management, financial position, shareholders' equity or results of our operations or the operations of our subsidiaries, or (v) an insufficient, in our opinion or that of the Managers, expected free float of our shares on the WSE. In such event, subscriptions for the Offer Shares that have been made will be disregarded, and any subscription payments made will be returned without interest or any other compensation.

Any decision on cancellation of the Offering will be published by way of a press release in Poland, and in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland. The Offering may not be cancelled or suspended after the official trading in the Offer Shares on the WSE has begun.

All dealings in the Offer Shares prior to the commencement of the official trading on the WSE will be at the sole risk of the investor concerned, irrespective of whether or not the investor concerned has been notified of the number of shares allotted to him.

Purchase by the Selling Shareholder, the members of the Board of Directors and the Management Team members

To the best of our knowledge, neither the Selling Shareholder, nor any members of our Board of Directors or of our senior management intend to purchase any shares in the Offering. We are also not in possession of any information whether anyone intends to subscribe for more than 5% of the Offer Shares in this Offering.

Share Allotments

Neither we nor the Selling Shareholder will give preferential treatment to or discriminate against and between retail investors. Should there be an excess demand indicated by the retail investors compared with the final number of the offered shares allotted to them, we will reduce their allocations pro-rata, regardless of the price per Offer Share proposed by each of them, as long as such price is not lower than the Offer Price. Retail investors should note that subscription orders placed at a price lower than the Offer Price will be disregarded and fractional allocations (after the proportional reduction, if any) will be rounded down. Any unallocated shares will then be allocated to the remaining orders, from the largest to the smallest, with any remaining shares allocated by the Managers at their discretion. The share allotment to Retail Investors in the Offering will be made regardless on how and through whom the subscription order has been placed provided, however, that such an investor gets any share allocation at all.

With regard to institutional investors, we and the Selling Shareholder will allocate the offered shares to those institutional investors who: (i) will be invited by the Managers to participate in the book-building, (ii) will subscribe for the Offer Shares for a price not lower than the Offer Price, and (iii) will be included in the allotment list. The allocation to Institutional Investors will be made at our and the Selling Shareholder's absolute discretion, but upon consultation with the Managers.

We will publicise the results of this Offering, including in particular the final Offer Price and the final number of the Offer Shares, including allocation among the various categories of investors, as defined above, promptly upon allotment, by means of a press release in Poland, and in a manner compliant with applicable regulations, as well as market practices in Luxembourg and Poland.

Institutional Investors will be notified of their allocations by the Managers. Retail investors will receive relevant notifications in accordance with the regulations of their brokerage accounts.

Closing of the Offering

The Offer will close on the Settlement Date, upon payment for the Offer Shares and issuance by us of the New Shares and the sale by the Selling Shareholder of the Sale Shares. The earliest date when the Offer may close is 19 November 2007. The Underwriting Agreement will include conditions to the closing of this Offering. See *"Placing and Underwriting – Conditions of the Underwriting Commitment"*.

General Rules for Placing Subscription Orders

All investors have a right to place multiple subscriptions (also at various price levels) and, until the end of the Subscription Period, orders may be withdrawn or modified. Investors may withdraw their subscriptions in the Offering as may be required under article 8 and article 16 of the Prospectus Directive, as implemented in each relevant Member States' jurisdictions of the EU applicable to the Offering.

By placing subscription orders, each prospective investor will be deemed to have read this Prospectus, accepted the terms of this Offering, consented to being allotted a lower number of the Offer Shares than the number specified in such investor's orders, or to not being awarded any Offer Shares at all, pursuant to the terms and conditions set forth in the Prospectus.

Investors should be aware that they may receive various numbers of the New Shares and the Sale Shares as a proportion of their total allocation of the Offer Shares. Consequently, investors may be allocated only New Shares, only Sale Shares, a combination of both or no Offer Shares at all. However, all Offer Shares have equal rights (which are the same for all of our Shares) and will be delivered to investors at the same time. We and the Selling Shareholder will attempt to allocate first the New Shares, and the Sale Shares will be allocated only after all New Shares have been allocated.

Subscription and Payment of the Offer Price

Retail Investors will be required to pay in an amount of money in Polish Zloty (either in cash or by wire transfer to the account indicated by the entity taking such a subscription order), equal to the product of the number of the Offer Shares they wish to buy and the price they are prepared to pay at the same time they will place their subscription orders; if money is paid by wire transfer, the account should be credited on the subscription date. Any overpayments (either as a result of the Offer Price being lower than the price proposed, or as a result of any proportional reduction) will be returned to the account specified by the Retail Investor within seven business days following the Settlement Date, without any interest or any other compensation.

Institutional Investors, which will be included on the allotment list, will be required to pay amounts in Polish Zloty, corresponding to the number of the Offer Shares that were allocated to them and the Offer Price not later than on the Settlement Date, unless an alternative method of payment is agreed with the Manager.

Retail Investors may place their subscription orders for the Offer Shares in the Listing Agent's customer service points as well as other customer service points (provided that such customer service points are specified), information about which will be publicized by the Listing Agent before the Allotment Date, and are required, when placing subscription, to indicate the securities account on which the allotted shares would be deposited. Retail Investors who, at the time of this Offer, will have a brokerage and cash account open with the Polish Manager, may place their orders by telephone or fax, provided that their agreements for provision of brokerage services so permit, and pursuant to the terms of such agreements.

Institutional Investors should contact the Managers to discuss technical details for placing their subscription orders.

New Share Issue

We expect that the issuance of New Shares will be effected on or about the Settlement Date.

Listing and Trading

We intend to apply for admission to listing and trading on the main market of the WSE of all of our Shares issued in our corporate capital (*i.e.*, up to 64,449,048 Shares), including the Offer Shares, immediately after the Settlement Date.

Official trading in our Shares on the WSE will commence on or about 23 November, 2007, or as soon as possible thereafter.

In connection with the planned listing of our Shares on the WSE, all the Offer Shares will be registered with and cleared through the NDS which is the central clearing house and depository for securities in Poland.

Listing Agent

We have appointed ING Securities S.A. to act as offeror and our listing agent with respect to our Shares for the purposes of the Offering to the public in Poland and the admission to trading on the main market of the WSE.

Investors trading on the WSE should consider that since under the laws of Luxembourg, no court registration process is needed in order validly issue any shares, our New Shares will be eligible for the listing application upon payment by investors, on par with our remaining Shares.

Consequently, we will not be seeking to apply for listing on the WSE of any temporary share receipts, such as "rights to shares" (*prawa do akcji*) within the meaning of the Trading in Financial Instruments Act.

At present we do not intend to seek a listing of our Shares at any stock exchange other than the WSE.

Registration and Delivery of the Offer Shares

In accordance with applicable Polish regulations, all our issued and outstanding Shares, including the Offer Shares, will be electronically registered with and cleared through the NDS (*Krajowy Depozyt Papierów Wartościowych S.A.*) with its seat at ul. Książęca 4, 00-498 Warsaw, Poland, which is a Polish central clearinghouse and depository for securities. All Shares will be in book entry form and, therefore, shareholders may only hold them through their investment accounts opened with and maintained by investment firms and custodians being the NDS participants.

Delivery of the Offer Shares to the investment account of a given investor will be made in accordance with settlement instructions placed by investors upon subscription, through the facilities of the NDS in line with standard NDS procedures applicable to settlement of public offerings of Shares in Poland. Delivery of the Offer Shares is expected to take place on or around 22 November 2007, barring unforeseen circumstances.

As of the date of this Prospectus, all of our Shares have been assigned ISIN code LU0327357389.

PLACING AND UNDERWRITING

We and the Selling Shareholder intend to enter, on or about the Allotment Date, into an underwriting agreement (the "Underwriting Agreement") in respect of the Offering with the Managers, in which the Global Coordinator and Bookrunner will undertake, subject to certain other conditions, to procure subscribers for, or failing that, to subscribe in their own name and pay for, the Offer Shares which are allocated pursuant to the Offering at the final Offer Price. The Polish Manager will not underwrite any portion of the Offering. The underwriting undertaking is summarized below:

Global Coordinator and Bookrunner	Number of Shares
ING Bank N.V., London Branch, 60 London Wall, London EC2M 5TQ, United Kingdom	100%
Total	100%

Over-allotment Option

In connection with the placement of the Offer Shares, the Selling Shareholder has granted the Global Coordinator and Bookrunner the Over-allotment Option solely for the purpose of covering over-allotments, to purchase an additional 3,191,857 Shares (the "Over-allotment Shares") at the Offer Price. The Over-allotment Option may be utilised, in whole or in part, at any time during the period which runs from the Listing Date until 30 calendar days thereafter.

Over-allotment and Stabilisation

In connection with the Offering, the Global Coordinator and Bookrunner as stabilisation manager or its affiliates or agents may engage in transactions on the WSE with the aim of supporting the market price of the Shares at a level higher than that which might otherwise prevail for a period of 30 calendar days following the Listing Date. Such stabilisation, if commenced, shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) no. 2273/2003 of December 22, 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemption for buy-back programmes and stabilisation of financial instruments (the "Stabilisation Regulation").

No assurance can be given that stabilisation transactions will actually be effected as there is no obligation for the Global Coordinator and Bookrunner as the stabilisation manager or its affiliates or agents to undertake stabilisation transactions. If such stabilisation is commenced, however, it may be discontinued at any time without prior notice and must be brought to an end 30 days after the Listing Date. The stabilisation transactions, if any, may result in a market price of our Shares that is higher than the price that would otherwise be the case. Stabilisation of the Shares will not, in any circumstance, be executed above the Offer Price.

The Global Coordinator and Bookrunner will disclose all details of any stabilisation transactions effected by it to the PFSA no later than the end of the seventh daily market session following the date of execution of such transactions. Within one week of the end of the stabilisation period we will disclose to the public in a manner compliant with applicable regulations as well as market practices in Luxembourg and Poland (i) whether or not stabilisation was undertaken, (ii) the date on which stabilisation started, (iii) the date on which stabilisation last occurred and (iv) the price range within which stabilisation was carried out, for each of the dates on which stabilisation transactions were carried out.

For the purpose of the aforementioned stabilisation, additional Shares up to the number of the Over-allotment Shares may be over-allocated to investors by the Global Coordinator and Bookrunner on the Allotment Date at the Offer Price. In view of such a potential over-allocation, up to the number of the Over-allotment Shares from the holdings of the Selling Shareholder will be made available to the Global Coordinator and Bookrunner to settle over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions, under a share lending clause in the Underwriting Agreement. If the Global Coordinator and Bookrunner borrows any Shares pursuant to the Underwriting Agreement it will be required to return equivalent securities to the Selling Shareholder by no later than the 30th day after the Listing Date. Should a short position arise as a result of such over-allocation or borrowing, the Global Coordinator and Bookrunner may close such short position by exercising the Over-allotment Option (in whole or in part) or by open-market purchases or by a combination of both. The exercise of the Over-allotment Option will be promptly disclosed to the public. This disclosure will contain all appropriate details, including the date of exercise and the number of the Over-allotment Shares exercised.

Lock up Agreements

Except for the issue of the New Shares in the Offering and the issue of securities linked to the Company's share capital under any stock / management incentive plan to be implemented by the Company, we have agreed that for the period of 180 days from the Settlement Date, we will not, without the prior written consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld, propose or otherwise support an offering of any of our Shares, announce any intention to offer new Shares and/or to issue any securities convertible into our stock or securities that in any other manner represent the right to acquire our Shares, or conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling our stock.

Furthermore, the Selling Shareholder (who, excluding the New Shares and as of the date hereof, holds an 85.7% beneficial interest in our share capital) has agreed that, save for the sale of the Sale Shares and the Over-Allotment Shares in the Offering for a period of 180 days from the Settlement Date shall not: (i) sell or announce an intention to sell any of our Shares (excluding the Sale Shares and the Over-Allotment Shares), (ii) issue any securities exchangeable into our stock, (iii) issue any securities that in any other manner represent the right to acquire our Shares, and also (iv) conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of selling our stock, without the prior consent of the Global Coordinator and Bookrunner, which consent shall not be unreasonably withheld. In addition, the Selling Shareholder has undertaken not to propose, vote in favour of or otherwise support: (i) any increase of our share capital, (ii) any issuance of securities convertible into our stock or (iii) any issuance of any other securities that in any other manner represent the right to acquire our Shares, and also (iv) to conclude any transaction (including any transaction involving derivatives) of which the economic effect would be similar to the effect of causing us to issue such instruments except the issue of securities linked to the Company's share capital under any stock / management incentive plan to be implemented by the Company.

Fees

In connection with the Offering, we and the Selling Shareholder have agreed to pay the Managers a combined management, underwriting and placing commission of 3.5% of the gross proceeds from the Offering, including the Shares placed under the Over-allotment Option, if any, and to reimburse them for reasonable expenses incurred in connection therewith. Moreover, we and the Selling Shareholder may decide at our discretion to pay the Managers an additional incentive fee of 1.0% of the gross proceeds from the Offering, including the Shares placed under the Over-allotment Option, if any.

We and the Selling Shareholder have also agreed to pay all commissions and expenses in connection with the Offering. However, investors will bear their own costs connected with the evaluation and participation in the Offering.

The Managers will not charge any commission or fees on the subscription orders collected from investors participating in the Offering.

Conditions of the Underwriting Commitment

The Underwriting Agreement will provide that the obligations of the Managers, and of the Global Coordinator and Bookrunner in particular, are subject to customary conditions precedent. If any or all of these conditions are not met or waived, or if any of the circumstances referred to in the Underwriting Agreement occurs prior to payment for and delivery of the Offer Shares or within a certain period thereafter, the Global Coordinator and Bookrunner may, at its sole discretion, terminate the Underwriting Agreement and its obligation to subscribe for any Offer Shares will expire.

We and the Selling Shareholder envisage that the Global Coordinator and Bookrunner shall agree to subscribe only for the Offer Shares allocated to the Institutional Investors, for which they have not subscribed by the Settlement Date, subject, in particular, to there being no material adverse change in our financial or legal standing from the date this Prospectus is published until the Settlement Date. We and the Selling Shareholder will also agree that the Offer Shares subscribed for by the Global Coordinator and Bookrunner may be transferred at any time, without any restrictions whatsoever, on the terms and conditions set forth by the applicable laws.

We and the Selling Shareholder will also undertake: (i) to take all actions necessary to list our Shares on the WSE, and in particular to file relevant applications with the WSE, (ii) not to enter into any other underwriting agreement in respect of the Shares and (iii) to use the proceeds from the Offering for the purposes indicated in the Prospectus.

Each of the Managers will be able to terminate the Underwriting Agreement in the event of any occurrence of *force majeure* (as defined in the Underwriting Agreement, but in any case including publication or an intention to publish a supplement to this Prospectus), upon prompt written notice by the terminating party.

In addition, we have agreed to indemnify each of the Managers, their affiliates and their respective directors and employees against certain liabilities, including liabilities under applicable securities laws. These indemnifications will survive expiry and termination, if any, of the Underwriting Agreement.

Dilution

Upon completion of the Offering the amount and percentage of the immediate maximum dilution of our Shares will be as follows:

	Immediately after the Offering,	
	Number of Shares	%
Existing Shares	46,670,000	72.4
New Shares:	up to 17,779,048	27.6
Total:	up to 64,449,048	100.0

Interests of Natural and Legal Persons Participating in the Offering

The Managers have a contractual relationship with our Company in connection with the Offering and the Admission. ING Bank N.V., London Branch, has been mandated by the Company as sole Global Coordinator and Bookrunner, whereas ING Securities S.A. has been mandated to act as the offeror and Listing Agent for the Offering to the public in Poland and listing of our Shares on the WSE. The Managers advise the Company and the Selling Shareholder in connection with the Offering and Admission and coordinate the structuring and execution of the transaction. If the transaction is successfully executed, the Managers will receive a combined commission (see "*Placing and Underwriting – Fees*").

The Managers or their affiliates may in connection with the Offering acquire the Offer Shares as investors and hold or sell those Shares for their own account, and may offer and sell those Shares outside of the offering period as well. This does not constitute a preferential allotment. The Managers do not intend to disclose the extent of such investments or transactions unless required by law.

The Managers and their respective affiliates have in the past engaged and may in the future engage in investment and commercial banking and other commercial dealings in the ordinary course of business with the Selling Shareholder or with the Company, for which they received or will receive customary fees and commissions.

The Sale Shares and the Overallotment Shares to be placed in the course of the Offering will be offered by the Selling Shareholder, which will receive an amount of the net proceeds proportionate to the Sale Shares and the Overallotment Shares sold in the Offering. The Selling Shareholder, therefore, has a financial interest in the implementation of the Offering at the highest Offer Price possible.

SELLING RESTRICTIONS

No Public Offering Outside Poland

This Prospectus has been prepared on the basis that all offers of the Offer Shares (other than the Offering to the public in the territory of Poland in accordance with the Prospectus Directive, as implemented in Luxembourg and Poland, respectively) will be made pursuant to an exception under the Prospectus Directive, as implemented in member states of the European Economic Area (the "EEA"), from the requirement to prepare and have any prospectus or other offering circular for offers of shares approved by or notified to the competent authority and then published. Accordingly, any person making or intending to make any offering, resale or other transfer within the EEA, other than in Poland, of the Offer Shares subject to the placement contemplated in this Prospectus may only do so in circumstances under which no obligation arises for the Company, the Selling Shareholder or the Managers to produce an approved prospectus or other offering circular for such offering. Neither the Company, the Selling Shareholder, nor the Managers have authorised, nor will any of them authorise, the making of any offer of the Offer Shares through any financial intermediary, other than offers made by the Managers under this Prospectus.

No action has been or will be taken by us, the Selling Shareholder or the Managers, in any jurisdiction other than Poland that would permit a public offering of the Offer Shares, or the possession or distribution of this Prospectus or any other offering material relating to us or the Shares in any jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of this Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions on the distribution of this Prospectus and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. This Prospectus does not constitute an offer to subscribe for or buy any of the Offer Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

European Economic Area

This Prospectus has been approved by the CSSF, being the competent capital market regulatory authority in Luxembourg. However, in relation to each member state of the EEA which has implemented the Prospectus Directive (each referred to as a "Relevant Member State"), each Manager has represented and agreed that it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a Prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and submitted to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except in the case of an offer of Shares to the public in that Relevant Member State, taking into consideration the following exemptions under the Prospectus Directive, if such exemptions have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) total balance sheet of more than €43,000,000, and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons in that Relevant Member State or to fewer than 100 natural or legal persons in all Member States, depending on the method of calculation provided for under applicable regulations of that Relevant Member State; and
- in any other circumstances provided for in Art. 3(2) of the Prospectus Directive,

provided that (i) no such offer of Shares shall result in the requirement for us, the Selling Shareholder, or any Manager of a Prospectus, to publish the Prospectus pursuant to Art. 3, and (ii) any such legal or natural person (a "Permitted Investor") is acquiring such Shares either for its own account and not with a view to the Shares being resold or placed within any Relevant Member State other than to other Permitted Investors or for the account of other Permitted Investors, or (iii) for the account of other persons or entities for whom it makes investment decisions on a wholly discretionary basis.

Each investor who in a Relevant Member State acquires any Offer Shares in the offering shall be taken by so doing to have represented and warranted to us, the Selling Shareholder, and the managers that it is a Permitted Investor and that it has complied with any other restrictions applicable to that Relevant Member State.

For the purposes of this provision, the expression an "offer of Shares to the public" in relation to any Shares in any Relevant Member State means the communication, in any form and by any means, of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In addition, neither this Prospectus nor any other material offering has been, or will be, submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. In the United Kingdom this Prospectus is being distributed only to and is directed only at (a) persons

who have professional experience in matters relating to investments who fall within Art. 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") or (b) high net worth entities falling within Art. 49(2)(a) to (d) of the Order, or (c) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this document relates is available, in the United Kingdom, only to relevant persons, and will be engaged in only with such relevant persons.

In relation to Member States of the EEA other than the United Kingdom, there may be further rules and regulations of that country or jurisdiction within the EEA relating to the offering of the Offer Shares or distribution or publication of this Prospectus or any other offering material or advertisement; persons into whose possession this Prospectus comes should make sure they are informed about and observe any restrictions on the distribution of the Prospectus and the offer of Offer Shares applicable in that EEA Member State.

United States

THE SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "US SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN TRANSACTIONS NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE SHARES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE US SECURITIES ACT.

Canada

This Prospectus is not, and should under no circumstances be construed as, a prospectus, an advertisement or a public offering of the securities described herein in any province or territory of Canada. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence.

Japan

The Shares have not been and will not be registered under the Securities and Exchange Law of Japan (Law no. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption to the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

TAXATION OF OUR SHARES

The information set out below describes the principal Luxembourg and Polish tax consequences of the acquisition, holding, and disposal of the Shares and is included for general information only. This summary does not purport to be a comprehensive description of all Luxembourg and Polish tax considerations that may be relevant to a decision to acquire, hold, or dispose of our Shares. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg and Polish tax consequences with respect to the Shares and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to shareholders. Each prospective investor should consult a professional tax adviser regarding tax consequences of acquiring, holding and disposing of our Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on tax legislation, published case law, treaties, rules, regulations and similar documentation, in force as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect. The summary of Polish tax regulations does not apply to persons who directly or indirectly alone control more than 5% or together with one or more associated or connected persons control more than 10% in our share capital.

Taxation in Luxembourg

Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in this section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds de chômage*), as well as personal income tax (*impôt sur le revenu*) generally. Corporate Shareholders may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate tax-payers resident in Luxembourg for tax purposes. Individual tax payers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual tax-payer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of income derived from and capital gains realised on the Shares by Luxembourg residents

Individual holders of Shares

Dividends and other payments derived from the Shares by resident individual shareholders who act in the course of the management of either their private wealth or their professional / business activity, are subject to income tax at the progressive ordinary rate (with a current top effective marginal rate of 38.95%). Under current Luxembourg tax laws, 50% of the gross amount of dividends received by resident individuals from a fully-taxable Luxembourg resident company is exempt from income tax.

Capital gains realised on the disposal of the Shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative gains and are subject to income tax at ordinary rates if the Shares are disposed of within 6 months after their acquisition or if their disposal precedes their acquisition. A participation is deemed to be substantial where a resident individual Shareholder holds, either alone or together with his spouse and/or minor children, directly or indirectly at any time within the 5 years preceding the disposal, more than 10% of the share capital of the Company. Capital gains realised on a substantial participation more than 6 months after the acquisition thereof are subject to income tax according to the half-global rate method, (*i.e.*, the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realised on the substantial participation). A shareholder is also deemed to alienate a substantial participation if he acquired free of charge, within the five years preceding the transfer, a participation that constituted a substantial participation in the hands of the alienator (or the alienators in the case of successive transfers free of charge within the same five-year period). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the Shares.

Capital gains realised on the disposal of the Shares by resident individual shareholders, who act in the course of their professional / business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Luxembourg resident corporate holders of Shares

Dividends and other payments derived from the Shares by a fully-taxable Luxembourg resident company are subject to corporate income tax and municipal business tax, unless the conditions of the participation exemption regime, as described below, are satisfied.

Should the conditions of the participation exemption not be fulfilled, 50% of the dividends received by a fully-taxable Luxembourg resident company from a fully-taxable Luxembourg resident company are exempt from corporate income tax and municipal business tax.

Under the participation exemption regime, dividends derived from the Shares by a fully-taxable Luxembourg resident company may be exempt from income tax if cumulatively (i) it has held or undertakes to hold the Shares for an uninterrupted period of 12 months, (ii) during this uninterrupted period of 12 months the Shares represent a participation of at least 10% in the share capital of the Company or a participation

of an acquisition price of at least EUR 1,200,000 and (iii) the dividend is put at its disposal within that period. Liquidation proceeds are assimilated to a received dividend and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation in proportion to the percentage held in the net assets of the transparent entity.

Capital gains realised by a fully-taxable Luxembourg resident company on the Shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Taxable gains are determined as being the difference between the price for which the Shares have been disposed of and the lower of their cost or book value.

Under the participation exemption regime, capital gains realised on the Shares by a fully-taxable Luxembourg resident company may be exempt from income tax if cumulatively (i) it has held or undertakes to hold the Shares for an uninterrupted period of 12 months and (ii) during this uninterrupted period of 12 months the Shares represent a participation of at least 10% in the share capital of the Company or a participation of an acquisition price of at least EUR 6,000,000. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Tax exempt holders of Shares

Holders of Shares who are holding companies subject to the law of 31 July, 1929, undertakings for collective investment subject to the law of 20 December, 2002, specialized investment funds governed by the law of 13 February, 2007 or private asset holding companies governed by the law of 11 May, 2007, are exempt from income tax in Luxembourg. Dividends derived from and capital gains realised on the Shares are thus not subject to income tax in their hands.

Taxation of income derived from and capital gains realised on the Shares by Luxembourg non residents

Individual shareholders who are non-residents of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the Shares are attributable, are generally not liable for any Luxembourg income tax. Non-resident corporate shareholders which have a permanent establishment or a permanent representative in Luxembourg, to which the Shares are attributable, must include any income received, as well as any gain realized on the sale, disposal or redemption of the Shares, in their taxable income for Luxembourg tax assessment purposes. The same inclusion applies to individuals, acting in the course of the management of a professional or business undertaking, who have a permanent establishment or a permanent representative in Luxembourg, to which the Shares are attributable. Taxable gains are determined as being the difference between the sale, repurchase, or redemption price and the lower of the cost or book value of the Shares sold or redeemed.

Other taxes

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a shareholder unless (i) that shareholder is a corporate entity resident in Luxembourg other than a holding company governed by the law of 31 July, 1929, an undertaking for collective investment governed by the law of 20 December, 2002, a securitisation company governed by the law of 22 March, 2004, a company subject to the law of 15 June, 2004 on venture capital vehicles, a specialised investment fund governed by the law of 13 February, 2007, or a private asset holding company governed by the law of 11 May, 2007, or (ii) the Shares are attributable to an enterprise or part thereof which is run through a permanent establishment or a permanent representative in Luxembourg of a corporate entity, where in the case of a permanent establishment, the conditions of the participation exemption are not fulfilled.

Registration taxes and stamp duties

Neither the issuance of the Shares nor the disposal of the Shares is subject to a Luxembourg registration tax or stamp duty.

Inheritance tax and gift tax

Under Luxembourg tax law, where an individual holder of Shares is a resident of Luxembourg for tax purposes at the time of his/her death, the Shares are included in his or her taxable base for inheritance tax purposes.

Gift tax may be due on a gift or donation of the Shares, if the gift is recorded in a Luxembourg notarial deed.

Taxation in Poland – General

This section provides information regarding the taxation of income related to holding and trading in shares admitted to trading on a regulated market. For the avoidance of doubt, all references to shares presented in this section also pertain to the Shares.

The information presented below is of a general nature and should not constitute the sole basis for evaluating the tax consequences of making any investment decisions. Potential investors are urged to consult their tax advisors. Please note that the information presented below has been prepared based on the legal statutes as of the date of this Prospectus.

Polish Corporate Investors

Taxation of income relating to holding Shares

Dividends and other income (revenue) actually earned on holding shares by legal persons and capital companies in organization, as well as other unincorporated entities (except civil, general, limited partnerships, professional partnerships, and limited joint-stock partnerships) with their registered office or place of management in Poland ("Polish Corporate Shareholders"), shall be subject to taxation according to general rules under the Corporate Income Tax ("CIT") Act. They are taxed at the basic 19% rate, together with other income earned during the given fiscal year.

Pursuant to Art. 20 section 3 of the CIT Act, an income tax exemption applies to dividends and other revenue earned on the holding of shares in companies whose seat or management office is outside Poland by Polish companies whose worldwide income is subject to CIT in Poland, regardless of where the source of income is located, if all of the following conditions are met:

- a) the entity which distributes the dividends and other revenue earned on shares is a company whose worldwide income (regardless of where the source of income is located) is subject to income tax in a European Union Member State other than Poland, or in a other Member State of the European Economic Area;
- b) the Polish company holds directly not less than 15% of shares (from January 1, 2009 this threshold will be lowered to 10%) in the capital of the company referred to in item (1) above for an uninterrupted period of at least 2 years.

Please be informed that the CIT Act expressly provides that in order to benefit from the above exemption, the 2-year holding period requirement may be also met after the dividend is paid, provided that a given taxpayer actually satisfies that requirement afterwards. Otherwise, a taxpayer who did not meet the 2-year holding period requirement would be obliged to pay the due income tax along with penalty interest.

The above exemption will not apply, however, if dividends and other revenue earned on the holding of shares are distributed as a result of a liquidation of company making such distributions.

Moreover, dividends paid out by a Luxembourgian company to Polish Corporate Shareholders may be exempt from Luxembourgian withholding tax under Council Directive of 23 July, 1990, on the Common System of Taxation Applicable in the Case of Parent Companies and Subsidiaries of Different Member States, provided that the conditions specified by the Luxembourgian tax laws are satisfied.

The Double Tax Treaty concluded by the Republic of Poland and the Grand Duchy of Luxembourg (the "Double Tax Treaty") provides that dividends paid by a company with its registered office in Luxembourg to Polish Corporate Shareholders may be taxed both in Poland and Luxembourg, although the Luxembourgian tax cannot exceed 5% of the gross amount of the dividend if the recipient of the dividend is a company (other than a partnership) holding at least 25% of the capital of the Luxembourg company distributing the dividend, or 15% of the gross amount of the dividend in all other situations.

It should be noted that in relation to the dividends which may be subject to taxation in Luxembourg, pursuant to Art. 24 sec. 1 (a) of the Double Tax Treaty, an exemption from income tax applies in Poland.

Please note that the method of avoidance of double taxation (*i.e.*, the exemption method) provided by the Double Tax Treaty with reference to dividends which are subject to withholding tax in Luxembourg, is unique compared with other double tax treaties entered into by Poland. Therefore, a tax advisor should be consulted regarding the possibility of applying this method in practice.

Pursuant to the Double Tax Treaty, if a Polish Corporate Shareholder conducts business in Luxembourg through a permanent establishment situated in Luxembourg (*i.e.* a fixed place of business through which the business of an enterprise is wholly or partly conducted), and the shares in respect of which the dividends are paid are effectively connected with that permanent establishment, dividends will be taxed in Luxembourg as business profits earned by that permanent establishment.

Taxation of income from disposal of Shares

Income earned by Polish Corporate Shareholders on disposal of shares in a Luxembourg company is subject to corporate income tax in Poland in accordance with general rules. This income is aggregated with the business incomes of the given fiscal year, and subject to the general 19% CIT rate.

The income is computed as the difference between the revenue (in principle, the price agreed for the shares) and tax-deductible costs (in principle, the costs of acquisition of the shares and costs related to the sale).

However, it should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, the agreed price may be challenged by the tax authorities.

Polish Individual Investors

Taxation of income relating to holding of shares

Income earned by an individuals domiciled in Poland ("Polish Individual Shareholders") on dividends from a Luxembourg company is considered to be income from capital gains and it is not aggregated with incomes from other sources. Such income is subject to the 19% flat rate Personal Income Tax ("PIT"). The tax is settled on an annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned.

It is not absolutely clear whether the tax due on dividend income earned by a Polish individual investor from a Luxembourg company shall be withheld by a Polish brokerage house assisting in the payment or not. On the one hand, there is a regulation (Art. 41 sec. 4 of the PIT Act) that clearly imposes on brokerage houses the obligation to withhold the tax. On the other hand, there is a regulation which provides that amounts of tax due on dividends earned outside Poland and the amounts of tax paid outside Poland on such dividends should be reported by a taxpayer (i.e. Polish individual investor) in his annual tax return (Art. 30a sec. 11). Most tax advisers seem to regard the latter provision as overruling the first one, and are thus of the opinion that a Polish brokerage house should not withhold any tax. However, in case of any doubts tax adviser should be consulted by a taxpayer.

The Double Tax Treaty provides that dividends paid by a company with its registered office in Luxembourg to Polish Individual Shareholders may be taxed both in Poland and Luxembourg, but such Luxembourgian tax cannot exceed 15% of the gross amount of the dividend.

It should be noted that in relation to dividends which may be subject to tax in Luxembourg, the exemption with the progression method of avoidance of double taxation shall apply in Poland, pursuant to Art. 24 sec. 1(a) of the Double Tax Treaty. In accordance with these provisions, where a Polish Individual Shareholder receives dividends which may be taxed in Luxembourg, the Polish tax authorities make such income exempt from tax. Nevertheless, when calculating the amount of tax on the remaining income such natural person, should take into account the exempted income from dividends.

Please note that the method of avoidance of double taxation (i.e. the exemption method) provided for by the Double Tax Treaty with reference to dividends which are subject to withholding tax in Luxembourg, is unique compared with other double tax treaties entered into by Poland. Therefore, a tax advisor should be consulted regarding the possibility of applying this method in practice.

Pursuant to the Double Tax Treaty, if the Polish Individual Shareholder conducts business in Luxembourg through a permanent establishment situated in Luxembourg (i.e. a fixed place of business through which the business of an enterprise is wholly or partly conducted) or performs independent personal services in Luxembourg from a fixed base situated in Luxembourg, and the shares in respect of which the dividends are paid are effectively connected with that permanent establishment or fixed base, dividends will be taxed in Luxembourg as business profits or as income from independent personal services earned by that permanent establishment or fixed base.

Taxation of income from disposal of Shares

Income earned by Polish Individual Shareholders on sale of shares should be classified as income from capital gains and as such it should not be combined with incomes from other sources but should be subject to the 19% flat PIT rate.

The income is computed as the difference between the revenue earned on disposal of shares (in principle, the price for the shares) and the related costs (in principle, the costs of acquisition of the shares and costs related to the sale). The tax is settled on an annual basis. Annual tax returns should be filed by April 30 of the calendar year following the year in which income was earned (this also being the deadline for paying the tax thus calculated). No obligation exists to pay tax advances during the tax year.

The above is not applicable if a Polish Individual Shareholder holds the shares within the scope of its business activity. If this is the case, the income should be classified as a business income. In such a case, income tax shall be paid at the progressive tax rates, which vary from 19%, 30% to 40%, or at the 19% flat rate (depending on the form of taxation chosen by the given individual).

It should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, this may be challenged by the tax authorities.

It should also be noted that pursuant to Art. 9 section 6 of the Polish PIT Act, losses incurred during a fiscal year on account of the disposal of shares may be deducted from the income received from that source over five consecutive fiscal years, provided that the amount of the deduction does not exceed 50% of the amount of the loss in any single fiscal year of the five-year period.

Foreign Investors

Individuals who do not have their place of residence in Poland and legal entities, companies in organisation, and other entities with no legal personality, if treated as tax residents under tax law of a given state, which have their registered office and place of management outside Poland ("Foreign Shareholders") are subject to PIT and CIT respectively, only with respect to the profits deriving from sources of income located on the territory of Poland.

Although this is not expressly provided for in Polish tax law, it should be noted that dividends from a Luxembourg company should not be treated as income derived from Poland, even if the company is listed on the Warsaw Stock Exchange. Consequently, it should be noted that dividends paid by a Luxembourg company to a foreign investor should not be subject to Polish income tax.

Polish tax law does not contain clear guidelines regarding whether income from the sale of shares in a Luxembourg company should be treated as income derived from Poland if the shares are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trading on the Warsaw Stock Exchange shall be treated as a separate, Polish source of income. Consequently, as a rule, such income would be subject to Polish income tax and settled according to general rules. In practice, however, most tax treaties provide that such income is exempt from taxation in Poland. This should be verified on a case-by-case basis.

Tax on Civil Law Activities

Tax on civil law transactions ("TCLT") is levied on agreements providing for a sale or exchange of rights, provided that these rights are executed in Poland or, if executed abroad, that the purchaser is a Polish tax resident and the transaction is effected in Poland.

The rate of tax due on the sale of shares and the exchange of shares is 1% of the market value and should be paid within fourteen days of the date on which the tax obligation arose (that is, the date the share or exchange agreement was concluded), unless the sale of shares and the exchange of shares agreements are concluded in the form of a notary deed. In that case the due tax should be collected by the notary public acting as a tax remitter. The purchaser of shares is liable for paying the due tax on civil law transactions. In the case of an exchange of shares, the liability for paying the due tax is borne jointly and severally by the parties to the transaction.

Exemptions from tax on civil law transactions apply, without limitation, to transactions concerning the sale of brokers' financial instruments (including shares) to investment companies or through them, and the sale of such instruments within the boundaries of a regulated market, as defined in the Polish Act on Trading in Financial Instruments.

Additionally, civil law transactions are not subject to TCLT if at least one party to a given transaction is subject to VAT or is exempted from VAT with respect to the transaction, however with the exception share sale agreement.

ADDITIONAL INFORMATION

Prospectus

This Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Prospectus Act 2005 (which implemented the Prospectus Directive into Luxembourg law), for the purpose of giving the information with regard to the Company and the Offer Shares to be offered by the Company and the Selling Shareholder pursuant to this Prospectus, which is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company. This Prospectus has been also prepared for the purpose of the admission and introduction of all the Shares representing the entire share capital of the Company, *i.e.* up to 64,449,048 to trading on the WSE.

This Prospectus constitutes a prospectus in the form of a single document within the meaning of article 5 of the Prospectus Directive and article 8 of the Prospectus Act 2005. This Prospectus was filed with, and was approved on 25 October 2007 by the CSSF, which is the competent authority in Luxembourg to approve this document as a prospectus. Under the Prospectus Directive and the Prospectus Act 2005, this Prospectus, once approved by the competent authority of one Member State of the EU ("Home Member State") may be used for making a public offering and for the admission of securities to listing on a regulated market in another Member State of the EU ("Host Member State"), once the competent authority of the Home Member State provides the competent authority of the Host Member State with a certificate of approval of the Prospectus (in accordance with article 18 of the Prospectus Directive and article 13 of the Prospectus Act 2005).

The Company will be authorised to carry out the Offering to the public in Poland, once the PFSA, in accordance with Art. 37 of the Public Offering Act, has informed the Company that the CSSF has provided the PFSA with a certificate of approval of this Prospectus, a copy of this Prospectus and a summary of this Prospectus in the Polish language and after the Prospectus in the English language and its summary in the Polish language have been made available to the public.

For the purposes of the public offering in Poland, we will also publish a Polish translation of the Prospectus.

Documents Available for Inspection

Copies of the following documents will, when published, be available for inspection free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company from the date of this Prospectus throughout its validity period:

- the most recent version of the Articles of Association;
- the Consolidated Financial Statements (audited consolidated financial statements of Kernel Holding S.A. and its subsidiaries as at and for the past three financial years ended June 30, 2005, 2006 and 2007) together with the auditor's reports;
- the Pro-Forma Financial Information together with the auditor's report;
- this Prospectus (including a summary translated into the Polish language) and supplements thereto, if any;
- copies of all corporate resolutions mentioned in this Prospectus.

Moreover, the following documents will be available through the Company's website www.kernel.ua:

- this Prospectus, together with a summary translated into the Polish language;
- the translation of this Prospectus into the Polish language;
- the most recent version of the Articles of Association;
- statement of the Company's compliance or non-compliance with the WSE Corporate Governance Rules;
- the Consolidated Financial Statements (audited consolidated financial statements of Kernel Holding S.A. and its subsidiaries as at and for the past three financial years ended June 30, 2005, 2006 and 2007) together with the auditor's reports, and
- the Pro Forma Financial Information together with the auditor's report.

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

**Independent Auditors' Report
Consolidated Financial Statements
Year Ended 30 June 2007**

KERNEL HOLDING S.A. AND SUBSIDIARIES

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REPORT OF THE AUDITOR

To the board of Directors of

KERNEL HOLDING S.A.

65, Boulevard Grande-Duchesse Charlotte

L-1331 Luxembourg

Report on the consolidated financial statements

Following our appointments by the board of Directors dated July 12, 2007 and April 4, 2007 we have audited the accompanying consolidated financial statements of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group"), which comprise the consolidated balance sheet as at June 30, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors responsibility 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are



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appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's and the Group'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 for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") of June 30, 2007, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Confirmation of responsibilities

Statement of management responsibilities is consistent with the consolidated financial statements.

Kyiv, Ukraine

September 28, 2007

General Director
LLC BAKER TILLY UKRAINE
Independent member of Baker Tilly International
Turhenevska 71, Kyiv,
Ukraine, 04050
Registration with Ukrainian Chamber
of Audit number 2091 of January 26, 2006.

Alexander Pochkun

Jean Bernard Zeimet

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



an independent member of
BAKER TILLY
INTERNATIONAL

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2007

(in US dollars and in thousands unless otherwise stated)

ASSETS	Notes	30 June 2007	30 June 2006
<i>CURRENT ASSETS:</i>			
Cash	5	25 253	6 384
Trade accounts receivable, net	6, 29	9 828	9 052
Prepayments to suppliers and other current assets, net	7, 29	8 567	7 376
Taxes recoverable and prepaid, net	8	22 485	9 468
Inventory	9	40 163	32 300
Biological assets	10	9 672	3 385
Total current assets		115 968	67 965
<i>NON-CURRENT ASSETS:</i>			
Property, plant and equipment, net	11	127 865	72 483
Intangible assets, net	12	16 821	7 433
Goodwill	13	11 491	2 970
Other non-current assets	14, 29	2 935	4 975
Total non-current assets		159 112	87 861
TOTAL ASSETS		275 080	155 826
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES:</i>			
Trade accounts payable	29	5 809	829
Advances from customers and other current liabilities	15, 29	8 935	4 735
Short-term borrowings	16	37 417	23 291
Current portion of long-term borrowings	17, 29	7 018	5 655
Total current liabilities		59 179	34 510
<i>NON-CURRENT LIABILITIES:</i>			
Long-term borrowings	17, 29	99 239	49 568
Obligations under finance lease	18	3 185	4 565
Corporate bonds issued	19	9 937	10 258
Deferred tax liabilities	20	18 247	9 369
Total non-current liabilities		130 608	73 760
<i>SUBORDINATED LOAN</i>	29	7 532	–
<i>COMMITMENTS AND CONTINGENCIES</i>	30		
<i>EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A. SHAREHOLDERS</i>			
Share capital		1 232	964
Share premium reserve		2 608	–
Additional paid-in capital		39 944	39 425
Retained earnings	3	20 826	1 287
Total equity attributable to Kernel Holding S.A. shareholders		64 610	41 676
<i>MINORITY INTEREST</i>		13 151	5 880
Total equity		77 761	47 556
TOTAL LIABILITIES AND EQUITY		275 080	155 826

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-11 to F-38 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007***(in US dollars and in thousands unless otherwise stated)*

	Notes	30 June 2007	30 June 2006
REVENUE	21, 29	350 379	215 242
COST OF SALES	22	<u>(267 352)</u>	<u>(173 423)</u>
GROSS PROFIT		83 027	41 819
OTHER OPERATIONAL INCOME	10, 23	7 865	1 220
OPERATING EXPENSES:			
Distribution costs	24, 29	(38 963)	(20 341)
General and administrative expenses	25, 29	<u>(13 295)</u>	<u>(10 685)</u>
TOTAL OPERATING EXPENSES		(52 258)	(31 026)
OPERATING PROFIT		38 634	12 013
Finance costs, net	26, 29	(18 863)	(9 303)
Foreign exchange (loss)/gain, net		(768)	(931)
Other (expenses)/income, net	27, 29	(2 311)	(1 810)
PROFIT/ (LOSS) BEFORE INCOME TAX		16 692	(31)
INCOME TAX	20	<u>1 904</u>	<u>75</u>
NET PROFIT		18 596	44
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
Shareholders of Kernel Holding S.A.		19 539	1 287
Minority interest		(943)	(1 243)

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-11 to F-38 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2007*(in US dollars and in thousands unless otherwise stated)*

	Share capital	Share premium reserve	Additional paid-in capital	Retained earnings	Total equity attributable to Kernel Holding S.A. shareholder	Minority interest	Total equity
Balance at 30 June 2005	964	–	31 698	–	32 662	15 729	48 391
Effect of changes on minority interest	–	–	8 606	–	8 606	(8 606)	–
Effect of withdrawals on additional paid-in capital	–	–	(879)	–	(879)	–	(879)
Net profit	–	–	–	1 287	1 287	(1 243)	44
Balance at 30 June 2006	964	–	39 425	1 287	41 676	5 880	47 556
Effect of changes on minority interest	–	–	(613)	–	(613)	613	–
Disposal of subsidiaries (Note 28)	–	–	–	–	–	(527)	(527)
Acquisition of subsidiaries (Note 28)	–	–	–	–	–	8 124	8 124
Increase of share capital (Note 3)	176	2 602	–	–	2 778	–	2 778
Shareholders' loans set-off effect (Notes 14, 17)	–	–	1 285	–	1 285	–	1 285
Effect of foreign exchange differences	92	6	(153)	–	(55)	4	(51)
Net profit	–	–	–	19 539	19 539	(943)	18 596
Balance at 30 June 2007	1 232	2 608	39 944	20 826	64 610	13 151	77 761

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-11 to F-38 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2007

(in US dollars and in thousands unless otherwise stated)

	<u>30 June 2007</u>	<u>30 June 2006</u>
OPERATING ACTIVITIES:		
Profit/(loss) before income tax	16 692	(31)
Adjustments to reconcile profit before income tax to net cash used in operating activities:		
Amortization and depreciation	7 723	4 983
Finance costs	18 863	9 303
Bad debt expenses and other accruals	1 070	1 885
Loss on disposal of property, plant and equipment	1 035	159
Foreign exchange losses, net	768	931
Income from "DAK Asset"	(324)	(651)
Gain on sales of equity investments	(427)	–
Operating profit before working capital changes	45 400	16 579
Changes in working capital:		
Decrease/(increase) in trade accounts receivable	248	(2 708)
Decrease/(increase) in prepayments and other current assets	1 246	(4 449)
(Increase)/decrease in restricted cash balance	(100)	14
Increase in taxes recoverable and prepaid	(13 048)	(3 524)
Increase in biological assets	(6 253)	(1 044)
Increase in inventories	(3 204)	(21 664)
Increase/(decrease) in trade accounts payable	1 965	(1 622)
Increase/(decrease) in advances from customers and other current liabilities	4 406	(842)
Cash obtained from/(used in) operations	30 660	(19 260)
Finance costs paid	(18 358)	(9 423)
Income tax paid	(708)	(364)
Net cash provided by operating activities	11 594	(29 047)

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

(in US dollars and in thousands unless otherwise stated)

	Notes	30 June 2007	30 June 2006
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1 598)	(6 741)
Proceeds from disposal of property, plant and equipment		3 786	769
Sales/(Purchase) of intangible and other non-current assets		295	611
Disposal of Subsidiaries		8 934	–
Acquisition of Subsidiaries		(68 663)	–
Net cash used in investing activities		(57 246)	(5 361)
FINANCING ACTIVITIES:			
Proceeds from short-term and long-term borrowings		190 068	94 916
Repayment of short-term and long-term borrowings		(135 907)	(73 552)
Proceeds from subordinated loan		7 532	–
Proceeds from share capital increase		176	–
Proceeds from share premium reserve increase		2 602	–
Corporate bonds issued		–	10 258
Withdrawals		–	(879)
Net cash provided by financing activities		64 471	30 743
TRANSLATION ADJUSTMENT		(50)	239
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		18 769	(3 426)
CASH AND CASH EQUIVALENTS, at the beginning of the year	5	5 983	9 409
CASH AND CASH EQUIVALENTS, at the end of the year	5	24 752	5 983

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-11 to F-38 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**
(in US dollars and in thousands unless otherwise stated)
1. KEY DATA BY SEGMENT

	Oil		Grain		Other		Reconciliation		Continuing Operations	
	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006	30 June 2007	30 June 2006
Revenue (external)	216 574	87 487	130 346	117 948	3 459	9 807			350 379	215 242
Intersegment sales	437	114	15 378	10 346	–	–	(15 815)	(10 460)	–	–
	217 011	87 601	145 724	128 294	3 459	9 807	(15 815)	(10 460)	350 379	215 242
Other operating income	–	–	7 865	1 220	–	–			7 865	1 220
Operating profit	35 950	9 613	15 978	13 085	(13 294)	(10 685)			38 634	12 013
Total assets	169 129	74 761	100 889	72 814	5 062	8 251			275 080	155 826
Capital expenditures	54 006	8 637	23 222	1 780	848	452			78 076	10 869
Amortization and depreciation	5 022	3 090	2 181	1 692	346	201			7 549	4 983
Liabilities	14 922	15 655	7 410	9 024	174 987	83 591			197 319	108 270

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 a 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"). Prior to 15 June 2005 the holding company of the Group was Kernel Group International LLC (hereinafter referred to as the "Former Holding Company"), incorporated under the legislation of the United States of America (state of New York) on 27 January 2003 under its previous name – Landor Trading LLC.

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

The majority of the Group operations are located in Ukraine.

The principal operating office of the Group is located at the following address: 16 Nemirovicha-Danchenko str., 01133 Kyiv, Ukraine.

As of 30 June 2007 and 2006 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 2007	Group's Effective Ownership Interest as of 30 June 2006
Kernel Group International LLC	Former Group holding company.	USA	Disposed of on 26 June 2007	99.0%
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine. Performs transactions with financial instruments.	Ukraine	99.9%	95.8%
LLC "Yuzhtrans-Terminal"	Dormant company.	Ukraine	99.9%	99.0%
Inerco Trade S.A.	Trade of sunflower seed oil, meal and grain.	Switzerland	99.9%	99.9%
Inerco UK LLP		Great Britain	Disposed of on 26 June 2007	98.0%
Lanen S.A.		Panama	100.0%	100.0%
"Kernel-Trade", LLC		Ukraine	99.8%	98.9%
"Kernel-Yug" LLC	Dormant company.	Russia	In process of liquidation	100.0%
CJSC "Poltava oil crushing plant – Kernel Group"	Production plants. Production of sunflower seed oil and meal.	Ukraine	94.9%	94.0%
CJSC "MZRM – Striletskaya Step"		Ukraine	Disposed of on 15 May 2007	99.0%
CJSC "Vovchansk OEP"		Ukraine	99.9%	N/A
CJSC "Prykolotne OEP"		Ukraine	69.9%	N/A
CJSC "Prykolotnyanska oliya"		Ukraine	0.0%	N/A
"Kernel-Vostok" LLC	Trade of bottled sunflower oil, Russia.	Russia	Disposed of on 26 June 2007	100.0%
LLC JE "Inerco-Ukraine"	Holding company. No significant activity since the date of foundation.	Ukraine	99.9%	99.9%
"Poltavaavtotransservis" CJSC	Trucking companies. Provision of transport services to Group companies.	Ukraine	98.5%	98.0%
CJSC "JSC Selkhoztehnika"		Ukraine	Disposed of on 21 May 2007	96.8%
"Reshetylivka Hliboproduct" CJSC	Grain elevators. Provision of cleaning, drying and grain and oilseed storage services.	Ukraine	79.9%	77.6%
JSC "Reshetilovski elevator"		Ukraine	0.0%	57.4%
"Horol-Elevator" CJSC		Ukraine	99.9%	78.0%
JSC "Khorolskiy elevator"		Ukraine	0.0%	46.8%
CJSC "Mirgorodsky elevator"		Ukraine	99.9%	96.1%
"Globynsky elevator HP" CJSC		Ukraine	86.2%	78.8%
JSC "Globinsky elevator kliboproduktiv"		Ukraine	0.0%	45.1%
CJSC "Selesthchinski elevator"		Ukraine	Disposed of on 19 April 2007	97.4%
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	86.2%	84.5%
JSC "Golovanivske khlibopriemalne pidpriemstvo"		Ukraine	99.2%	98.3%
"Galeschina-Agro" CJSC		Ukraine	99.9%	99.0%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of 30 June 2007	Group's Effective Ownership Interest as of 30 June 2006
"Gogoleve-Agro" CJSC	Grain elevators. Provision of cleaning, drying and grain storage services.	Ukraine	99.8%	98.9%
"Sagaydak-Agro" CJSC		Ukraine	99.9%	93.9%
"Karlivka-Agro" CJSC		Ukraine	99.9%	97.7%
"Novo-Sanzharski elevator" CJSC		Ukraine	99.0%	94.4%
"Lazorkovski Elevator" CJSC		Ukraine	99.9%	99.0%
"Zherebkivsky elevator LTD"		Ukraine	99.9%	80.1%
"Bobrynetsky elevator LTD"		Ukraine	Disposed of on 25 April 2007	80.1%
"Kononivsky elevator LTD"		Ukraine	99.9%	80.1%
JSC "Pidgorodnanski elevator"		Ukraine	75.0%	74.2%
LLC "Bandurskiy elevator"		Ukraine	99.9%	99.0%
CJSC "Semenivski elevator"		Ukraine	99.9%	58.0%
LLC "Zhytnitsa"		Ukraine	Disposed of on 15 May 2007	99.0%
LLC "Kobelyaki hleboproduct"		Ukraine	0.1%	0.0%
LLC "Krivoy Rog hleboproduct"		Ukraine	Control relinquished	0.0%
LLC "Krasnograd hleboproduct"		Ukraine	Control relinquished	19.0%
LLC "Sahnovshina hleboproduct"		Ukraine	0.1%	0.0%
LLC "Belovodskiy elevator"		Ukraine	Disposed of on 26 June 2007	99.0%
CJSC "Velykoburlutske HPP"		Ukraine	99.8%	N/A
CJSC "Vlasivskiy KHP"		Ukraine	99.8%	N/A
CJSC "Vovchansky KHP"		Ukraine	99.8%	N/A
CJSC "Gutnansky elevator"		Ukraine	99.8%	N/A
CJSC "Lykhachivsky KHP"		Ukraine	99.8%	N/A
CJSC "Shevchenkisky KHP"		Ukraine	99.8%	N/A
CJSC "Orilske HPP"		Ukraine	99.8%	N/A
CJSC "Kovyagivske KHP"		Ukraine	99.8%	N/A
LLC "Ukrainian Agricultural Company"	Holding company for agricultural farms.	Ukraine	0.3%	0.3%
LLC "Agroservice"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	99.9%	19.0%
LLC "Zernoservice"		Ukraine	99.9%	19.0%
LLC "Unigrain-Agro" (Semenovka)		Ukraine	99.9%	99.0%
LLC "Unigrain-Agro" (Globino)		Ukraine	99.9%	99.0%
LLC "Mrija-Agro"		Ukraine	99.9%	99.0%
CJSC "Lozivske HPP"		Ukraine	99.9%	N/A
CJSC "Krasnopavlivsky KHP"		Ukraine	99.9%	N/A
LLC "Agrofirma "Krasnopavlivska"		Ukraine	0.0%	N/A

The Group consolidated the financial statements of CJSC "Prykolotnyanska oliya", JSC "Reshetilovski elevator", JSC "Khorolskiy elevator", JSC "Globinsky elevator kliboproduktiv", LLC "Kobelyaki hleboproduct", LLC "Sahnovshina hleboproduct", LLC "Ukrainian Agricultural Company" and LLC "Agrofirma "Krasnopavlivska" due to the fact that shareholders holding a majority share of the voting rights in these Subsidiaries are related parties and nominal holders on behalf of the Beneficial Owner of the Group. "Kernel-Capital" LLC received power of attorney from these related parties to act on their behalf in exercising ownership rights related to these shares. The Group's management believes that it has power to govern operating and financial policies of these Subsidiaries.

These consolidated financial statements were authorized for issue by Verevskiy Andrey Mikhaylovych the Honorary Chairman of Kernel Group, on 05 September 2007.

3. CHANGE IN SHARE CAPITAL

Since 15 June 2005 the holding company of the Group is Kernel Holding S.A. (Luxembourg) (the "Holding"), whose share capital as of 30 June 2007 consists of 9,334 authorized, allotted and fully paid ordinary shares each carrying one vote and having no nominal value (EURO ("EUR") 100 till 01 January, 2007, note 33).

The shares were distributed as follows:

NOMINAL SHAREHOLDERS	Shares allotted and fully paid as of 30 June 2007	Share owned as of 30 June 2007, %	Shares allotted and fully paid as of 30 June 2006	Share owned as of 30 June 2006, %
Namsen LTD (public limited company registered under the legislation of Cyprus) (hereinafter the "New Nominal Owner")	7 999	85.79%	–	–
Bissani Investment S.A. (public limited company registered under the legislation of Costa Rica) (hereinafter the "Former Nominal Owner")	–	–	7 999	99.99%
Evergreen Financial Limited (a company incorporated and registered in the Territory of the British Virgin Islands) (hereinafter Evergreen Financial Limited)	1 334	14.20%	–	–
Individual	1	0.01%	1	0.01%
Total	9 334	100.00%	8 000	100.00%

As of 30 June 2007 and 2006 100% of the beneficial interest in the Former and New Nominal Owners was held by Verevskiy Andrey Mikhailovich (hereinafter the "Beneficial Owner").

In the course of the year ended 30 June 2007, Namsen LTD (Cyprus) acquired from the Former Nominal Holder 7 999 shares of the Group's holding company Kernel Holding S.A. (Luxembourg).

In the course of the year ended 30 June 2007, the Group's holding company Kernel Holding S.A. (Luxembourg) issued new shares subscribed by Evergreen Financial Limited, resulting in a decrease of ownership interest of Namsen LTD in Holding's equity from 99.99% to 85.79%.

Luxembourg companies are required to allocate to legal reserve a minimum of 5% of the annual net income until this reserve equals up to 10% of subscribed share capital. This reserve of an amount of USD 125 thousand may not be distributed as dividends.

4. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting – The accompanying consolidated financial statements are prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The present financial statements have been prepared in accordance with amendments to IFRS which became effective on 30 June 2007. These amendments did not have a material effect on the consolidated financial statements of the Group.

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 – The local currency of the Holding was the Euro until 31 December 2006. Starting from 01 January 2007, and in accordance with the resolution of the shareholders dated 31 July 2007, the measurement currency is the United States dollar ("USD"). Management utilizes the USD as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates" as its major assets and sources of finance are denominated in USD. The measurement currencies for the Subsidiaries of the Group are mainly local currencies of the countries, where the Group Subsidiaries are incorporated and operate, with the exception of Inerco Trade S.A. (Switzerland) and Lanen S.A. (Panama) and Inerco UK LLP (Great Britain). Management has utilized USD as the measurement currency for Inerco Trade S.A., Lanen S.A. and Inerco UK LLP under IAS No. 21 as their major sources of finance, prices of sales contracts with customers and also prices of significant contracts for purchases of goods and services from suppliers were denominated in USD.

Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

Basis of Consolidation – The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group ("its Subsidiaries") made up as of 30 June 2007, 2006, 2005 and 2004. Control is achieved where the

parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities.

The purchase method of accounting is used for acquired businesses. The equity attributable to minority owners' interests is shown separately in the consolidated balance sheet. On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between the Group enterprises are eliminated on consolidation. Unrealized gains and losses resulting from intercompany transactions are also eliminated unless for unrealized losses which cannot be recovered.

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

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses. The goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

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

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in shareholders' 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 2007	Average rate for the year ended 30 June 2007	Closing rate as of 30 June 2006	Average rate for the year ended 30 June 2006
UAH/USD	5.0500	5.0500	5.0500	5.0503
CHF/USD	1.2293	1.2324	1.2486	1.2789
EUR/USD	0.7429	0.7668	0.7981	0.8220
RUR/USD	25.7785	26.4015	28.0000	28.2186

Cash – Cash includes unrestricted cash balances kept with banks and on hand.

Trade Accounts and Other Accounts Receivable – Trade and other accounts receivable are stated at their cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Prepayments to Suppliers and Other Current Assets – Prepayments to suppliers and other current assets are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments – In accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement", investments are classified into the following categories: held-to-maturity, trading, available-for-sale and loans and receivables originated by the Group.

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Investments acquired principally for the

purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounted based on market rates at inception and is included in other expenses in the consolidated income statement. Originated loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Originated loans are carried net of any allowances for estimated irrecoverable amounts.

Held-to-maturity investments, loans and receivables originated by the Group are included in non-current assets unless they mature within 12 months from the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months from the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Estimation of fair values of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: disclosure and presentation" and IAS No. 39 "Financial instruments: Recognition and Measurement". As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of a particular instrument.

Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the income statement for the period.

Held-to-maturity investments and originated loans are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Investments in Non-consolidated Subsidiaries and Associates – Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Group intends to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share 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 2007 and 2006 there were no investments in non-consolidated subsidiaries and associates.

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

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

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

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

Property, Plant and Equipment – Except for land, property, plant and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

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

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

Property, plant and equipment is depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisals under the straight-line method. Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20–50 years
Production machinery and equipment	10–20 years
Agricultural vehicles and equipment	3–10 years
Fixtures, fittings and other fixed assets	5–20 years
Transport vehicles	4–7 years
Construction in progress ("CIP") and uninstalled equipment	Not depreciated

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

Impairment of Non-Current Assets – At each balance sheet date the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

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

Financial Instruments – Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial instruments are recognised using settlement date accounting.

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

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

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

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

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

Segment Reporting – In accordance with IAS 14 (Segment Reporting), certain data in the financial statements is provided by segments. The segments are those used for internal reporting and provide an assessment of risk and returns. The aim is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities.

As of 30 June 2007 the Group defined two segments with activities consolidated according to economic characteristics, products, production processes, customer relationships and methods of distribution.

The segments' activities are as follows:

Segments	Activities
Oil	Production, refining, bottling, marketing and distribution of sunflower seed oil and meal.
Grain	Trade of grain. Provision of cleaning, drying and grain storage services. Agricultural farming

The acquisition of the Stozhar Group business has led to a change in the relative sizes of the Group's segments in terms of sales, operating profit and assets. In compliance with IAS 14 (Segment Reporting), the segmentation has therefore been adjusted effective 01 July 2006 to reflect the new Group structure.

Moreover, IFRS 5, which was approved by the IASB on 31 March 2004, introduces specific recognition principles for assets and liabilities held-for-sale and for discontinued operations and requires that reporting now be based primarily on continuing operations. In the financial statements as of 30 June 2007 the segment table reflects continuing operations only. The prior-year figures have been reclassified to ensure comparability.

The reconciliation eliminates intersegment items and reflects income and expenses not allocable to segments. These include in particular the Corporate Center, the service companies and peripheral operations.

The segment data are calculated as follows:

- The intersegment sales reflect intragroup transactions effected on an arm's-length basis.
- The equity items are those reflected in the balance sheet and income statement. They are allocated to the segments where possible.
- Capital expenditures, amortization and depreciation relate to property, plant and equipment and intangible assets.

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

Reclassifications – Certain reclassifications have been made to the corresponding amounts for the year ended 30 June 2006 so as to conform to the current year presentation.

5. CASH

The balances of cash as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Cash with banks in USD	16 238	665
Cash with banks in UAH	8 059	5 604
Cash with banks in other currencies	98	110
Cash on transit bank account	851	–
Cash on hand	7	5
Total	25 253	6 384
Less restricted cash on Security bank account and blocked amount	(501)	(401)
Cash for the purposes of cash flow statement	24 752	5 983

As of 30 June 2007 cash with banks in USD in the amount of USD 423 thousand (as of 30 June 2006: USD 423 thousand) kept on Security bank account with a Belgian bank, was pledged to secure the long-term loan facility obtained from this bank (Note 17), and USD 89 thousand (as of 30 June 2006: zero) blocked on a bank account with a Ukrainian bank to secure a letter of credit issued for the delivery of production equipment. As of 30 June 2007 cash on the Security bank account in the amount of USD 412 thousand (as of 30 June 2006: USD 401 thousand) was restricted in use based on the loan agreement with the Belgian bank and thus was excluded from cash for the purposes of cash flow statement.

6. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Trade accounts receivable	11 214	10 025
Allowance for estimated irrecoverable amounts	(1 386)	(973)
Total	9 828	9 052

As of 30 June 2007 accounts receivable from one European customer accounted for approximately 6% of the total carrying amount of trade accounts receivable (as of 30 June 2006: approximately 7%).

7. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS, NET

The balances of prepayments to suppliers and other current assets as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Prepayments to suppliers	6 380	5 872
Accounts receivable for disposed Subsidiaries	1 210	–
Investments available-for-sale	3	71
Other accounts receivable and other current assets	2 067	2 254
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(1 093)	(821)
Total	8 567	7 376

8. TAXES RECOVERABLE AND PREPAID, NET

The balances of taxes recoverable and prepaid as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
VAT («value-added tax») recoverable and prepaid	22 316	8 949
Other taxes recoverable and prepaid	386	668
Allowance for estimated irrecoverable amounts of VAT recoverable	(217)	(149)
Total	22 485	9 468

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on domestic market in Ukraine. Allowance for estimated doubtful amounts of VAT recoverable was created in the amount of USD 217 thousand as of 30 June 2007 (as of 30 June 2006: USD 149 thousand) as a result of uncertainty of recoverability of this balance from the Ukrainian State budget.

9. INVENTORIES

The balances of inventories as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Raw materials	23 890	13 140
Finished products	7 666	12 235
Goods for resale	6 503	3 972
Packaging materials	301	597
Fuel	653	352
Other inventories	1 150	2 004
Total	40 163	32 300

As of 30 June 2007 inventories with the carrying amount of USD 31 556 thousand (as of 30 June 2006: USD 18 108 thousand) were pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks (Notes 16, 17). In addition, as of 30 June 2007 the Group pledged future purchases of raw materials, goods for resale and finished products produced for the total amount of USD 539 thousand in prices as of 30 June 2007 (as of 30 June 2006: USD 1 910 thousand in prices as of 30 June 2006).

10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2007 and 2006 were as follows:

	30 June 2007		30 June 2006	
	Hectares	Amount	Hectares	Amount
Wheat crops	6 537	2 645	1 948	532
Sunflower seed crops	5 102	2 033	3 467	706
Soy crops	4 664	1 461	2 009	363
Barley crops	6 038	1 329	4 014	788
Maize crops	3 139	1 152	2 462	684
Pea crops	2 727	887	1 336	284
Other crops	1 722	165	922	28
Total	29 929	9 672	16 158	3 385

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2007 and 2006:

	Capitalized expenditures	Effect of biological transformation	Fair value of biological assets
As of 30 June 2005	2 037	303	2 340
Increase due to purchases and subsequent expenditures capitalized in biological assets (July – September 2005)	803	–	803
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, July – September 2005, Note 23)	–	119	119
Decrease due to harvest (July – September 2005)	(2 840)	(422)	(3 262)
Increase due to purchases and subsequent expenditures capitalized in biological assets (October 2005 – June 2006)	2 284	–	2 284
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, October 2005 – June 2006, Note 23)	–	1 101	1 101
As of 30 June 2006	2 284	1 101	3 385
Increase due to purchases and subsequent expenditures capitalized in biological assets (July – September 2006)	1 029	–	1 029
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, July – September 2006, Note 23)	–	499	499
Decrease due to harvest (July – September 2006)	(3 313)	(1 600)	(4 913)
Increase due to purchases and subsequent expenditures capitalized in biological assets (October 2006 – June 2007)	4 250	–	4 250
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income, October 2006 – June 2007, Note 23)	–	5 422	5 422
As of 30 June 2007	4 250	5 422	9 672

11. PROPERTY PLANT AND EQUIPMENT, NET

As of 30 June 2007 property, plant and equipment with the carrying amount of USD 119 081 thousand (as of 30 June 2006: USD 63 937 thousand) was pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks and the Belgian bank (Notes 16, 17).

As of 30 June 2007 production equipment with the carrying amount of USD 4 574 thousand was held under finance lease (as of 30 June 2006: USD 5 395 thousand) (Note 18).

The following table represents movements in property, plant and equipment for the year ended 30 June 2007:

	Land	Buildings and Constructions	Production machinery and equipment	Agricultural vehicles and equipment	Transport vehicles	Fixtures, fittings and other fixed assets	CIP and uninstalled equipment	Total
Cost								
As of 30 June 2006	12	46 014	23 658	1 623	2 998	3 409	3 917	81 631
Additions from acquisition of Subsidiaries	2 188	46 511	20 203	1 561	636	665	702	72 466
Additions	–	–	–	–	–	–	5 610	5 610
Transfers	–	436	701	3 678	699	290	(5 804)	–
Due to disposal of Subsidiaries	–	(6 916)	(5 150)	(317)	(588)	(512)	(151)	(13 634)
Other disposals	–	(2 321)	(1 177)	(1 289)	(234)	(64)	–	(5 085)
As of 30 June 2007	2 200	83 724	38 235	5 256	3 511	3 788	4 274	140 988
Accumulated depreciation								
As of 30 June 2006	–	(3 391)	(3 456)	(706)	(806)	(789)	–	(9 148)
Depreciation	–	(2 806)	(3 232)	(473)	(493)	(543)	–	(7 547)
Due to disposal of Subsidiaries	–	1 180	1 609	29	234	257	–	3 309
Other disposals	–	36	41	94	77	15	–	263
As of 30 June 2007	–	(4 981)	(5 038)	(1 056)	(988)	(1 060)	–	(13 123)
Net Book Value								
As of 30 June 2007	2 200	78 743	33 197	4 200	2 523	2 728	4 274	127 865
As of 30 June 2006	12	42 623	20 202	917	2 192	2 620	3 917	72 483

12. INTANGIBLE ASSETS, NET

The following table represents movements in intangible assets for the year ended 30 June 2007:

	Trademarks	Other intangible assets	Total
Cost			
As of 30 June 2006	7 229	262	7 491
Additions from acquisition of Subsidiaries	9 385	81	9 466
Additions	–	104	104
Disposals	–	(6)	(6)
As of 30 June 2007	16 614	441	17 055
Accumulated depreciation			
As of 30 June 2006	–	(58)	(58)
Amortization charge	–	(176)	(176)
Disposals	–	–	–
As of 30 June 2007	–	(234)	(234)
Net book value			
As of 30 June 2007	16 614	207	16 821
As of 30 June 2006	7 229	204	7 433

Included in intangible assets of Subsidiaries are the "Schedry Dar" and "Stozhar" trademarks with the value of USD 7 229 thousand and USD 9 385 thousand respectively. These trademarks are used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market and are pledged as security for long-term loans as of 30 June 2007 and 2006 (Note 17).

Management of the Group expects the demand for bottled sunflower oil to be stable in the foreseeable future. The Group believes that, as a result of further promotion of the "Schedry Dar" and "Stozhar", 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 "Schedry Dar" and "Stozhar" are considered to have indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually and whenever there is an indication that the trademarks may be impaired.

13. GOODWILL

The following table represents movements in goodwill for the year ended 30 June 2007 and 2006:

As of 30 June 2005 and 2006	2 970
Goodwill arising on acquisition of Subsidiaries (Note 28)	8 521
As of 30 June 2007	11 491

14. OTHER NON-CURRENT ASSETS

The balances of other non-current assets as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Grain elevators lease rights ("DAK Asset") (Note 30)	1 981	2 344
Guarantee bank account	423	423
Prepayments for property, plant and equipment	380	590
Deferred expenses	93	–

	30 June 2007	30 June 2006
Loan to Beneficial Owner	–	1 600
Other non-current assets	58	18
Total	2 935	4 975

Grain elevators lease rights ("DAK Asset")

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

As "DAK" failed to settle in cash its debt on the last re-scheduled maturity date on 31 January 2003 the parties agreed that the "DAK Debt" would be recovered by granting to the Group the right for operating lease of the property of four grain elevators owned by "DAK" and by set-off of the related rentals payable against the "DAK Debt" for the total nominal amount of USD 4 872 thousand.

The depreciation of the lease terms is as follows:

Assets leased	Storage capacity of leased grain elevators	Maturity	Monthly rental payment
Property of three grain elevators	296 thousand tons of wheat (aggregated)	December 2012	USD 38 thousand (aggregated)
Property of one grain elevator	60 thousand tons of wheat	December 2006	USD 8 thousand

The "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period. The implicit annual discount rate approximates market interest rate in UAH at inception and equals 16.5%.

Guarantee bank account

The guarantee bank account represents cash kept on interest-free deposit account, maturing in July 2007, at the Belgian bank in order to secure the long-term credit facility obtained from this bank for financing the Group's acquisition of machinery and equipment (Note 17).

Loan to Beneficial Owner

As of 30 June 2006, a loan to the Beneficial Owner in the amount of USD 1 600 thousand, carrying interest of 12% per annum and maturing on 30 June 2011 was included in other non-current assets. As of 30 June 2007, this amount was offset against the amount due to the Beneficial Owner (Note 17).

15. ADVANCES FROM SUPPLIERS AND OTHER CURRENT LIABILITIES

The balances of advances from customers and other current liabilities as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Advances from customers	3 036	1 960
Obligation under finance lease payable within one year (Note18)	1 389	830
Accrued payroll, payroll related taxes and bonuses	1 584	107
Accounts payable for property, plant and equipment	1 576	11
Provision for unused vacations and other provisions	712	861
Short-term promissory notes issued	372	837
Taxes payable and provision for tax liabilities	266	68
Other current liabilities	–	61
Total	8 935	4 735

16. SHORT-TERM BORROWINGS

The balances of short-term borrowings as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Bank credit lines	36 647	22 145
Overdrafts	–	882
Interest accrued on short-term credits	309	108
Interest accrued on long-term credits	461	156
Total	37 417	23 291

The balances of short-term borrowings as of 30 June 2007 were as follows:

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	12,00%	USD	July 2007	150
Ukrainian bank	12,00%	USD	August 2007	1 746
Ukrainian bank	12,50%	USD	September 2007	212
Ukrainian bank	LIBOR + 4,5%	USD	November 2007	34 539
Total bank credit lines				36 647
Interest accrued on short-term loans				309
Interest accrued on long-term loans				461
Total				37 417

The balances of short-term borrowings as of 30 June 2006 were as follows:

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	12.0%	USD	July–August 2006	1 328
Ukrainian bank	16.0%	UAH	July–August 2006	795
Ukrainian bank	12.0%	USD	October 2006	6 371
Ukrainian bank	16.0%	UAH	December 2006	520
Ukrainian Subsidiary of an European Bank	LIBOR + 6%	USD	September 2006	5 999
Ukrainian Subsidiary of an European bank in association with another European Bank	LIBOR + 6%	USD	July 2006	7 132
Total bank credit lines				22 145
European Bank	LIBOR + 8.5%	USD		878
European Bank	LIBOR + 2%	USD		4
Total overdrafts				882
Interest accrued on short-term loans				108
Interest accrued on long-term loans				156
Total				23 291

As of 30 June 2007 the overall maximum credit limit for short-term bank credit lines and overdrafts amounted to USD 99 800 thousand (as of 30 June 2006: USD 47 365 thousand).

As of 30 June 2007 and 2006 short-term loans from banks were secured as follows:

Assets pledged	30 June 2007	30 June 2006
Property, plant and equipment (Note 11)	31 380	12 890
Inventories (Note 9)	30 008	18 108
Total	61 388	30 998

In addition, controlling stakes in the following Subsidiaries were pledged to secure the short-term and long-term bank loans (Note 17) of the Group as of 30 June 2007 and 2006:

Name of Subsidiary, in which a stake was pledged	30 June 2007	30 June 2006
CJSC "Poltava oil crushing plant-Kernel Group"	CJSC "Poltava oil crushing plant-Kernel Group"	
"Reshetylivka Hliboproduct" CJSC	JSC "Reshetilovski elevator"	
"Horol-Elevator" CJSC	JSC "Khorolskiy elevator"	
"Globynsky elevator HP" CJSC	JSC "Globinsky elevator kliboproduktiv"	
"Galeschina-Agro" CJSC	"Karlivka-Agro" CJSC	
"Lazorkovski Elevator" CJSC	"Sagaydak-Agro" CJSC	
"Poltavaavtotransservis" CJSC	"Galeschina-Agro" CJSC	
JSC "Poltavske khibopriemalne pidpriemstvo"	"Lazorkovski Elevator" CJSC	
"Karlivka-Agro" CJSC	"Novo-Sanzharski elevator" CJSC	
"Sagaydak-Agro" CJSC	CJSC "Mirgorodskiy elevator"	
"Novo-Sanzharski elevator" CJSC	JSC "Golovanivske hlibopriemalne pidpriemstvo"	
CJSC "Mirgorodskiy elevator"	JSC "Pidgorodnanski elevator"	
JSC "Golovanivske hlibopriemalne pidpriemstvo"	JSC "Poltavske khibopriemalne pidpriemstvo"	
JSC "Pidgorodnanski elevator"	"Gogoleve-Agro" CJSC	
"Gogoleve-Agro" CJSC	"Poltavaavtotransservis" CJSC	
CJSC "Semenivski elevator"	CJSC "Selestchinski elevator"	
CJSC "Vovchansk OEP"	CJSC "JSC Selkhoztehnika"	
CJSC "Prykolotne OEP"	CJSC "Semenivski elevator"	
CJSC "Velykoburlutske HPP"		
CJSC "Gutnansky elevator"		
CJSC "Lykhachivsky KHP"		
CJSC "Shevchenkisky KHP"		
CJSC "Orilske HPP"		
CJSC "Kovyagivske KHP"		
"Poltavaavtotransservis" CJSC		
JSC "Poltavske khibopriemalne pidpriemstvo"		
CJSC "Lozivske HPP"		
CJSC "Krasnopavlivsky KHP"		

Another owner of these Subsidiaries, the nominal holder of the shares on behalf of the Beneficial Owner additionally pledged its stake in the Group Subsidiaries to secure the short-term and long-term bank loans of the Group as of 30 June 2007 and 2006.

17. LONG-TERM BORROWINGS

The balances of long-term borrowings as of 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Long-term bank loans	106 257	51 538
Long-term borrowings from related parties	–	3 685
Less: Current portion of long-term borrowings	(7 018)	(5 655)
Total	99 239	49 568

Long-term bank loans

The balances of long-term loans as of 30 June 2007 were as follows:

Lender	Type of loan	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	Credit line	Libor+5.14%	USD	November 2013	5 714
Ukrainian bank	Credit line	12.0%	USD	June 2010	41 630
Ukrainian bank	Credit line	12.5%	USD	June 2010	6 850
Ukrainian bank	Credit line	12.5%	USD	September 2010	3 033
Ukrainian bank	Credit line	12.5%	USD	November 2010	3 150
Ukrainian bank	Credit line	Libor+5.14%	USD	November 2013	41 924
Ukrainian bank	Credit line	Libor+5.14%	USD	November 2013	3 573
Belgian bank	Term loan	3.98%	USD	July 2007	383
Total					106 257

Subsequent to 30 June 2007, the Group was negotiating with Ukrainian and European commercial banks various loans to finance its operating and investment activities (Note 33).

The balances of long-term loans as of 30 June 2006 were as follows:

Lender	Type of loan	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	Credit line	12.0%	USD	February 2007	3 332
Ukrainian bank	Credit line	12.0%	USD	August 2008	26 580
Ukrainian bank	Credit line	12.5%	USD	August 2008	6 850
Ukrainian bank	Credit line	15.0%	UAH	November 2010	2 900
Ukrainian bank	Credit line	12.5%	USD	November 2010	5 900
Ukrainian bank	Credit line	12.5%	USD	September 2007	4 066
Belgian bank	Term loan	3.98%	USD	July 2007	1 910
Total					51 538

(a) Long-term loan from a Belgian Bank

Loan from the Belgian bank was obtained in July 2003 to finance acquisition of machinery and equipment for production of sunflower seed oil and meal. The loan agreement stipulated the Group entering into an agreement with an European customer to sell annually approximately 12 000 tons of sunflower seed oil (hereinafter referred to as the "Off-take Agreement"), to be delivered in quarterly amounts of approximately 3 000 tons, the proceeds of which should be paid on the Security bank account with the Belgian bank. As of 30 June 2006 the loan was secured by:

- Property, plant and equipment with the carrying amount of USD 4 574 thousand (as of 30 June 2006: USD 5 395 thousand) (Note 11) financed by the loan;
- Guarantee bank account in the amount of USD 423 thousand (as of 30 June 2006: USD 423 thousand) (Note 5, 14);

- Security bank account in the amount of USD 412 thousand (as of 30 June 2006: USD 401 thousand) (Note 5);
- Insurance of a Belgian insurance institution and sales proceeds under the Off-take Agreement.

As of 30 June 2007 total quantity of sunflower oil to be supplied after 30 June 2007 under the terms of the Off-take agreement was 750 tons, corresponding to an amount of USD 600 thousand in prices as of 30 June 2007 (Note 30).

(b) Long-term loans from Ukrainian Banks

Long-term loans from Ukrainian banks as of 30 June 2007 were represented by revolving and non-revolving credit line facilities from two banks with the overall maximum credit limit of USD 106 000 thousand (as of 30 June 2006: USD 50 149 thousand from two banks).

As of 30 June 2007 and 2006 long-term loans from Ukrainian banks were secured as follows:

Assets pledged	Carrying amount	
	30 June 2007	30 June 2006
Property, plant and equipment (Note 11)	87 701	51 047
Inventories (Note 9)	1 548	–
Intangible assets (Note 12)	16 614	7 229
Controlling stakes in Subsidiaries (Note 16)	Not quantifiable	Not quantifiable
Total	105 863	58 276

(c) Long-term borrowings from related parties

In June 2007 the amount due to the Beneficial Owner (USD 2 885 thousand) was offset against the amount due from the Beneficial Owner (USD 1 600 thousand) (Note 14, 29).

18. OBLIGATIONS UNDER FINANCE LEASE

As of 30 June 2007 and 2006 the major components of finance lease liabilities were as follows:

	Minimum lease payments 30 June 2007	Present value of minimum lease payments 30 June 2007
Amounts payable due to the finance lease:		
Within one year	1 857	1 389
Later than one year and not later than five years	3 632	3 185
	5 489	4 574
Less future finance charges	(915)	N/A
Present value of lease obligations	4 574	4 574
Less: Amount due for settlement within one year (Note 15)		(1 389)
Amount due for settlement after one year		3 185
	Minimum lease payments 30 June 2006	Present value of minimum lease payments 30 June 2006
Amounts payable due to the finance lease:		
Within one year	1 169	830
Later than one year and not later than four years	5 361	4 565
	6 530	5 395
Less future finance charges	(1 135)	N/A

	Minimum lease payments 30 June 2006	Present value of minimum lease payments 30 June 2006
Present value of lease obligations	5 395	5 395
Less: Amount due for settlement within one year (Note 15)		(830)
Amount due for settlement after one year		4 565

In April–July 2005 CJSC "Poltava oil crushing plant – Kernel Group", a Subsidiary, entered into four finance lease contracts to acquire equipment for production of bottled sunflower oil with an Ukrainian subsidiary of an European bank for the total amount of USD 5 628 thousand.

The finance lease liability is denominated in USD and bears interest rate of 8.25% per annum.

19. CORPORATE BONDS ISSUED

In the period from September to October 2005, "Kernel-Trade" LLC, a Subsidiary, issued corporate bonds denominated in UAH for the equivalent amount of USD 9 892 thousand, repayable in September and October 2008, for series A and B respectively. The bonds bear coupon interest of 16% per annum (14% till October 2006), payable on a quarterly basis.

The interest rate due on bonds is subject to review once a year in September and October. Bondholders have a put option, which can be exercised during 30 days from the date the revised rate is announced (Note 33).

20. INCOME TAX

As of 30 June 2007 and 2006 the major components of deferred tax assets and liabilities were as follows:

	30 June 2007	30 June 2006
Deferred tax assets arising from:		
Tax losses carried forward	2 453	61
Valuation of advances from customers	734	1 028
Valuation of property, plant and equipment	616	–
Valuation of accounts receivable	299	442
Valuation of inventories	–	197
Valuation of accrued expenses and other temporary differences	237	249
Deferred tax asset	4 339	1 977
Less: valuation allowance	(428)	–
Net deferred tax asset after valuation allowance	3 911	1 977
Deferred tax liability arising from:		
Valuation of property, plant and equipment	(15 263)	(8 932)
Valuation of intangible assets	(3 660)	(1 793)
Valuation of prepayments to suppliers and prepaid expenses	(2 979)	(621)
Valuation of financial investments	(235)	–
Valuation of inventories	(21)	–
Deferred tax liability	(22 158)	(11 346)
Net deferred tax liability	(18 247)	(9 369)

As of 30 June 2007 and 2006 all deferred taxes arose from temporary differences related to assets and liabilities of Subsidiaries located in Ukraine. The corporate income tax rate in Ukraine was 25% as of 30 June 2007 and 2006.

The components of income tax expense for the years ended 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Current income tax expenses	614	363
Deferred tax benefit	(2 518)	(438)
Income tax benefit	(1 904)	(75)

The income tax charge for the years ended 30 June 2007 and 2006 is reconciled to the profit before income tax per consolidated income statement as follows:

	30 June 2007	30 June 2006
Profit/(loss) before income tax	16 692	(31)
Tax at the statutory income tax rate in Ukraine of 25%	4 173	–
Expenditures not allowable for income tax purposes and non-taxable income, net	(6 505)	626
Change in valuation allowance	428	(670)
Income tax benefit	(1 904)	(75)

21. REVENUE

Revenue for the years ended 30 June 2007 and 2006 was as follows:

	30 June 2007	30 June 2006
Revenue from bulk sunflower oil, cake and meal	159 515	53 265
Revenue from bottled sunflower oil	56 598	33 690
Revenue from oil business services	461	532
Revenue from grain trade	119 248	107 608
Revenue from grain business services	11 098	10 340
Other revenue	3 459	9 807
Total	350 379	215 242

For the year ended 30 June 2007 revenues from four European customers accounted for approximately 26% of the total revenue (for the year ended 30 June 2006 revenue from four European customers accounted for 31% of the total revenue).

22. COST OF SALES

The cost of sales for the years ended 30 June 2007 and 2006 was as follows:

	30 June 2007	30 June 2006
Cost of goods for resale and raw materials used	243 116	146 632
Payroll and payroll related costs	13 632	9 163
Depreciation of property, plant and equipment	6 511	3 407
Rental payments	725	1 198
Other operating costs	3 368	13 023
Total	267 352	173 423

23. OTHER OPERATING INCOME

The other operating income for the years ended 30 June 2007 and 2006 was as follows:

	30 June 2007	30 June 2006
Gain arising from changes in fair value attributable to physical changes and to changes in the market price for biological assets (Note 10)	5 921	1 220
Other operating income	1 944	–
Total	7 865	1 220

24. DISTRIBUTION COSTS

The distribution costs for the years ended 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Carriage and freight	33 217	15 750
Marketing and advertising	1 843	1 392
Payroll and payroll related costs	1 325	1 166
Customs expenses	1 256	854
Certification	604	643
Sanitation services	189	235
Depreciation	187	97
Other expenses	342	204
Total	38 963	20 341

25. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the years ended 30 June 2007 and 2006 were as follows:

	30 June 2007	30 June 2006
Payroll and payroll related costs	5 481	4 226
Bank services	987	798
Bad debts expenses	791	767
Amortization and depreciation	847	611
Taxes other than income tax	831	354
Audit, legal and other professional fees	749	634
Rental payments	709	652
Repairs and material costs	632	536
Information expenses and communication services	399	621
Business trip expenses	369	227
Communication expenses	284	260
Insurance	183	127
Other expenses	1 033	872
Total	13 295	10 685

26. FINANCE COSTS, NET

The finance costs for the years ended 30 June 2007 and 2006 were as follows:

	<u>30 June 2007</u>	<u>30 June 2006</u>
Interest expense on bank loans and corporate bonds	17 993	8 368
Interest expense on borrowings from related parties	315	433
Other finance costs, net	555	502
Total	<u>18 863</u>	<u>9 303</u>

27. OTHER INCOME/ (EXPENSES), NET

The other income/ (expenses) for the years ended 30 June 2007 and 2006 were as follows:

	<u>30 June 2007</u>	<u>30 June 2006</u>
Income from "DAK Asset"	324	651
Loss on disposal of property, plant and equipment	(1 035)	(159)
Gain on sale of equity investments (Note 28)	427	–
Other expenses, net	(2 027)	(2 302)
Total	<u>(2 311)</u>	<u>(1 810)</u>

Income from "DAK Asset" for the year ended 30 June 2007 represents change in value of the "DAK Asset" as a result of passage of time and partial realization of the nominal amount of the "DAK Debt", which was not recognized as asset at 30 June 2006, by additional set-offs with "DAK" (Note 14).

28. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The following entities were acquired during the year ended 30 June 2007:

Subsidiary	Principal Activity	Country of Incorporation	Acquisition date	Group's Effective Ownership Interest as of 30 June 2007
CJSC "Vovchansk OEP"	Production plants. Production of sunflower oil and meal.	Ukraine	16 February 2007	98.8%
CJSC "Prykolotne OEP"		Ukraine	01 December 2006	69.9%
CJSC "Prykolotnyanska oliya"		Ukraine	01 December 2006	0.0%
CJSC "Bogodukhivske HPP"	Grain elevators. Provision of on cleaning, drying and grain storage services.	Ukraine	01 December 2006	Disposed of
CJSC "Velykoburlutske HPP"		Ukraine	01 December 2006	99.8%
CJSC "Vlasivskiy KHP"		Ukraine	01 December 2006	99.8%
"Vlasivske" LTD		Ukraine	01 December 2006	Disposed of
CJSC "Gutnansky elevator"		Ukraine	01 December 2006	99.8%
CJSC "Lykhachivsky KHP"		Ukraine	01 December 2006	99.8%
CJSC "Zolochivske HPP"		Ukraine	01 December 2006	Disposed of
CJSC "Shevchenkivsky KHP"		Ukraine	01 December 2006	99.8%
CJSC "Orilske HPP"		Ukraine	01 December 2006	99.8%
CJSC "Kovyagivske KHP"		Ukraine	01 December 2006	99.8%
CJSC "Kegychivske HPP"		Ukraine	01 December 2006	Disposed of
CJSC "Vovchansky KHP"		Ukraine	01 December 2006	99.8%
CJSC "Lozivske HPP"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	01 December 2006	99.8%
CJSC "Krasnopavlivsky KHP"		Ukraine	01 December 2006	99.8%
LLC "Agrofirma "Krasnopavlivska"		Ukraine	01 December 2006	0.0%

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

Acquired net assets:

Cash	1 067
Short term securities held-to-maturity	552
Trade accounts receivable, net	2 048
Prepayments to suppliers and other current assets, net	1 806
Taxes recoverable and prepaid, net	173
CIT prepayments	96
Inventory	5 352
Biological assets, current	34
Property, plant and equipment, net (Note 11)	72 466
Intangible assets, net (Note 12)	9 466
Long term securities held-to-maturity	665
Biological assets, non-current	29
Deferred tax assets	141
Other non-current assets	1 279
Trade accounts payable	(4 027)
Advances from customers and other current liabilities	(1 393)
CIT liabilities	(4)
Short-term borrowings	(3 220)
Long-term borrowings	(6 761)
Deferred tax liabilities	(10 436)

Fair value of net assets of acquired Subsidiaries **69 333**

Minority interest of acquired Subsidiaries (8 124)

Fair value of acquired net assets 61 209

Goodwill (Note 13) 8 521

Total cash considerations paid **69 730**

Less: acquired cash (1 067)

Net cash outflow from acquisition of Subsidiaries **68 663**

The following entities were disposed of during the year ended 30 June 2007:

Subsidiary	Principal Activity	Country of Incorporation	Disposal date
Kernel Group International LLC	Former holding company.	USA	26 June 2007
Inerco UK LLP	Trade of sunflower oil, meal and grain.	Great Britain	26 June 2007
"Kernel-Yug" LLC	Dormant company.	Russia	31 December 2006
CJSC "MZRM – Striletskaya Step"	Production plants. Production of sunflower oil and meal.	Ukraine	15 May 2007
"Kernel-Vostok" LLC	Trade of bottled sunflower oil, Russia.	Russia	26 June 2007
CJSC "JSC Selkhoztehnika"	Provision of transport services to Group companies.	Ukraine	21 May 2007.
CJSC "Selesthchinski elevator"	Grain elevators. Provision of cleaning, drying and grain storage services.	Ukraine	19 April 2007
"Bobrynetsky elevator LTD"		Ukraine	25 April 2007.
LLC "Zhytnitsa"		Ukraine	15 May 2007
LLC "Krivoy Rog hleboproduct"		Ukraine	31 December 2006
LLC "Krasnograd hleboproduct"		Ukraine	31 December 2006
LLC "Belovodskiy elevator"		Ukraine	26 June 2007
CJSC "Bogodukhivske HPP"		Ukraine	15 June 2007
"Vlasivske" LTD		Ukraine	17 May 2007
CJSC "Kegychivske HPP"		Ukraine	23 March 2007
CJSC "Zolochivske HPP"		Ukraine	27 June 2007

Disposed subsidiaries had been previously fully consolidated. Fair value of assets, liabilities and contingent liabilities was as follows:

Assets disposed of, net:

Cash	238
Trade accounts receivable, net	611
Prepayments to suppliers and other current assets, net	269
Taxes recoverable and prepaid, net	326
Inventory	693
Property, plant and equipment, net (Note 11)	10 326
Other non-current assets	161
Trade accounts payable	(1 013)
Advances from customers and other current liabilities	(854)
Deferred tax liabilities	(275)

Fair value of assets of disposed Subsidiaries, net **10 482**

Minority interest of disposed Subsidiaries **(527)**

Fair value of disposed assets, net **9 955**

Gain on disposal of Subsidiaries (Note 27) **427**

Total cash consideration received **10 382**

Less: cash from assets disposed of, net (238)

Less: accounts receivable of Subsidiaries disposed of, net (1 210)

Net cash inflow from Subsidiaries disposed of **8 934**

29. TRANSACTIONS WITH RELATED PARTIES

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

The Group had the following balances outstanding with related parties as of 30 June 2007 and 2006:

	Related party balances as of 30 June 2007	Total category as per consolidated balance sheet as of 30 June 2007	Related party balances as of 30 June 2006	Total category as per consolidated balance sheet as of 30 June 2006
Trade accounts receivable, net, (Note 6)	38	9 828	–	9 052
Prepayments to suppliers and other current assets, net, (Note 7)	218	8 567	66	7 376
Other non-current assets (Note 14)	–	2 935	1 600	4 975
Trade accounts payable	23	5 809	–	829
Advances from customers and other current liabilities (Note 15)	13	8 935	–	4 735
Current portion of long-term borrowings (Note 17)	–	7 018	369	5 655
Long-term borrowings (Note 17)	–	99 239	3 316	49 568
Subordinated loan	7 532	7 532	–	–

Transactions with related parties for the years ended 30 June 2007 and 2006 were as follows:

	Amount of operations with related parties, for the year ended 30 June 2007	Total category per consolidated income statement for the year ended 30 June 2007	Amount of operations with related parties, for the year ended 30 June 2006	Total category per consolidated income statement for the year ended 30 June 2006
Revenue (Note 21)	152	350 379	13 410	215 242
General, operational, administrative and distribution expenses (Note 24, 25)	757	52 258	7 743	31 026
Finance costs (Note 26)	315	18 863	433	9 303
Other (expenses) /income, net (Note 27)	29	(2 311)	(2 300)	(1 810)

- During the year ended 30 June 2007 the Group purchased raw materials and goods for resale from related parties for the amount of USD 671 thousand (year ended 30 June 2006: USD 784 thousand).
- During the year ended 30 June 2007 the Group's ownership interest changed in a number of Subsidiaries (Note 1). The changes resulted in an increase in minority interest for an amount of USD 613 thousand. This increase in minority interest was reflected as a decrease of additional paid-in capital in the consolidated statement of changes in shareholders' equity (During the year ended 30 June 2006 the Beneficial Owner increased the Group's ownership interest in a number of Subsidiaries by effectively free-of-charge acquisition of shares

in these Subsidiaries from the nominal shareholders, which resulted in decrease of the balance of minority interest for an amount of USD 8 606 thousand).

- c) As discussed in Notes 14 and 17, in June 2007 USD 2 885 thousand owed by the Group to the Beneficial Owner was set off against the loan with carrying amount of USD 1 600 thousand granted by the Group to the Beneficial Owner. As a result of this transaction the Group recognized USD 1 285 thousand as a contribution of additional paid-in capital in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2007.
- d) During the year ended 30 June 2007 no withdrawal by the Beneficial Owner has been made. During the year ended 30 June 2006 the Beneficial Owner made a withdrawal amounting to USD 879 thousand which was reflected in movement of retained earnings in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2006.
- e) In November 2006, as part of a financing transaction including subscription of shares in Kernel Holding S.A., the Group obtained a subordinated non-interest bearing loan expressed in EUR from Evergreen Financial Limited. While the loan matures on 31 December 2008, it is repayable in March 2008 if the New Nominal Owner chooses to exercise his call option in respect of the 14,20% shareholding held by Evergreen Financial Limited in Kernel Holding S.A.
- f) During the year ended 30 June 2007 the Group paid compensation to top management in the amount of USD 539 thousand (year ended 30 June 2006: USD 472 thousand).

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

30. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

As of 30 June 2007 and as of 30 June 2006 the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Legal Issues – The Group is involved in litigation and other claims that are in the ordinary course of its business activities. Management of the Group believes that the resolution of such legal matters will not have a material impact on its financial position.

"DAK Asset" – As discussed in Note 14 the "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of "DAK" grain elevators during the agreed lease period and amounts to USD 1 981 thousand as of 30 June 2007 (as of 30 June 2006: USD 2 344 thousand).

"DAK" is a State company, which has been loss-making for a number of years. In October 2005 the Chief Executive Officer of "DAK" announced "DAK" insolvent and as a result the State authorities are currently considering reorganization or privatization of "DAK". One of the suggested actions within the reorganization procedures under consideration include initiation of court proceedings aimed at termination of "DAK" agreements on lease of its grain elevators.

In addition, the Law "On restoring solvency of a debtor or declaring it a bankrupt" ("the Law on Bankruptcy") stipulates a process of sanation within bankruptcy procedures as one of the procedures aimed at restoring solvency of a debtor. The Law on Bankruptcy also stipulates under certain conditions the right of the appointed sanation manager to initiate court proceedings aimed at termination of agreements between the debtor and its counterparties.

Accordingly, should the State authorities finally opt to reorganize "DAK" or should the bankruptcy procedures and subsequently sanation of "DAK" be initiated there is a risk that the lease agreements between "DAK" and the Group will be terminated which will result in provision for impairment for the "DAK Asset" and this provision could be material.

Contingent Liability Related to Government Assistance Programs – During 1995–1999 the State Treasury of Ukraine through the State Reserve of Ukraine, local state administrations and "DAK" (collectively "State representative bodies") implemented government assistance/loan programs ("Government assistance programs") to support collective agricultural farms ("Agricultural farms"). According to these programs, the grain elevators acted as state agents responsible for delivery of goods (fuel, fertilizers, grain seeds, etc.) from the State representative bodies to Agricultural farms and subsequent receipt of grain products from Agricultural farms as a settlement of their liabilities to the State representative bodies. Under a number of Government assistance programs some grain elevators were also obliged to sign direct purchase agreements with the State representative bodies and the corresponding direct sale agreements with Agricultural farms and, accordingly, were obliged to account for these transactions on their balance sheets.

As a result of such Government assistance programs, total liabilities to State representative bodies, recorded in the statutory accounting registers and off-balance sheet records of grain elevators of the Group amounted to USD 1 133 thousand as of 30 June 2007 and 2006. The current Ukrainian legislation is uncertain in determining whether the liabilities under such Government assistance programs are to be repaid by the grain elevators involved or not and, therefore, there is a possibility that the State representative bodies may claim the repayment of the total amount of these liabilities in the amount of USD 1 133 thousand from the Group's grain elevators.

Capital Commitments – As of 30 June 2007 the Group had a commitment to purchase a 30% shareholding in CJSC "Prykolotne OEP" for an amount of EURO 2 054 thousand, such amount to be paid latest 31 December 2007. As of 30 June 2006 the Group had no capital commitments.

Contractual Commitments on Sales – As of 30 June 2007 the Group had entered into commercial contracts for export of 50 530 tons of sunflower oil and meal, corresponding to an amount of USD 24 264 thousand in prices as of 30 June 2007 (Note 17). As of June 30, 2006 the Group had entered into commercial contracts for the export of 3,000 tons of oil corresponding to an amount of USD 1 800 thousand.

Operating Leases – As of 30 June 2007 and 2006 the Group had outstanding commitments under non-cancellable operating lease agreements which all fall due as follows:

Lease term	Future minimum lease payments as of 30 June 2007	Future minimum lease payments as of 30 June 2006
Less than 1 year	2 264	1 424
From 1 to 5 years	5 168	4 078
More than 5 years	590	1 306
Total	8 022	6 808

Operating lease payments mainly represent rentals payable by the Group for "DAK" grain elevators and equipment (Note 14), office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation.

31. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit Risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. Limits on the level of credit risk by customer are approved on a regular basis by the management of the Group.

Currency Risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management of the Group sets limits on the level of exposure by currencies.

Interest Rate Risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Currently, the Group mitigates interest rate risk by borrowing partially at fixed rates.

Liquidity Risk – The Group's objective is to maintain a balance between continuous funding and flexibility in the use of bank loan funds and settlements with suppliers. In accordance with the Group's plans its demand in working capital will be satisfied mainly by cash inflows generated by operating activities. The Group may also use loan funds unless proceeds from operating activities are sufficient for appropriate settlement of liabilities.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: Disclosure and Presentation" and IAS No. 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument. As of 30 June 2007 and 2006 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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

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

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

33. SUBSEQUENT EVENTS

- a) Until 31 July 2007 the Holding fell under the 1929 Holding Company Regime ("Holding 29"), whereby Luxembourg pure holding companies benefit from a privileged tax status subject to certain conditions. From 01 August 2007, following a resolution of the Shareholders meeting dated 31 July 2007, the Holding has changed its legal status from Holding 29 to Soparfi (Société de Participation Financière). A Soparfi is an ordinary taxable company in Luxembourg, subject to tax in Luxembourg on its worldwide income and worldwide wealth, but benefiting from the favourable participation exemption, tax treaties concluded by Luxembourg and EU Directives. The above mentioned Decision of Shareholders also changed the measurement currency of the Holding from EURO to USD and nominal value of shares was abolished.
- b) In July 2007 "Kernel Trade" LLC, a Subsidiary, obtained an exclusive right to produce bottled oil under the trademark "Chumak" and also acquired the trademarks "Zolota" and "Domashnya". The total consideration paid was USD 13 500 thousand. The Group is in process of determining the fair value of the assets acquired.
- c) Subsequent to 30 June 2007 the Group negotiated with Ukrainian and European commercial banks short-term and long-term credit facilities to finance its investing activities for an amount of USD 13 500 thousand and to finance its operating activities for the overall maximum credit limit of USD 40 000 thousand and pledged its inventory, property, plant and equipment, and property rights for sales agreements to secure these loan facilities.
- d) Subsequent to 30 June 2007, "Kernel-Trade" LLC, a Subsidiary, issued corporate bonds denominated in UAH for the total equivalent amount of USD 19 800 thousand and repayable in September 2010. The bonds bear coupon interest of 14% per annum, payable on a quarterly basis, and guaranteed by Inerco Trade S.A. and "Kernel Capital" LLC, Subsidiaries. The interest rate due on bonds is subject to review once a year in September. Bondholders have a put option, which can be exercised during 30 days from the date the revised rate is announced.
- e) In October 2007, "Kernel-Trade" LLC, a Subsidiary, revised the annual rate of interest paid by bonds issued in the period from September to October 2005. Bondholders did not exercise their right to redeem the bonds following the adjustment in interest rate (Note 19).

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

**Independent Auditors' Report
Consolidated Financial Statements
Year Ended 30 June 2006**

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REPORT OF THE AUDITOR

To the board of Directors of

KERNEL HOLDING S.A.

65, Boulevard Grande-Duchesse Charlotte

L-1331 Luxembourg

Report on the consolidated financial statements

Following our appointments by the board of Directors dated July 24, 2006 we have audited the accompanying consolidated financial statements of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group"), which comprise the consolidated balance sheet as at June 30, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors responsibility 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are



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appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's and the Group'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 for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") of June 30, 2006, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Confirmation of responsibilities

Statement of Management responsibilities is consistent with the consolidated financial statements.

Kyiv, Ukraine

September 1, 2007

General Director
LLC BAKER TILLY UKRAINE
Independent member of Baker Tilly International
Turhenevska 71, Kyiv, Ukraine, 04050
Registration with Ukrainian Chamber
of Audit number 2091 of January 26, 2006.



Reg. №668/1

Alexander Pochkun

KERNEL HOLDING S.A. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2006***(in US dollars and in thousands unless otherwise stated)*

ASSETS	Notes	30 June 2006	30 June 2005
<i>CURRENT ASSETS:</i>			
Cash	5	6 384	9 824
Trade accounts receivable, net	6	9 052	6 801
Prepayments to suppliers and other current assets, net	7, 29	7 376	3 108
Taxes recoverable and prepaid, net	8	9 468	5 952
Inventory	9	32 300	11 058
Biological assets	10	3 385	2 340
Total current assets		67 965	39 083
<i>NON-CURRENT ASSETS:</i>			
Property, plant and equipment, net	11	72 483	68 213
Intangible assets, net	12	7 433	7 259
Goodwill	13	2 970	2 970
Other non-current assets	14, 29	4 975	5 138
Total non-current assets		87 861	83 580
TOTAL ASSETS		155 826	122 663
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES:</i>			
Trade accounts payable		829	2 451
Advances from customers and other current liabilities	15	4 735	4 759
Short-term borrowings	16	23 291	2 261
Current portion of long-term borrowings	17, 29	5 655	18 409
Total current liabilities		34 510	27 880
<i>NON-CURRENT LIABILITIES:</i>			
Long-term borrowings	17, 29	49 568	35 428
Obligation under finance lease	18	4 565	1 157
Corporate bonds issued	19	10 258	–
Deferred tax liabilities	20	9 369	9 807
Total non-current liabilities		73 760	46 392
<i>COMMITMENTS AND CONTINGENCES</i>	30		
<i>EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A. SHAREHOLDERS</i>			
Share capital		964	964
Additional paid-in capital	22, 29	39 425	31 698
Retained earnings		1 287	–
Total equity attributable to Kernel Holding S.A. shareholders		41 676	32 662
MINORITY INTEREST	21, 29	5 880	15 729
Total equity		47 556	48 391
TOTAL LIABILITIES AND EQUITY		155 826	122 663

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-49 to F-74 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

(in US dollars and in thousands unless otherwise stated)

	Notes	30 June 2006	30 June 2005
REVENUE	23, 29	215 242	143 763
COST OF SALES	24	(173 423)	(120 582)
GROSS PROFIT		41 819	23 181
OTHER OPERATIONAL INCOME	10	1 220	303
OPERATING EXPENSES:			
Distribution costs	25	(20 341)	(11 441)
General and administrative expenses	26, 29	(10 685)	(7 087)
TOTAL OPERATING EXPENSES		(31 026)	(18 528)
OPERATING PROFIT		12 013	4 956
Finance costs, net	27, 29	(9 303)	(6 640)
Foreign exchange (loss)/gain, net		(931)	1 124
Other (expenses)/income, net	28, 29	(1 810)	883
(LOSS)/PROFIT BEFORE INCOME TAX		(31)	323
INCOME TAX	20	75	267
NET PROFIT		44	590
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
Shareholders of Kernel Holding S.A.		1 287	459
Minority interest	21	(1 243)	131

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-49 to F-74 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2006*(in US dollars and in thousands unless otherwise stated)*

	Share capital	Additional paid-in capital	Retained earnings	Cumulative translation adjustment	Total equity attributable to Kernel Holding S.A. shareholders	Minority interest	Total equity
Balance at 30 June 2004	1	6 303	22 888	–	29 192	15 380	44 572
Contributions of additional paid-in capital (Note 22)	–	2 336	–	–	2 336	–	2 336
Tax effect of contributions of additional paid-in capital	–	(336)	–	–	(336)	–	(336)
Effect on minority interest of contributions of additional paid-in capital	–	396	–	–	396	(396)	–
Withdrawals	–	–	(904)	–	(904)	–	(904)
Cumulative translation adjustment	–	–	–	1 519	1 519	614	2 133
Net profit	–	–	459	–	459	131	590
Effect of change in reporting entity	963	22 999	(22 443)	(1 519)	–	–	–
Balance at 30 June 2005	964	31 698	–	–	32 662	15 729	48 391

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2006*(in US dollars and in thousands unless otherwise stated)*

	Share capital	Additional paid-in capital	Retained earnings	Total equity attributable to Kernel Holding S.A. shareholders	Minority interest	Total equity
Balance at 30 June 2005	964	31 698	–	32 662	15 729	48 391
Effect of changes on minority interest (Note 21)	–	8 606	–	8 606	(8 606)	–
Effect of withdrawals on additional paid-in capital (Note 22)	–	(879)	–	(879)	–	(879)
Net profit	–	–	1 287	1 287	(1 243)	44
Balance at 30 June 2006	964	39 425	1 287	41 676	5 880	47 556

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-49 to F-74 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006***(in US dollars and in thousands unless otherwise stated)*

	<u>30 June 2006</u>	<u>30 June 2005</u>
OPERATING ACTIVITIES:		
(Loss)/profit before income tax	(31)	323
Adjustments to reconcile profit before income tax to net cash used in operating activities:		
Amortization and depreciation	4 983	4 119
Finance costs	9 303	6 640
Bad debt expenses and other accruals	1 885	569
Loss on disposal of property, plant and equipment	159	483
Foreign exchange losses/(gains), net	931	(1 124)
Income from "DAK Asset"	(651)	(863)
Gain on sales of equity investments	–	(305)
Operating profit before working capital changes	16 579	9 842
Changes in working capital:		
Increase in trade accounts receivable	(2 708)	(5 047)
Increase in prepayments and other current assets	(4 449)	(1 828)
Decrease/(increase) in restricted cash balance	14	(370)
Increase in taxes recoverable and prepaid	(3 524)	(4 242)
Increase in biological assets	(1 044)	(925)
Increase in inventories	(21 664)	(212)
(Decrease)/Increase in trade accounts payable	(1 622)	1 325
(Decrease)/Increase in advances from customers and other current liabilities	(842)	1 646
Cash (used in)/obtained from operations	(19 260)	189
Finance costs paid	(9 423)	(5 355)
Income tax paid	(364)	(138)
Net cash used in operating activities	(29 047)	(5 304)

KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASHS FLOW (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2006*(in US dollars and in thousands unless otherwise stated)*

	Notes	30 June 2006	30 June 2005
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(6 741)	(9 467)
Proceeds from sales of equity investments		–	381
Purchase of equity investments		–	(76)
Proceeds from disposal of property, plant and equipment		769	1 617
Sales/(Purchase) of intangible and other non-current assets		611	(628)
Acquisition of Subsidiaries		–	(12 449)
Net cash used in investing activities		(5 361)	(20 622)
FINANCING ACTIVITIES:			
Proceeds from short-term and long-term borrowings		94 916	96 168
Repayment of short-term and long-term borrowings		(73 552)	(62 178)
Corporate bonds issued		10 258	–
Withdrawals		(879)	(904)
Net cash provided by financing activities		30 743	33 086
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3 665)	7 160
CASH AND CASH EQUIVALENTS, at the beginning of the year	5	9 409	2 102
TRANSLATION ADJUSTMENT		239	147
CASH AND CASH EQUIVALENTS, at the end of the year	5	5 983	9 409

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-49 to F-74 form an integral part of these consolidated financial statements.

KERNEL HOLDING S.A. AND SUBSIDIARIES**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006***(in US dollars and in thousands unless otherwise stated)***1. NATURE OF THE BUSINESS**

Kernel Holding S.A. (hereinafter referred to as the "Holding") incorporated under the legislation of Luxembourg on 15 June 2005 is a 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"). Prior to 15 June 2005 the holding company of the Group was Kernel Group International LLC (hereinafter referred to as the "Former Holding Company"), incorporated under the legislation of the United States of America (state of New York) on 27 January 2003 under its previous name – Landor Trading LLC.

The primary activity of the Group is related to production of bottled sunflower oil traded in Ukraine, production and subsequent export of sunflower-seed oil and meal and wholesale trade of grain (mainly wheat, barley and corn).

The majority of the Group operations are located in Ukraine.

The principal operating office of the Group is located at the following address: 16 Nemirovicha-Danchenko str., 01133 Kyiv, Ukraine.

As of 30 June 2006 and 2005 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 2006	Group's Effective Ownership Interest as of 30 June 2005
Kernel Assets Division S.A.	Holding company. No significant activity since date of foundation.	Luxembourg	Liquidated	96.8%
Inerco Trade S.A.	Trade of sunflower-seed oil, meal and grain.	Switzerland	99.9%	99.9%
Lanen S.A.		Panama	100.0%	N/A
Inerco UK LLP		Great Britain	98.0%	98.0%
Kernel Group International LLC	Former holding company. No significant activity since date of foundation.	USA	99.0%	99%
"Kernel-Trade", LLC	Trade of sunflower-seed oil, meal and grain.	Ukraine	98.9%	98.9%
LLC JE "Inerco-Ukraine"	Holding company. No significant activity since the date of foundation.	Ukraine	99.9%	99.9%
"Kernel-Yug" LLC	Newly established trading company for grain trading in Russia. No significant activity since date of foundation.	Russia	100.0%	N/A
"Kernel-Vostok" LLC	Trade of bottled sunflower oil, Russia.	Russia	100.0%	N/A
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine. Performs transactions with financial instruments.	Ukraine	95.8%	95.8%
CJSC "Poltava oil crushing plant – Kernel Group"	Production plant. Production of sunflower – seed oil and meal.	Ukraine	94.0%	76.6%
CJSC "MZRM – Striletskaya Step"	Production plant. Production of sunflower – seed oil and meal.	Ukraine	99.0%	76.8%
LLC "Yuzhtrans-Terminal"	Dormant company.	Ukraine	99.0%	95.8%
"Poltavaavtotransservis" CJSC	Rendering transport services to Group companies.	Ukraine	98.0%	76.2%
CJSC "JSC Selkhoztehnika"		Ukraine	96.8%	77.0%
LLC "Agroservice"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	19.0%	19.0%
LLC "Zernoservice"		Ukraine	19.0%	18.4%
LLC "Unigrain-Agro" (Semenovka)		Ukraine	99.0%	19.0%
LLC "Unigrain-Agro" (Globino)		Ukraine	99.0%	19.0%
LLC "Mrija-Agro"		Ukraine	99.0%	19.0%
CJSC "Mirgorodsky elevator"	Grain elevators. Services on cleaning, drying and storage of grain.	Ukraine	96.1%	66.7%
CJSC "Selesthchinski elevator"	Grain elevators. Services on cleaning, drying and storage of grain.	Ukraine	97.4%	57.6%
JSC "Poltavske khlibopriemalne pidpriemstvo"		Ukraine	84.5%	65.9%
JSC "Golovanivske khlibopriemalne pidpriemstvo"		Ukraine	98.3%	95.1%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of 30 June 2006	Group's Effective Ownership Interest as of 30 June 2005
"Galeschina-Agro" CJSC	Grain elevators. Services on cleaning, drying and storage of grain.	Ukraine	99.0%	71.9%
"Gogoleve-Agro" CJSC		Ukraine	98.9%	71.4%
"Sagaydak-Agro" CJSC		Ukraine	93.9%	66.0%
"Karlivka-Agro" CJSC		Ukraine	97.7%	58.9%
"Novo-Sanzharski elevator" CJSC		Ukraine	94.4%	39.4%
"Lazorkovski Elevator" CJSC		Ukraine	99.0%	76.6%
"Zhrebkivsky elevator LTD"		Ukraine	80.1%	77.6%
"Bobrynetsky elevator LTD"		Ukraine	80.1%	77.6%
"Kononivsky elevator LTD"		Ukraine	80.1%	77.6%
JSC "Pidgorodnanski elevator"		Ukraine	74.2%	48.0% (direct Group ownership interest amounts to 50.1%)
LLC "Bandurskiy elevator"		Ukraine	99.0%	95.8%
CJSC "Semenivski elevator"		Ukraine	58.0%	55.5%
LLC "Zhytnitsa"		Ukraine	99.0%	76.8%
LLC "Kobelyaki hleboproduct"		Ukraine	0.0%	0.0%
LLC "Krivoy Rog hleboproduct"		Ukraine	0.0%	0.0%
"Globynsky elevator HP" CJSC (at 30 June 2005 registered as JSC "Globinsky elevator kliboproduktiv")		Ukraine	78.8%	45.1%
LLC "Krasnograd hleboproduct"		Ukraine	19.0%	19.0%
LLC "Sahnovshina hleboproduct"		Ukraine	0.0%	0.0%
LLC "Belovodskiy elevator"		Ukraine	99.0%	94.9%
"Horol-Elevator" CJSC (at 30 June 2005 registered as JSC "Khorolskiy elevator")	Holding company for agricultural farms.	Ukraine	78.0%	46.8%
"Reshetylivka Hliboproduct" CJSC (at 30 June 2005 registered as JSC "Reshetilovski elevator")		Ukraine	77.6%	57.4%
LLC "Ukrainian Agricultural Company"	Holding company for agricultural farms.	Ukraine	0.3%	0.3%

The Group consolidated the financial statements of LLC "Ukrainian Agricultural Company", LLC "Agroservice", LLC "Zernoservice", LLC "Kobelyaki hleboproduct", LLC "Krivoy Rog hleboproduct", LLC "Krasnograd hleboproduct" and LLC "Sahnovshina hleboproduct" due to the fact that other shareholders of these Subsidiaries – related parties to the Group, who possess majority share of the voting rights in each of these Subsidiaries, are nominal holders of these shares on behalf of the ultimate beneficial owners of the Group (hereinafter referred to as the "Beneficial Owner"). "Kernel-Capital" LLC received power of attorney from these related parties to act on their behalf in exercising ownership rights related to these shares. The Group's management believes that it has power to govern operating and financial policies of these Subsidiaries.

During year ended 30 June 2006 the Group ceased operating activities of JSC "Reshetilovski elevator", JSC "Khorolskiy elevator", JSC "Globinsky elevator kliboproduktiv" and transferred all operating assets of these Subsidiaries to newly founded entities – "Reshetylivka Hliboproduct" CJSC, "Horol-Elevator" CJSC, "Globynsky elevator HP" CJSC, respectively.

These consolidated financial statements were authorized for issue by Verevskiy Andrey Mikhaylovych the Honorary Chairman of Kernel Group, on 25 December 2006.

2. CHANGE IN REPORTING ENTITY AND SHARE CAPITAL

As of 30 June 2004 the holding company of the Group was Kernel Group International LLC (USA), whose contributed capital was fully owned by Sherval Management Ltd. (hereinafter referred to as the "Former Nominal Owner") – a limited liability company registered under the legislation of British Virgin Islands.

Since 15 June 2005 the holding company of the Group became Kernel Holding S.A. (Luxembourg) (the "Holding"), whose share capital consists of 8,000 authorized, allotted and fully paid ordinary shares each carrying one vote and having a nominal value of EURO ("EUR") 100.

The shares were distributed as follows:

	30 June 2006 and 2005	
	Shares allotted and fully paid	Share owned, %
NOMINAL SHAREHOLDERS		
Bissani Investment S.A. (public limited company registered under the legislation of Costa Rica) (hereinafter the "New Nominal Owner")	7 999	99.99%
Individual	1	0.01%
Total	8 000	100.00%

As of 30 June 2006 and 2005 100% of the beneficial interest in the Former and New Nominal Owners was held by Verevskiy Andrey Mikhaylovych (the "Beneficial Owner").

The change of the Group holding company and thus the change in the reporting entity was made for the purpose of optimization of the tax and legal structure of the Group. It was realized by effectively free of charge transfer to the Holding of 99% of the ownership interest in the Former Holding Company and transfer of major shareholdings in Major Group Subsidiaries owned by the Former Holding Company with simultaneous cash contribution to the share capital of the Holding made by the New Nominal Owner on behalf of the Beneficial Owner. This contribution in the amount of EUR 800 thousand (USD 964 thousand) was performed through cash withdrawals by the Beneficial Owner from the Group retained earnings. The remaining 1% of the ownership interest in the Former Holding Company was transferred from the Former Nominal Owner to another nominal owner.

The change of the Group holding company resulted in a capitalization of reserves within equity included into additional paid-in capital as of 30 June 2005 (Note 22). The effect of retrospective application of this change was assessed by management as insignificant and thus no restatement of comparative information was presented.

3. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation and Accounting – The accompanying consolidated financial statements are prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group Subsidiaries' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The present financial statements have been prepared in accordance with amendments and additions of IFRS which became effective on June 30th, 2006. The Group implemented changes to IAS 1 (revised) "Presentation of financial statements" which require separate presentation of minority interest as a part of shareholders' equity within balance sheet, within income statement and statement of changes in shareholders' equity. As a result of changes in the requirements of IAS 24 (revised) "Related parties", the Group disclosed the name of Beneficial Owner (Note 2) and amount of compensations granted for top management (Note 29). Other amendments in IFRS which become effective during the year ended 30 June 2006 did not have material effect on the accompanying consolidated financial statements of the Group.

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 – The local currency of the Holding is Euro. However, the management has utilized the United States dollar ("USD") as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates" as its major assets and sources of finance are denominated in USD. The measurement currencies for the Subsidiaries of the Group are mainly local currencies of the countries, where the Group Subsidiaries are incorporated and operate with the exception of Inerco Trade S.A. (Switzerland), Inerco UK LLP (Great Britain) and LLC Kernel Trade (as of 30 June 2004 only). Management has utilized USD as the measurement currency for these Subsidiaries under IAS No. 21 as their major sources of finance, prices of sales contracts with customers and also prices of significant contracts for purchases of goods and services from suppliers were denominated in USD.

During the year ended 30 June 2005 the measurement currency of "Kernel Trade" LLC was changed by management from USD to its local currency – UAH as a result of significant growth of the share of local sales in its sales structure. The effect of retrospective application of this change was assessed as insignificant and thus no restatement of comparative information is presented.

Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Basis of Consolidation – The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group ("its Subsidiaries") made up as of 30 June 2006, 2005 and 2004. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities.

The purchase method of accounting is used for acquired businesses. The equity attributable to minority owners' interests is shown separately in the consolidated balance sheet. On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between the Group enterprises are eliminated on consolidation. Unrealized gains and losses resulting from intercompany transactions are also eliminated unless for unrealized losses which cannot be recovered.

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

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses. The goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

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

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

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

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in shareholders' 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 2006	Average rate for the year ended 30 June 2006	Closing rate as of June 2005
UAH/USD	5.0500	5.0503	5.0550
CHF/USD	1.2486	1.2789	1.2835
EUR/USD	0.7981	0.8220	0.8296
RUR/USD	28.0000	28.2186	27.0792

Cash – Cash includes unrestricted cash balances kept with banks and on hand.

Trade Accounts and Other Accounts Receivable – Trade and other accounts receivable are stated at their cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Prepayments to Suppliers and Other Current Assets – Prepayments to suppliers and other current assets are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments – In accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement", investments are classified into the following categories: held-to-maturity, trading, available-for-sale and loans and receivables originated by the Group.

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounted based on market rates at inception and is included in other expenses in the consolidated income statement. Originated loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Originated loans are carried net of any allowances for estimated irrecoverable amounts.

Held-to-maturity investments, loans and receivables originated by the Group are included in non-current assets unless they mature within 12 months from the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months from the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Estimation of fair values of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: disclosure and presentation" and IAS No. 39 "Financial instruments: Recognition and Measurement". As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of a particular instrument.

Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the income statement for the period.

Held-to-maturity investments and originated loans are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Investments in Non-consolidated Subsidiaries and Associates – Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Group intends to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share 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 2006 and 2005 there were no investments in non-consolidated subsidiaries and associates.

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

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

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

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

Property, Plant and Equipment – Except for land, property, plant and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

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

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

Property, plant and equipment is depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisals under the straight-line method. Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20–30 years
Production machinery and equipment	10–20 years
Agricultural vehicles and equipment	3–5 years
Fixtures, fittings and other fixed assets	5–20 years
Transport vehicles	4–7 years
Construction in progress ("CIP") and uninstalled equipment	Not depreciated

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

Impairment of Non-Current Assets – At each balance sheet date the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

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

Financial Instruments – Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial instruments are recognised using settlement date accounting.

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

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

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

Classification of administrative expenses – The Group includes all expenses related to the administration of the Group in administrative expenses except for payroll expenses related to administration of elevators. Such expenses are included by the Group in cost of sales of such enterprises.

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

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

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

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

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

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

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

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

Reclassifications – Certain reclassifications have been made to the corresponding amounts for the year ended 30 June 2005 so as to conform to the current year presentation.

5. CASH

The balances of cash as of 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Cash with banks in UAH	5 604	2 974
Cash with banks in USD	665	5 790
Cash with banks in other currencies	110	36
Cash on transit bank account	–	964
Cash on hand	5	60
Total	6 384	9 824
Less restricted cash on Security bank account	(401)	(415)
Cash for the purposes of cash flow statement	5 983	9 409

As of 30 June 2006 cash with banks in USD in the amount of USD 420 thousand (as of 30 June 2005: USD 2 103 thousand) kept on Security bank account with a Belgian bank, was pledged to secure the long-term loan facility obtained from this bank (Note 17). As of 30 June 2006 a part of cash on Security bank account in the amount of USD 401 thousand (as of 30 June 2005: USD 415 thousand) was restricted in use based on the loan agreement with the Belgian bank and thus was excluded from cash for the purposes of cash flow statement.

6. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable as of 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Trade accounts receivable	10 025	7 318
Allowance for estimated irrecoverable amounts	<u>(973)</u>	<u>(517)</u>
Total	<u>9 052</u>	<u>6 801</u>

As of 30 June 2006 accounts receivable from one European customer accounted for approximately 7% of the total carrying amount of trade accounts receivable (as of 30 June 2005 approximately 18%).

7. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS, NET

The balances of prepayments to suppliers and other current assets as of 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Prepayments to suppliers	5 872	2 489
Investments available-for-sale	71	–
Short-term advances to related parties	–	692
Loans to related parties and management	–	128
Other accounts receivable and other current assets	2 254	440
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	<u>(821)</u>	<u>(641)</u>
Total	<u>7 376</u>	<u>3 108</u>

Short-term advances to a related parties represent returnable interest-free financial aid in UAH with a maturity of less than one month.

8. TAXES RECOVERABLE AND PREPAID, NET

The balances of taxes recoverable and prepaid as of 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
VAT («value-added tax») recoverable and prepaid	8 949	6 005
Other taxes recoverable and prepaid	668	88
Allowance for estimated irrecoverable amounts of VAT recoverable	<u>(149)</u>	<u>(141)</u>
Total	<u>9 468</u>	<u>5 952</u>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on internal market in Ukraine. Allowance for estimated irrecoverable amounts of VAT recoverable was created in the amount of USD 149 thousand as of 30 June 2006 (as of 30 June 2005: USD 141 thousand) as a result of uncertainty of recoverability of this balance from the Ukrainian State budget.

9. INVENTORIES

The balances of inventories as of 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Raw materials	13 140	2 466
Finished products	12 235	6 546
Goods for resale	3 972	776
Packaging materials	597	251
Fuel	352	247
Other inventories	2 004	772
Total	32 300	11 058

As of 30 June 2006 inventories with the carrying amount of USD 18 108 thousand (as of 30 June 2005: USD 4 583 thousand) were pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks (Notes 16, 17). In addition, as of 30 June 2006 the Group pledged future purchases of raw materials, goods for resale and finished products produced for the total amount of USD 1 910 thousand in prices as of 30 June 2006 (as of 30 June 2005 the total amount of USD 3 271 thousand in prices as of 30 June 2005).

10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>		<u>30 June 2005</u>	
	Hectares	Amount	Hectares	Amount
Barley crops	4 014	788	2 407	553
Sunflower seed crops	3 467	706	1 714	209
Maize crops	2 462	684	1 810	447
Wheat crops	1 948	532	3 134	749
Soy crops	2 009	363	1 524	241
Pea crops	1 336	284	–	–
Other crops	922	28	1 385	141
Total	16 158	3 385	11 974	2 340

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2006 and 2005:

As of 30 June 2004	1 415
Increase due to purchases and subsequent expenditures capitalized in biological assets	2 470
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income)	303
Decrease due to harvest	(1 965)
Translation adjustment	117
As of 30 June 2005	2 340
Increase due to purchases and subsequent expenditures capitalized in biological assets	3 087
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in operating income)	1 220
Decrease due to harvest	(3 262)
As of 30 June 2006	3 385

11. PROPERTY PLANT AND EQUIPMENT, NET

As of 30 June 2006 property, plant and equipment with the carrying amount of USD 63 937 thousand (as of 30 June 2005: USD 56 684 thousand) was pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks and the Belgian bank (Notes 16, 17).

The Group's production equipment with the carrying amount of USD 5 395 thousand as of 30 June 2006 was held under finance lease (as of 30 June 2005: USD 1 392 thousand) (Note 18).

The following table represents movements in property, plant and equipment for the year ended 30 June 2006:

	Building and Constructions	Production machinery and equipment	Agricultural vehicles and equipment	Transport vehicles	Fixtures, fittings and other fixed assets	CIP and uninstalled equipment	Total
Cost							
As of 30 June 2005	40 472	16 389	1 578	2 695	2 310	9 197	72 641
Additions	–	–	–	–	–	10 869	10 869
Transfers	6 454	7 884	57	533	1 223	(16 151)	–
Disposals	(950)	(634)	(14)	(233)	(130)	–	(1 961)
Translation adjustment	50	19	2	3	6	2	82
As of 30 June 2006	46 026	23 658	1 623	2 998	3 409	3 917	81 631
Accumulated depreciation							
As of 30 June 2005	(1 674)	(1 501)	(372)	(462)	(419)	–	(4 428)
Depreciation	(1 770)	(2 031)	(341)	(413)	(396)	–	(4 951)
Disposals	55	78	9	69	27	–	238
Translation adjustment	(2)	(2)	(2)	–	(1)	–	(7)
As of June 30 2006	(3 391)	(3 456)	(706)	(806)	(789)	–	(9 148)
Net Book Value							
As of 30 June 2006	42 635	20 202	917	2 192	2 620	3 917	72 483
As of 30 June 2005	38 798	14 888	1 206	2 233	1 891	9 197	68 213

12. INTANGIBLE ASSETS, NET

The following table represents movements in intangible assets for the year ended 30 June 2006:

	Trademarks	Other intangible assets	Total
Cost			
As of 30 June 2005	7 221	64	7 285
Additions	–	203	203
Disposals	–	(5)	(5)
Translation adjustments	8	–	8
As of 30 June 2006	7 229	262	7 491
Accumulated depreciation			
As of 30 June 2005	–	(26)	(26)
Amortization charge	–	(34)	(34)
Disposals	–	2	2
Translation adjustments	–	–	–
As of 30 June 2006	–	(58)	(58)
Net book value			
As of 30 June 2006	7 229	204	7 433
As of 30 June 2005	7 221	38	7 259

Included in intangible assets of Subsidiaries acquired during the year ended 30 June 2006 is the "Schedry Dar" trademark with the value of USD 7 229 thousand. This trademark is used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market and is pledged as security for long-term loans as of 30 June 2006 (Note 17).

Management of the Group expects the demand for bottled sunflower oil to be stable in the foreseeable future. The Group believes that as a result of further promotion of the "Schedry Dar" trademark the current market share possessed by the bottled sunflower oil sold under this trademark will be stable as well and thus the Group will be able to obtain economic benefits from it during an indefinite period of time. Accordingly, the trademark "Schedry Dar" is considered to have indefinite useful life and thus is not amortized but tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the trademark may be impaired.

13. GOODWILL

The following table represents movements in goodwill for the year ended 30 June 2006 and 2005:

As of 30 June 2004	64
Goodwill arising on acquisition of Subsidiaries	2 764
Translation adjustment	142
As of 30 June 2005	2 970
Translation adjustment	–
As of 30 June 2006	2 970

14. OTHER NON-CURRENT ASSETS

The balances of other non-current assets as of 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Grain elevators lease rights ("DAK Asset") (Note 30)	2 344	2 591
Prepayments for property, plant and equipment	590	2 036
Guarantee bank account	423	428
Other non-current assets	1 618	83
Total	4 975	5 138

Grain elevators lease rights ("DAK Asset")

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

As "DAK" failed to settle in cash its debt on the last re-scheduled maturity date on 31 January 2003 the parties agreed that the "DAK Debt" would be recovered by granting to the Group the right for operating lease of the property of four grain elevators owned by "DAK" and by set-off of the related rentals payable against the "DAK Debt" for the total nominal amount of USD 4 872 thousand.

The depreciation of the lease terms is as follows:

Assets leased	Storage capacity of leased grain elevators	Maturity	Monthly rental payment
Property of three grain elevators	296 thousand tons of wheat (aggregated)	December 2012	USD 38 thousand (aggregated)
Property of one grain elevator	60 thousand tons of wheat	December 2006	USD 8 thousand

The "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period. The implicit annual discount rate approximates market interest rate in UAH at inception and equals 16.5%.

Guarantee bank account

The guarantee bank account represents cash kept on interest-free deposit account, maturing in July 2007, at the Belgian bank in order to secure the long-term credit facility obtained from this bank for financing the Group's acquisition of machinery and equipment (Note 17).

Loan to Beneficial Owner credit

Included in other non-current assets is a loan to the Beneficial Owner in the amount of USD 1 600 thousand carrying interest of 12% per annum and maturity date 30 June 2011.

15. ADVANCES FROM SUPPLIERS AND OTHER CURRENT LIABILITIES

The balances of advances from customers and other current liabilities as of 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Advances from customers	1 960	1 848
Provision for unused vacations and other provisions	861	211
Short term promissory notes issued	837	–
Obligation under finance lease payable within one year (Note 18)	830	235
Accrued payroll, payroll related taxes and bonuses	107	1 280
Taxes payable and provision for tax liabilities	68	434
Accounts payable for property, plant and equipment	11	268
Provision for contingent liabilities related to Government agricultural assistance programs (Note 30)	–	178
Other current liabilities	61	305
Total	4 735	4 759

Provision for contingent liability to the State representative bodies in the amount of USD 178 thousand which was recognized as of 30 June 2005 had been reversed during year ended 30 June 2006 and was equal zero as of 30 June 2006 (Note 30).

16. SHORT-TERM BORROWINGS

The balances of short-term borrowings as of 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Bank credit lines	22 145	2 249
Overdrafts	882	7
Interest accrued on short-term credits	108	5
Interest accrued on long-term credits	156	–
Total	23 291	2 261

The balances of short-term borrowings as of 30 June 2006 were as follows:

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	12.0%	USD	July – August 2006	1 328
Ukrainian bank	12.0%	USD	October 2006	6 371
Ukrainian bank	16.0%	UAH	July – August 2006	795
Ukrainian bank	16.0%	UAH	December 2006	520
Ukrainian Subsidiary of an European Bank	LIBOR + 6%	USD	September 2006	5 999
Ukrainian Subsidiary of an European bank in association with another European Bank	LIBOR + 6%	USD	July 2006	7 132
Total bank credit lines				22 145
European Bank	LIBOR + 8.5%	USD		878
European Bank	LIBOR + 2%	USD		4
Total overdrafts				882
Interest accrued on short term loans				108
Interest accrued on long term loans				156
Total				23 291

The balances of short-term borrowings as of 30 June 2005 were as follows:

Lender	Interest rate	Currency	Maturity	Amount due
Ukrainian Bank	13.0%	USD	August 2006	879
Ukrainian Subsidiary of an European Bank	LIBOR + 8.5%	USD	September 2006	800
Ukrainian Bank	12.5%	USD	September 2006	570
Total bank credit lines				2 249
European Bank	LIBOR + 2.4%	USD		7
Total overdrafts				7

<u>Lender</u>	<u>Interest rate</u>	<u>Currency</u>	<u>Maturity</u>	<u>Amount due</u>
Interest accrued				5
Total				2 261

As of 30 June 2006 the overall maximum credit limit for short-term bank credit lines and overdrafts amounted to USD 47 365 thousand (as of 30 June 2005: USD 32 420 thousand).

As of 30 June 2006 and 2005 short-term loans from banks were secured as follows:

Assets pledged	30 June 2006	30 June 2005
Property, plant and equipment (Note 11)	12 890	2 914
Inventories (Note 9)	18 108	214
Total	30 998	3 128

In addition, controlling stakes in the following Subsidiaries were pledged to secure the short-term and long-term bank loans (Note 17) of the Group as of 30 June 2006 and 2005:

30 June 2006	Name of Subsidiary, stake in which was pledged	30 June 2005
CJSC "Poltava oil crushing plant-Kernel Group"		CJSC "Poltava oil crushing plant-Kernel Group"
JSC "Reshetilovski elevator"		JSC "Reshetilovski elevator"
JSC "Khorolskiy elevator"		JSC "Khorolskiy elevator"
JSC "Globinsky elevator kliboproduktiv"		JSC "Globinsky elevator kliboproduktiv"
"Karlivka-Agro" CJSC		"Karlivka-Agro" CJSC
"Sagaydak-Agro" CJSC		"Sagaydak-Agro" CJSC
"Galeschina-Agro" CJSC		"Galeschina-Agro" CJSC
"Lazorkovski Elevator" CJSC		"Lazorkovski Elevator" CJSC
"Novo-Sanzharski elevator" CJSC		"Novo-Sanzharski elevator" CJSC
CJSC "Mirgorodskiy elevator"		CJSC "Mirgorodskiy elevator"
JSC "Golovanivske hlibopriemalne pidpriemstvo"		JSC "Golovanivske hlibopriemalne pidpriemstvo"
JSC "Pidgorodnanski elevator"		JSC "Pidgorodnanski elevator"
JSC "Poltavske khlibopriemalne pidpriemstvo"		JSC "Poltavske khlibopriemalne pidpriemstvo"
"Gogoleve-Agro" CJSC		"Gogoleve-Agro" CJSC
"Poltavaavtotransservis" CJSC		
CJSC "Selestchinski elevator"		
CJSC "JSC Selkhoztehnika"		
CJSC "Semenivski elevator"		

Another owner of these Subsidiaries, the nominal holder of the shares on behalf of the Beneficial Owner additionally pledged its stake in the Group Subsidiaries to secure the short-term and long-term bank loans of the Group as of 30 June 2006 and 2005.

17. LONG-TERM BORROWINGS

The balances of long-term borrowings as of 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Long-term bank loans	51 538	49 344
Long-term borrowings from related parties	3 685	4 089
Interest accrued	—	404
Less: Current portion of long-term borrowings	(5 655)	(18 409)
Total	49 568	35 428

Long-term bank loans

The balances of long-term loans as of 30 June 2006 were as follows:

Lender	Type of loan	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	Credit line	12.0%	USD	February 2007	3 332
Ukrainian bank	Credit line	12.0%	USD	August 2008	26 580
Ukrainian bank	Credit line	12.5%	USD	August 2008	6 850
Ukrainian bank	Credit line	15.0%	UAH	November 2010	2 900
Ukrainian bank	Credit line	12.5%	USD	November 2010	5 900
Ukrainian bank	Credit line	12.5%	USD	September 2007	4 066
Belgian bank	Term loan	3.98%	USD	July 2007	1 910
Total					51 538

Subsequent to 30 June 2006, the Group was carrying on negotiations with Ukrainian and European commercial banks about granting the loans for operating and investment activities of the Group (Note 33).

The balances of long-term loans as of 30 June 2005 were as follows:

Lender	Type of loan	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	Credit line	12.0%	USD	August 2005	12 654
Ukrainian bank	Credit line	12.0%	USD	August 2006	9 809
Ukrainian bank	Credit line	12.0%	USD	March 2006	6 999
Ukrainian bank	Credit line	16.5%	UAH	November 2007	5 780
Ukrainian bank	Credit line	12.0%	USD	February 2007	4 949
Ukrainian bank	Credit line	12.5%	USD	September 2007	3 500
Belgian bank	Term loan	4.2%	USD	July 2007	3 225
Ukrainian bank	Credit line	16.0%	UAH	July 2005	692
Ukrainian bank	Credit line	12.0%	USD	April 2006	625
Ukrainian bank	Term loan	14.0%	USD	September 2005	567
Ukrainian bank	Credit line	16.0%	UAH	August 2005	544
Total					49 344

a) Long-term loan from a Belgian Bank

Loan from the Belgian bank was obtained in July 2003 to finance acquisition of machinery and equipment for production of sunflower-seed oil and meal. The loan agreement stipulated the Group entering into an agreement with an European customer to sell annually approximately 12 000 tons of sunflower-seed oil (hereinafter referred to as the "Off-take Agreement"), to be delivered in quarterly amounts of approximately

3 000 tons. According to the Off-take Agreement all the cash proceeds from sales to the European customer should be paid on the Security bank account with the Belgian bank. As of 30 June 2006 the loan was secured by:

- Property, plant and equipment with the carrying amount of USD 5 819 thousand (as of 30 June 2005: USD 5 995 thousand) (Note 11) financed by the loan;
- Guarantee bank account in the amount of USD 423 thousand (as of 30 June 2005: USD 428 thousand) (Note 14);
- Security bank account in the amount of USD 420 thousand (as of 30 June 2005: USD 2 103 thousand) (Note 5);
- Insurance of a Belgian insurance institution and sales proceeds under the Off-take Agreement.

As of 30 June 2006 total quantity of sunflower oil to be supplied after 30 June 2006 under the terms of the Off-take agreement was 3 000 tons corresponding to an amount of USD 1 800 thousand in prices as of 30 June 2006 (Note 30).

b) Long-term loans from Ukrainian Banks

Long-term loans from Ukrainian banks as of 30 June 2006 were represented by revolving and non-revolving credit line facilities from two banks with the overall maximum credit limit of USD 50 149 thousand (as of 30 June 2005: USD 56 530 thousand from two banks).

As of 30 June 2006 and 2005 long-term loans from Ukrainian banks were secured as follows:

Assets pledged	Carrying amount	
	30 June 2006	30 June 2005
Property, plant and equipment (Note 11)	51 047	53 770
Inventories (Note 9)	–	4 369
Intangible assets (Note 12)	7 229	7 221
Controlling stakes in Subsidiaries (Note 16)	Not quantifiable	Not quantifiable
Total	58 292	65 360

c) Long-term borrowings from related parties

Long-term borrowings from related parties as of 30 June 2004 were represented by two unsecured loan facilities denominated in USD and bearing interest rate of 14% payable to a company located in a Baltic country (hereinafter referred to as the "Lender").

During the year ended 30 June 2005 one of these loan facilities was repaid. As of 30 June 2005 the Beneficial Owner of the Group arranged to replace the Group liability under the other facility for an interest-free loan payable to the Beneficial Owner for the same nominal amount of USD 6 118 thousand (including capitalized interest in the amount of USD 769 thousand) repayable in October 2012. The loan from the Beneficial Owner was recognized in the consolidated financial statements of the Group at its fair value being the nominal loan amount discounted at annual market rate at inception assessed at 12%. The difference between the nominal amount of the loan received from the Beneficial Owner and its fair value in the amount of USD 2 029 thousand was recognized in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005 as a contribution of additional paid-in capital (Note 22).

The liability to the Lender under the replaced loan facility was assigned to the Beneficial Owner himself. As of 30 June 2005 the Beneficial Owner disagreed with the Lender on the amount of the loan liability and the related interest payable to the Lender. The arrangement between the Group and the Beneficial Owner stipulates that in case of adverse outcome of this disagreement the Group will be liable for repayment of additional amounts of this loan and the related interest, if any, accrued to the Beneficial Owner. As of 30 December 2006 the arguable balance of the loan and the related interest amounts to approximately USD 1 014 thousand (as of 30 December 2005: USD 430 thousand) (Note 30).

18. OBLIGATIONS UNDER FINANCE LEASE

As of 30 June 2006 and 2005 the major components of finance lease liabilities were as follows:

	Minimum lease payments 30 June 2006	Present value of minimum lease payments 30 June 2006
Amounts payable due to the finance lease:		
Within one year	1 169	830
Later than one year and not later than four years	5 361	4 565
	6 530	5 395
Less future finance charges	(1 135)	N/A
Present value of lease obligations	5 395	5 395
Less: Amount due for settlement within one year (Note 15)		(830)
Amount due for settlement after one year		4 565

	Minimum lease payments 30 June 2005	Present value of minimum lease payments 30 June 2005
Amounts payable due to the finance lease:		
Within one year	343	235
Later than one year and not later than five years	1 370	1 157
	1 713	1 392
Less future finance charges	(321)	N/A
Present value of lease obligations	1 392	1 392
Less: Amount due for settlement within one year (Note 15)		(235)
Amount due for settlement after one year		1 157

In April – July 2005 CJSC "Poltava oil crushing plant – Kernel Group", a Subsidiary, entered into four finance lease contracts to acquire equipment for production of bottled sunflower oil with an Ukrainian subsidiary of an European bank for the total amount of USD 5 628 thousand.

The finance lease liability is denominated in USD and bears interest rate of 8.25% per annum.

19. CORPORATE BONDS ISSUED

"Kernel-Trade" LLC, a Subsidiary, issued corporate bonds denominated in UAH for the amount of USD 9 892 thousand repayable in September-October 2008. The bonds bear coupon interest of 14% per annum, payable on a quarterly basis.

The interest rate due on bonds is subject to review once a year in September-October. The holders of the bonds have a put option within a month after the reviewed interest is announced (Note 33).

20. INCOME TAX

As of 30 June 2006 and 2005 the major components of deferred tax assets and liabilities were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Deferred tax assets arising from:		
Valuation of accounts receivable	442	220
Valuation of advances from customers	1 028	348
Valuation of inventories	197	294
Valuation of property, plant and equipment	–	183
Tax losses carried forward	61	146
Valuation of accrued expenses and other temporary differences	249	583
Deferred tax asset	<u>1 977</u>	<u>1 774</u>
Less: valuation allowance	–	(670)
Net deferred tax asset after valuation allowance	<u>1 977</u>	<u>1 104</u>
Deferred tax liability arising from:		
Valuation of property, plant and equipment	(8 932)	(8 708)
Valuation of intangible assets	(1 793)	(1 806)
Valuation of prepayments to suppliers and prepaid expenses	(621)	(397)
Deferred tax liability	<u>(11 346)</u>	<u>(10 911)</u>
Net deferred tax liability	<u>(9 369)</u>	<u>(9 807)</u>

As of 30 June 2005 valuation allowances totaling USD 670 thousand were recorded in relation to temporary differences arising on valuation of tax losses carried forward, a part of property, plant and equipment, and a part of accounts receivable due to uncertainty of realization of these deferred tax assets. During year ended 30 June 2006 the Group obtained an ability to realize deferred tax assets, which were previously provided. As of 30 June 2006 abovementioned provision was reversed in full.

As of 30 June 2006 and 2005 all deferred taxes arose on temporary differences related to assets and liabilities of Subsidiaries located in Ukraine. The corporate income tax rate in Ukraine was 25% as of 30 June 2006 and 2005.

Income taxes applicable to Kernel Group International LLC and Inerco UK LLP are taxed directly to the owners of these companies.

The components of income tax expense for the years ended 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Current income tax expenses	363	138
Deferred tax benefit	(438)	(405)
Income tax benefit	<u>(75)</u>	<u>(267)</u>

The income tax charge for the years ended 30 June 2006 and 2005 is reconciled to the profit before income tax per consolidated income statement as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
(Loss)/profit before income tax	(31)	323
Tax at the statutory income tax rate in Ukraine of 25%	–	81
Expenditures not allowable for income tax purposes		302

	30 June 2006	30 June 2005
Non-taxable income	626	(354)
Change in valuation allowance	(670)	(296)
Income tax benefit	(75)	(267)

21. MINORITY INTEREST

The following table represents movements in minority interest for the years ended 30 June 2006 and 2005:

As of 30 June 2004	15 380
Effect on contributions of additional paid-in capital (Note 22)	(396)
Minority share in profits of Subsidiaries during the year ended 30 June 2005	131
Translation adjustment	614
As of 30 June 2005	15 729
Effect on changes in minority interest (Note 22)	(8 606)
Minority share in losses of Subsidiaries during the year ended 30 June 2006	(1 243)
Translation adjustment	—
As of 30 June 2006	5 880

During the year ended 30 June 2006 minority interest in the Group's financial results was negative due to the losses incurred by Subsidiaries. Major part of the abovementioned losses were incurred by JSC "Globinsky elevator kliboproduktiv", LLC "Krasnograd hleboproduct", LLC "Sahnovshina hleboproduct" and CJSC "Poltava oil crushing plant – Kernel Group".

22. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital as of 30 June 2006 was formed by the changes in the minority interest in the Group's companies, additional contributions from Beneficial Owner of the Group and its related parties, and the effect of the change in reporting entity (Notes 1, 2, 21).

The following table represents movements in additional paid-in capital for the years ended 30 June 2006 and 30 June 2005:

As of 30 June 2004	6 303
Release of trade and other accounts payable due from the Group	1 312
Release of loans issued by the Group	(1 005)
Fair value adjustment on loan payable to the Beneficial Owner	2 029
Total effect of contributions of additional paid-in capital	2 336
Tax effect of contributions of additional paid-in capital	(336)
Effect on minority interest of contributions of additional paid-in capital	396
Effect on changes in reporting entity	22 999
As of 30 June 2005	31 698
Effect on changes in minority interest (Note 21)	8 606
Effect on withdrawals of additional paid-in capital	(879)
As of 30 June 2006	39 425

23. REVENUE

Revenue for the years ended 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Revenues from sales of finished products	141 899	74 071
Revenues from sales of goods for resale	61 681	56 448
Revenues from services	11 662	12 540
Other revenue	–	704
Total	215 242	143 763

For the year ended 30 June 2006 revenues from sales to two European customers accounted for approximately 31% of the total revenue (for the year ended 30 June 2005 revenue from two European customers was 34%).

24. COST OF SALES

The cost of sales for the years ended 30 June 2006 and 2005 was as follows:

	30 June 2006	30 June 2005
Cost of goods for resale and raw materials used	146 632	105 665
Payroll and payroll related costs	9 163	6 932
Depreciation of property, plant and equipment	3 407	3 933
Rental payments	1 198	795
Other operating costs	13 023	3 257
Total	173 423	120 582

25. DISTRIBUTION COSTS

The distribution costs for the years ended 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Carriage and freight	15 750	8 229
Marketing and advertising	1 392	700
Payroll and payroll related costs	1 166	887
Certification	643	395
Sanitation services	235	420
Depreciation	97	103
Other expenses	1 058	707
Total	20 341	11 441

26. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the years ended 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Payroll and payroll related costs	4 226	2 602
Bank services	798	180
Bad debts expenses	767	569
Rental payments	652	476
Audit, legal and other professional fees	634	736

	<u>30 June 2006</u>	<u>30 June 2005</u>
Information expenses and communication services	621	164
Amortization and depreciation	611	83
Repairs and material costs	536	759
Taxes other than income tax	354	280
Communication expenses	260	326
Business trip expenses	227	343
Insurance	127	103
Other expenses	872	466
Total	<u>10 685</u>	<u>7 087</u>

27. FINANCE COSTS, NET

The finance costs for the years ended 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Interest expense on bank loans and corporate bonds	8 368	5 398
Interest expense on borrowings from related parties	433	770
Other finance costs, net	502	472
Total	<u>9 303</u>	<u>6 640</u>

28. OTHER (EXPENSES)/INCOME, NET

The other (expenses)/income for the years ended 30 June 2006 and 2005 were as follows:

	<u>30 June 2006</u>	<u>30 June 2005</u>
Income from "DAK Asset"	651	863
Gain on sale of equity investments	–	305
Loss on disposal of property, plant and equipment	(159)	(483)
Other (expenses)/income, net (Note 29)	(2 302)	198
Total	<u>(1 810)</u>	<u>883</u>

Income from "DAK Asset" for the year ended 30 June 2006 represents change in value of the "DAK Asset" as a result of passage of time and partial realization of the nominal amount of the "DAK Debt", which was not recognized as asset at 30 June 2005, by additional set-offs with "DAK" (Note 14).

29. TRANSACTIONS WITH RELATED PARTIES

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

The Group had the following balances outstanding with related parties as of 30 June 2006 and 2005:

	Related party balances as of 30 June 2006	Total category as per consolidated balance sheet as of 30 June 2006	Related party balances as of 30 June 2005	Total category as per consolidated balance sheet as of 30 June 2005
Prepayments to suppliers and other current assets, net, (Note 7)	66	7 376	820	3 108
Other non-current assets (Note 14)	1 600	4 975	56	5 138
Current portion of long-term borrowings (Note 17)	369	5 655	347	18 409
Long-term borrowings (Note 17)	3 316	49 568	3 742	35 428

Transactions with related parties for the years ended 30 June 2006 and 2005 were as follows:

	Amount of operations with related parties, for the year ended 30 June 2006	Total category per consolidated income statement for the year ended 30 June 2006	Amount of operations with related parties, for the year ended 30 June 2005	Total category per consolidated income statement for the year ended 30 June 2005
Revenue (Note 23)	13 410	215 242	625	143 763
General, operational and administrative expenses (Notes 25, 26)	7 743	31 026	376	18 528
Finance cost (Note 27)	433	9 303	770	6 640
Other (expenses) /income, net (Note 28)	(2 300)	(1 810)	–	883

- During the year ended 30 June 2006 the Group purchased raw materials and goods for resale from related parties for the amount of USD 784 thousand (year ended 30 June 2005: USD 624 thousand).
- During the year ended 30 June 2006 the Beneficial Owner increased the Group's ownership interest in a number of the Subsidiaries as shown in Note 1 by effectively free-of-charge withdrawal of shares in these Subsidiaries from the nominal shareholders, which resulted in decrease of the balance of minority interest for USD 8 606 thousand (during the year ended 30 June 2005: USD 637 thousand). This decrease was reflected as a contribution of additional paid-in capital in the consolidated statement of changes in shareholders' equity (Note 22).
- As discussed in Note 17, during the year ended 30 June 2005 the Beneficial Owner arranged to replace the Group liability under the interest-bearing loan payable to a company located in a Baltic country with an interest free loan payable to the Beneficial Owner for the same nominal amount of USD 6 118 thousand. As a result of this transaction the Group recognized USD 2 029 thousand in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005 as a contribution of additional paid-in capital (Note 22).
- During the year ended 30 June 2006 the Beneficial Owner made a withdrawal amounting to USD 879 thousand which was reflected in movement of retained earnings in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2006 (year ended 30 June 2005: USD 904 thousand).
- During the year ended 30 June 2006 the Group paid different compensations for top management totaling USD 472 thousand (year ended 30 June 2005: USD 406 thousand).
- During the year ended 30 June 2006, the Group incurred other expenses USD 2 300 thousand as the result of operations with related parties.

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

30. COMMITMENTS AND CONTINGENCIES

Operating Environment – The principal business activities of the Group are within 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 of the overall Ukrainian economic environment. In respect of this, the Ukrainian tax environment is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest.

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

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

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

As of 30 June 2006 the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Legal Issues – The Group is involved in litigation and other claims that are in the ordinary course of its business activities.

Management of the Group believes that the resolution of such matters will not have a material impact on its financial position.

"DAK Asset" – As discussed in Note 14 the "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK"s grain elevators during the agreed lease period and amounts to USD 2 344 thousand as of 30 June 2006 (as of 30 June 2005: USD 2 591 thousand).

"DAK" is a State company, which has been loss-making for a number of recent years. In October 2005 the Chief Executive Officer of "DAK" announced "DAK" insolvency and as a result the State authorities are currently considering reorganization or privatization of "DAK". One of the suggested actions within the reorganization procedures under consideration include initiation of court proceedings aimed at termination of "DAK" agreements on lease of its grain elevators.

In addition, the Law "On restoring solvency of a debtor or declaring it a bankrupt" ("the Law on Bankruptcy") stipulates a process of sanation within bankruptcy procedures as one of the procedures aimed at restoring solvency of a debtor. The Law on Bankruptcy also stipulates under certain conditions the right of the appointed sanation manager to initiate court proceedings aimed the termination of agreements with its counterparties.

Accordingly, should the State authorities finally apt to reorganize "DAK" or should the bankruptcy procedures and subsequently sanation of "DAK" be initiated there is a risk that the lease agreements between "DAK" and the Group will be terminated which will result in provision for impairment for the "DAK Asset" and this provision could be material.

Loan from the Beneficial Owner – As mentioned in Note 17, there is a disagreement between the Beneficial Owner and its related party located in a Baltic country in relation to the loan and the related interest payable by the Beneficial Owner to this party. The arrangement between the Beneficial Owner and the Group stipulates the Group's liability for repayment of additional amounts of loan and the related interest, if any, accrued to the Beneficial Owner under this loan facility. As of 30 December 2006 the arguable balance of the loan and the related interest amounts to approximately USD 1014 thousand (as of 30 December 2005: 430 thousand).

Contingent Liability Related to Government Assistance Programs – During 1995–1999 the State Treasury of Ukraine through the State Reserve of Ukraine, local state administrations and "DAK" (collectively "State representative bodies") implemented government assistance/loan programs ("Government assistance programs") to support collective agricultural farms ("Agricultural farms"). According to these programs, the grain elevators acted as state agents responsible for delivery of goods (fuel, fertilizers, grain seeds, etc.) from the State representative bodies to Agricultural farms and subsequent receipt of grain products from Agricultural farms as a settlement of their liabilities to the State representative bodies. Under a number of Government assistance programs some grain elevators were also obliged to sign direct purchase agreements with the State representative bodies and the corresponding direct sale agreements with Agricultural farms and, accordingly, were obliged to account for these transactions on their balance sheets.

As a result of such Government assistance programs, total liabilities to State representative bodies, recorded in the statutory accounting registers and off-balance sheet records of grain elevators of the Group amounted to USD 1 133 thousand as of 30 June 2006 and 2005. The current Ukrainian legislation is uncertain in determining whether the liabilities under such Government assistance programs are to be repaid by the grain elevators involved or not and, therefore, there is a possibility that the State representative bodies may claim the repayment of the total amount of these liabilities in the amount of USD 1 133 thousand from the Group's grain elevators.

The Group management assesses the probability of such outcome as less than probable and believes that the provision for contingent liability to the State representative bodies should not be created. Provision in the amount of USD 178 thousand which was recognized as of 30 June 2005 had been reversed during year ended 30 June 2006 and was equal zero as of 30 June 2006 (Note 15).

Capital Commitments – As of 30 June 2006 the Group had not capital commitments (2005: USD 4 236 thousand).

Contractual Commitments on Sales – As of 30 June 2006 the Group was committed by export contracts to sales of finished goods (sunflower oil) to one European customer for a quantity of 3 000 tons, which corresponded to the amount of USD 1 800 thousand in prices as of 30 June 2006 (Note 17).

Operating Leases – As of 30 June 2006 and 2005 the Group had outstanding commitments under non-cancellable operating lease agreements which all fall due as follows:

Lease term	Future minimum lease payments as of 30 June 2006	Future minimum lease payments as of 30 June 2005
Less than 1 year	1 424	1 564
From 1 to 5 years	4 078	4 328
More than 5 years	1 306	1 476
Total	6 808	7 368

Operating lease payments mainly represent rentals payable by the Group for "DAK" grain elevators and equipment (Note 14), office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation.

31. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit Risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. Limits on the level of credit risk by customer are approved on a regular basis by the management of the Group.

Currency Risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management of the Group sets limits on the level of exposure by currencies.

Interest Rate Risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Currently, the Group's approach to the interest risk limitation is borrowing at fixed rates.

Liquidity Risk – The Group's objective is to maintain a balance between continuous funding and flexibility in the use of bank loan funds and settlements with suppliers. In accordance with the Group's plans its demand in working capital will be satisfied mainly by cash inflows generated by operating activities. The Group may also use loan funds unless proceeds from operating activities are insufficient for appropriate settlement of liabilities.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: Disclosure and Presentation" and IAS No. 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument. As of 30 June 2006 and 2005 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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

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

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

33. SUBSEQUENT EVENTS

- a) Subsequent to 30 June 2006, the Group negotiated with Ukrainian and European commercial banks short-term and long-term credit facilities to finance its investing activities for the amount of USD 57 000 thousand, and to finance its operating activities for the overall maximum credit limit of USD 87 900 thousand, out of which USD 64 900 thousand was a refinancing of the credit facilities available as of 30 June 2006. The Group pledged its inventory, property, plant and equipment, and property rights for sales agreements to secure these loan facilities. The Group also conclude a subordinated debt agreement for the credit limit of EUR 5 703 thousand which does not require any pledge and is aimed to finance operating and investing activities of the Group (Note 17).
- b) Subsequent to 30 June 2006, the Group acquired a 100% interest in 17 companies (the "Stozhar Group") for total consideration of USD 75 000 thousand. As of 25 December 2006 amount USD 56 500 thousand had been paid to the holders of Stozhar Group and liabilities amount USD 18 500 thousand. Outstanding amount should be paid by two installments: (1) USD 16 000 thousand due till 28 February 2006, and (2) USD 2 500 thousand due till 31 December 2007, translated into EURO at the official rate of National Bank of Ukraine valid as of 30 June 2006. The Group is in the process of determining the fair value of the identifiable assets, liabilities and contingent liabilities of the Stozhar Group.
- c) Subsequent to 30 June 2006, Namsen LTD (Cyprus) acquired 7 999 shares of the Group's holding company Kernel Holding S.A. (Luxemburg). 100% interest of Namsen LTD (Cyprus) is owned by Verevskiy Andrey Mykhailovich, the Beneficial Owner of the Group.
- d) Subsequent to 30 June 2006, the Group's holding company Kernel Holding S.A. (Luxemburg) had performed additional share issuance, resulted the decrease from 99.9% to 85.8% of participation of Namsen LTD in shareholders' equity.
- e) During October 2006 "Kernel-Trade" LLC, a Subsidiary, revised the bonds' coupon interest and changed it to 16% per annum. None of the holders has executed the put option (Note 19).

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

**Independent Auditors' Report
Consolidated Financial Statements
Year Ended 30 June 2005**



BAKER TILLY
UKRAINE

REPORT OF THE AUDITOR

To the board of Directors of

KERNEL HOLDING S.A.
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Report on the consolidated financial statements

Following our appointment by the board of Directors dated April 4, 2007 we have audited the accompanying consolidated financial statements of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group"), which comprise the consolidated balance sheet as at June 30, 2005, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors responsibility 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's and the Group'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.

Management has omitted presentation of the corresponding amounts in the consolidated statements of income, changes in shareholders' equity and cash flows for the year ended 30 June 2004. In our opinion, disclosure of such information is required by International Financial Reporting Standards.

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

Opinion

In our opinion, excluding comparative consolidated statement of income, consolidated statement of changes in shareholders' equity and consolidated cash-flow statement, as for the year ended June 30, 2004 and consequent influence of previously mentioned questions on consolidated financial statements, the consolidated financial statements give a true and fair view of the financial position of KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") of June 30, 2005, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Statement of Management responsibilities is consistent with the consolidated financial statements.

Kyiv, Ukraine

September 1, 2007

Managing Partner
LLP BAKER TILLY UKRAINE

Independent member of Baker Tilly International
Turhenevska 71, Kyiv,
Ukraine, 04050

Registration with Ukrainian Chamber of Audit number 2091 of January 26, 2006.

Reg. № 668



Alexander Pochkun

KERNEL HOLDING S.A. AND SUBSIDIARIES**TABLE OF CONTENTS**

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KERNEL HOLDING S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS OF 30 JUNE 2005

(in US dollars and in thousands unless otherwise stated)

	Note	30 June 2005	30 June 2004
ASSETS			
<i>CURRENT ASSETS:</i>			
Cash	5	9 824	2 147
Trade accounts receivable, net	6, 29	6 801	1 890
Prepayments to suppliers and other current assets, net	7, 29	3 108	2 320
Taxes recoverable and prepaid, net	8	5 952	1 341
Inventories	9	11 058	10 102
Biological assets	10	2 340	1 415
Total current assets		39 083	19 215
<i>NON-CURRENT ASSETS:</i>			
Property, plant and equipment, net	11	68 213	55 601
Intangible assets, net	12	7 259	56
Goodwill	13	2 970	64
Other non-current assets	14, 29	5 138	4 297
Total non-current assets		83 580	60 018
TOTAL ASSETS		122 663	79 233
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES:</i>			
Trade accounts payables	29	2 451	1 420
Advances from customers and other current liabilities	15, 29	4 759	3 605
Short-term borrowings	16	2 261	8 936
Current portion of long-term borrowings	17, 29	18 409	3 150
Total current liabilities		27 880	17 111
<i>NON-CURRENT LIABILITIES:</i>			
Long-term borrowings	17, 29	35 428	9 885
Obligation under finance lease	18	1 157	0
Deferred tax liability	19	9 807	7 298
Other non-current liabilities	20, 29		367
Total non-current liabilities		46 392	17 550
COMMITMENTS AND CONTINGENCIES	30		
<i>SHAREHOLDERS' EQUITY:</i>			
Share capital		964	1
Additional paid-in capital	21, 29	31 698	6 303
Retained earnings			22 888
Total shareholders' equity		32 662	29 192
MINORITY INTEREST	20, 29	15 729	15 380
Total shareholders' equity		48 391	44 572
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		122 663	79 233

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-84 to F-107 form an integral part of these consolidated financial statements. Independent Auditors' report is on page F-76.

KERNEL HOLDING S.A. AND SUBSIDIARIES**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2005***(in US dollars and in thousands unless otherwise stated)*

	Notes	30 June 2005
REVENUE	23, 30	143 763
COST OF SALES	24	<u>(120 582)</u>
GROSS PROFIT		<u>23 181</u>
OTHER OPERATING INCOME	10	303
OPERATING EXPENSES:		
Distribution costs	25	(11 441)
General and administrative expenses	26, 30	<u>(7 087)</u>
Total operating expenses		(18 528)
OPERATING PROFIT		4 956
Finance costs	27, 30	(6 640)
Foreign exchange gain, net		1 124
Other income, net	28	883
PROFIT BEFORE INCOME TAX		323
INCOME TAX BENEFIT PROFIT	19	<u>267</u>
AFTER INCOME TAX		<u>590</u>
MINORITY INTEREST	20	<u>131</u>
NET PROFIT		<u>459</u>

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

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KERNEL HOLDING S.A. AND SUBSIDIARIES**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 30 JUNE 2005***(in US dollars and in thousands unless otherwise stated)*

	<u>Share Capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Cumulative translation adjustment</u>	<u>Total shareholders' equity</u>
Balance at 30 June 2004	1	6 303	22 888	–	29 192
Contributions of additional paid-in capital (Note 21)		2 336			2 336
Tax effect of contributions of additional paid-in capital (Notes 15, 21)		(336)			(336)
Effect on minority interest of contributions of additional paid-in capital (Notes 20, 21)		396			396
Withdrawals (Note 29)			(904)		(904)
Cumulative translation adjustment				1 519	1 519
Net profit			459		459
Effect of change in reporting entity (Note 2)	<u>963</u>	<u>22 999</u>	<u>(22 443)</u>	<u>(1 519)</u>	<u>–</u>
Balance at 30 June 2005	<u>964</u>	<u>31 698</u>	<u>–</u>	<u>–</u>	<u>32 662</u>

The notes on pages F-84 to F-107 form an integral part of these consolidated financial statements. Independent Auditors' report is on page F-76.

KERNEL HOLDING S.A. AND SUBSIDIARIES
**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2005**
(in US dollars and in thousands unless otherwise stated)

	<u>30 June 2005</u>
OPERATING ACTIVITIES:	
Profit before income tax	323
Adjustments to reconcile profit before income tax to net cash used in operating activities:	
Depreciation and amortization	4 119
Finance costs	6 640
Bad debt expense	569
Loss on disposal of property, plant and equipment	483
Foreign exchange gains, net	(1 124)
Income from "DAK Asset"	(863)
Gain on sales of equity investments	(305)
Operating profit before working capital changes	9 842
Changes in working capital:	
Increase in trade accounts receivable	(5 047)
Increase in prepayments and other current assets	(1 828)
Increase in restricted cash balance	(370)
Increase in taxes recoverable and prepaid	(4 242)
Increase in biological assets	(925)
Increase in inventories	(212)
Increase in trade accounts payable	1 325
Increase in advances from customers and other current liabilities	1 646
Cash obtained from operations	189
Finance costs paid	(5 355)
Income tax paid	(138)
Net cash used in operating activities	(5 304)
INVESTING ACTIVITIES:	
Purchase of property, plant and equipment	(9 467)
Proceeds from sales of equity investments	381
Purchase of equity investments	(76)
Proceeds from disposal of property, plant and equipment	1 617
Purchase of intangible and other non-current assets	(628)
Acquisition of Subsidiaries	(12 449)
Net cash used in investing activities	(20 622)

KERNEL HOLDING S.A. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005**

(in US dollars and in thousands unless otherwise stated)

	30 June 2005
FINANCING ACTIVITIES:	
Proceeds from short-term and long-term borrowings	96 168
Repayment of short-term and long-term borrowings	(62 178)
Withdrawals	<u>(904)</u>
Net cash provided by financing activities	<u>33 086</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 7 160
 CASH, at beginning of the year	 2 102
 TRANSLATION ADJUSTMENT	 <u>147</u>
 CASH, at end of the year	 <u>9 409</u>

On behalf of the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairman

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages F-84 to F-107 form an integral part of these consolidated financial statements. Independent Auditors' report is on page F-76.

KERNEL HOLDING S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

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

1. NATURE OF THE BUSINESS

Kernel Holding S.A. (hereinafter referred to as the "Holding") incorporated under the legislation of Luxembourg on 15 June 2005 is a 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"). Prior to 15 June 2005 the holding company of the Group was Kernel Group International LLC (hereinafter referred to as the "Former Holding Company"), incorporated under the legislation of the United States of America (state of New York) on 27 January 2003 under its previous name – Landor Trading LLC.

The primary activity of the Group is related to production of bottled sunflower oil traded in Ukraine, production and subsequent export of sunflower-seed oil and meal and wholesale trade of grain (mainly wheat, barley and corn). The majority of the Group operations are located in Ukraine.

The principal operating office of the Group is located at the following address: 16 Nemirovicha-Danchenko str., 01133 Kyiv, Ukraine.

As of 30 June 2005 and 2004 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 2005	Group's Effective Ownership Interest as of 30 June 2004
Kernel Group International LLC	Former holding company. No significant activity since date of foundation.	USA	99%	100,00%
Inerco UK LLP	Trade of sunflower-seed oil, meal and grain.	Great Britain	98%	99%
Inerco Trade S.A.	Trade of sunflower-seed oil, provision of marketing services.	Switzerland	99%	100%
Kernel Assets Division S.A.	Recently set-up holding company. No significant activity since date of foundation.	Luxembourg	96,8%	96,8%
"Kernel-Capital", LLC	Holding company for grain elevators and other Subsidiaries in Ukraine. Performs transactions with financial instruments.	Ukraine	95,8%	95,8%
"Kernel-Trade", LLC	Trade of sunflower-seed oil, meal and grain.	Ukraine	98,9%	99,0%
CJSC "Poltava oil crushing plant – Kernel Group"	Production plant. Production of sunflower – seed oil and meal.	Ukraine	76,6%	67,3%
CJSC "MZRM – Striletskaya Step"		Ukraine	76,8%	N/A
LLC "Ukrainian Agricultural Company"	Holding company for agricultural farms.	Ukraine	0,3%	4,8%
LLC JE "Inerco-Ukraine"	Recently set-up holding company. No significant activity since the date.	Ukraine	99,9%	100,0%
LLC "Yuzhtrans-Terminal"	Dormant company.	Ukraine	95,8%	95,8%
"Poltavaavtotransservis" CJSC	Rendering transport services to other Group companies.	Ukraine	76,2%	0,1%
CJSC "JSC Selkhoztehnika"		Ukraine	77,0%	71,2%
LLC "Agroservice"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower-seed, barley, soy-bean.	Ukraine	19,0%	22,7%
LLC "Zernoservice"		Ukraine	18,4%	22,1%
LLC "Unigrain-Agro" (Semenovka)		Ukraine	19,0%	22,7%
LLC "Unigrain-Agro" (Globino)		Ukraine	19,0%	22,7%
LLC "Mrija-Agro"		Ukraine	19,0%	22,7%
JSC "Reshetilovski elevator"	Grain elevators. Services on cleaning, drying and storage of grain.	Ukraine	57,4%	57,4%
JSC "Khorolskiy elevator"		Ukraine	46,8%	46,8%
CJSC "Mirgorodsky elevator" (At 30 June 2004 registered as JSC "Mirgorodsky kombinat khliboproduktiv No. 2")		Ukraine	66,7%	38,4%
JSC "Globinsky elevator kliboproduktiv"		Ukraine	45,1%	45,1%
CJSC "Selestchinski elevator"		Ukraine	57,6%	57,6%

Subsidiary	Principal Activity	Country of Incorporation	Group's Effective Ownership Interest as of 30 June 2005	Group's Effective Ownership Interest as of 30 June 2004
JSC "Poltavske khlibopriemalne pidpriemstvo"	Grain elevators. Services on cleaning, drying and storage of grain.	Ukraine	65,9%	47,9%
JSC "Golovanivske hlibopriemalne pidpriemstvo"		Ukraine	95,1%	95,1%
"Galeschina-Agro" CJSC		Ukraine	71,9%	71,8%
"Gogoleve-Agro" CJSC		Ukraine	71,4%	71,1%
"Sagaydak-Agro" CJSC		Ukraine	66,0%	66,0%
"Karlivka-Agro" CJSC		Ukraine	58,9%	67,9%
"Novo-Sanzharski elevator" CJSC		Ukraine	39,4%	41,9%
"Lazorkovski Elevator" CJSC		Ukraine	76,7%	71,9%
"Zhrebkiivsky elevator LTD"		Ukraine	77,6%	77,6%
"Bobrynetsky elevator LTD"		Ukraine	77,6%	77,6%
"Kononivsky elevator LTD"		Ukraine	77,6%	77,6%
JSC "Pidgorodnanski elevator"		Ukraine	48.0% (direct Group ownership interest amounts to 50.1%)	48%
LLC "Bandurskiy elevator"		Ukraine	95,8%	95,8%
CJSC "Semenivski elevator"		Ukraine	55,5%	25,4%
LLC "Zhytnitsa"		Ukraine	76,8%	N/A
LLC "Kobelyaki hleboproduct"		Ukraine	0,0%	N/A
LLC "Krivoy Rog hleboproduct"		Ukraine	0,0%	N/A
LLC "Krasnograd hleboproduct"		Ukraine	19,0%	N/A
LLC "Sahnovshina hleboproduct"		Ukraine	19,0%	N/A
LLC "Belovodskiy elevator"		Ukraine	94,9%	N/A
"Kernel-Vostok" LLC	Newly established trading company for export of bottled sunflower oil to Russia. No significant activity since date of foundation.	Ukraine	96,8%	N/A

The Group consolidated the financial statements of LLC "Ukrainian Agricultural Company", LLC "Agroservice", LLC "Zernoservice", LLC "Unigrain-Agro" (Semenovka), LLC "Unigrain-Agro" (Globino), LLC "Mrija-Agro", JSC "Khorolskiy elevator", JSC "Globinskiy elevator kliboproductiv", "Novo-Sanzharski elevator" CJSC, LLC "Kobelyaki hleboproduct", LLC "Krivoy Rog hleboproduct", LLC "Krasnograd hleboproduct", and LLC "Sahnovshina hleboproduct" due to the fact that other shareholders of these Subsidiaries – related parties to the Group, who possess majority share of the voting rights in each of these Subsidiaries, are nominal holders of these shares on behalf of the ultimate beneficial owners of the Group (hereinafter referred to as the "Beneficial Owner"). "Kernel-Capital", LLC received power of attorney from these related parties to act on its behalf in exercising ownership rights related to these shares. The Group's management believes that it has power to govern operating and financial policies of these Subsidiaries.

As of 30 June 2005 and 2004 the Group employed 4,389 and 2,712 employees, respectively.

These consolidated financial statements were authorized for issue by Verevskiy Andrey Mikhaylovych the Honorary Chairman of Kernel Group, on 30 December 2005.

2. CHANGE IN REPORTING ENTITY AND SHARE CAPITAL

As of 30 June 2004 the holding company of the Group was Kernel Group International LLC (USA), whose contributed capital was fully owned by Sherval Management Ltd. (hereinafter referred to as the "Former Nominal Owner") – a limited liability company registered under the legislation of British Virgin Islands.

Since 15 June 2005 the holding company of the Group became Kernel Holding S.A. (Luxembourg) (the "Holding"), whose share capital consists of 8,000 authorized, allotted and fully paid ordinary shares each carrying one vote and having a nominal value of EURO ("EUR") 100. The shares were distributed as follows:

Nominal shareholder	30 June 2005	
	Shares allotted and fully paid	Share owned, %
Bissani Investment S.A. (public limited company registered under the legislation of Costa Rica) (the "New Nominal Owner")	7 999	99,99%
Individual	1	0,01%
Total	8 000	100,00%

As of 30 June 2005 and 2004 100% of the beneficial interest in the Former and New Nominal Owners was owned by the Beneficial Owner.

The change of the Group holding company and thus the change in the reporting entity was made for the purposes of optimization of the tax and legal structure of the Group. It was realized by effectively free of charge transfer to the Holding of 99% of the ownership interest in the Former Holding Company and transfer of major shareholdings in Group Subsidiaries owned by the Former Holding Company with simultaneous cash contribution to the share capital of the Holding made by the New Nominal Owner on behalf of the Beneficial Owner. This contribution in the amount of EUR 800 thousand (USD 964 thousand) was performed through cash withdrawals by the Beneficial Owner from the Group retained earnings. The remaining 1% of the ownership interest in the Former Holding Company was transferred from the Former Nominal Owner to another nominal owner.

The change in the reporting entity resulted in a capitalization of reserves within equity included into additional paid-in capital as of 30 June 2005 (Note 21).

The effect of retrospective application of this change was assessed by management as insignificant and thus no restatement of comparative information was presented.

3. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation and Accounting – The accompanying consolidated financial statements are prepared under the historical cost convention in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), and interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Group Subsidiaries maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group Subsidiaries' local statutory accounting records, reflects adjustments necessary for such financial statements to be presented in accordance with IFRS.

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 – The local currency of the Holding is Euro. However, the management has utilized the United States dollar ("USD") as the measurement and reporting currency of the accompanying consolidated financial statements of the Holding under International Accounting Standard ("IAS") No. 21 "The Effects of Changes in Foreign Exchange Rates" as its major assets and sources of finance are denominated in USD. The measurement currencies for the Subsidiaries of the Group are mainly local currencies of the countries, where the Group Subsidiaries are incorporated and operate with the exception of Inerco Trade S.A. (Switzerland), Inerco UK LLP (Great Britain) and "Kernel – Trade", LLC (as of 30 June 2004 only). Management has utilized USD as the measurement currency for these Subsidiaries under IAS No. 21 as their major sources of finance, prices of sales contracts with customers, significant purchases, and expenses were denominated in USD.

During the year ended 30 June 2005 the measurement currency of "Kernel – Trade", LLC was changed by management from USD to its local currency – UAH as a result of significant growth of the share of local sales in its sales structure. The effect of retrospective application of this change was assessed as insignificant and thus no restatement of comparative information is presented.

Transactions in currencies other than measurement currencies of the Group companies are treated as transactions in foreign currencies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The consolidated financial statements incorporate the consolidated financial statements of the Holding and companies controlled by the Group ("its Subsidiaries") made up as of 30 June 2005 and 2004. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee enterprise, either directly or indirectly, so as to obtain benefits from its activities.

The purchase method of accounting is used for acquired businesses. The equity attributable to minority owners' interests is shown separately in the consolidated balance sheet.

On acquisition, the assets and liabilities of a Subsidiary are measured at their fair values at the date of acquisition. The interest of minority owners is stated at the minority's proportion of the fair values of the assets and liabilities recognized.

Where necessary, adjustments are made to the financial statements of Subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All significant intercompany transactions and balances between the Group enterprises are eliminated on consolidation. Unrealized gains and losses resulting from intercompany transactions are also eliminated unless for unrealized losses which cannot be recovered.

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

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the Subsidiary on the date of acquisition. Goodwill arising from business combinations for which the agreement date is on or after 31 March 2004 is recognized as an asset and carried at cost less any accumulated impairment losses. The goodwill is not amortised and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that operation are treated as assets and liabilities of the foreign operation. Therefore, they are expressed in the measurement currency of the foreign operation and are translated at the closing rate. Excess of Group's interest in the adjusted net fair value of identifiable assets, liabilities and contingent liabilities of the acquired Subsidiaries over cost of acquisition is recognized immediately in the income statement of the period when the acquisition takes place.

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

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

On consolidation, the assets and liabilities of the Subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in shareholders' 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 2005	Average rate for the year ended 30 June 2005	Closing rate as of 30 June 2004
UAH/USD	5,05500	5,2544	5,3207
CHF/USD	1,2835	1,2102	1,256
EUR/USD	0,8296	0,7856	0,822

Cash – Cash includes unrestricted cash balances kept with banks and on hand.

Trade Accounts and Other Accounts Receivable – Trade and other accounts receivable are stated at their cost as reduced by appropriate allowances for estimated irrecoverable amounts.

Prepayments to Suppliers and Other Current Assets – Prepayments to suppliers and other current assets are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Investments – In accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement", investments are classified into the following categories: held-to-maturity, trading, available-for-sale and loans and receivables originated by the Group. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group, are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounted based on market rates at inception and is included in other expenses in the consolidated income statement. Originated loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Originated loans are carried net of any allowances for estimated irrecoverable amounts.

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale. The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment

discounted based on market rates at inception and is included in other expenses in the consolidated income statement. Originated loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Originated loans are carried net of any allowances for estimated irrecoverable amounts.

Held-to-maturity investments, loans and receivables originated by the Group are included in non-current assets unless they mature within 12 months from the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months from the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Estimation of fair values of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: disclosure and presentation" and IAS No. 39 "Financial instruments: Recognition and Measurement". As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of a particular instrument.

Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment. Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the income statement for the period.

Held-to-maturity investments and originated loans are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Investments in Non-consolidated Subsidiaries and Associates – Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Group intends to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share 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 2005 there were no investments in non-consolidated subsidiaries and associates.

Inventories – Inventories are stated at the lower of cost or net realizable value. Cost comprises purchase cost and, where applicable, those expenses that have been incurred in bringing the inventory to their present location and condition. Cost is calculated using FIFO method. Net 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, maize, soy, sunflower-seeds and other crops, which it raises, as biological assets. In accordance with IAS No. 41 "Agriculture", biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs, except for the case where the fair value cannot be measured reliably. Biological assets, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition.

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

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

Property, Plant and Equipment – Except for land, property, plant and equipment is carried at its cost less any accumulated depreciation and accumulated impairment losses. Land is carried at cost and is not depreciated.

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

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

Property, plant and equipment is depreciated over the estimated remaining useful economic lives of assets mostly determined by independent appraisals under the straight-line method. Remaining useful lives of property, plant and equipment are as follows:

Buildings and constructions	20–30 years
Production machinery and equipment	10–20 years

Agricultural vehicles and equipment	3–5 years
Fixtures, fittings and other fixed assets	5–20 years
Transport vehicles	4–7 years
Construction in progress ("CIP") and uninstalled equipment	Not depreciated

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

Impairment of Non-Current Assets – At each balance sheet date the Group reviews the carrying amounts of the Group's non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

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

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

Financial Instruments – Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial instruments are recognised using settlement date accounting.

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

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

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

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

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

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

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

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

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

Contingencies – Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

Reclassifications – Certain reclassifications have been made to the corresponding amounts for the year ended 30 June 2004 so as to conform to the current year presentation.

5. CASH

The balances of cash as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Cash with banks in USD	5 790	225
Cash with banks in UAH	2 974	1 875
Cash with banks in other currencies	36	47
Cash on a transit bank account	964	–
Cash on hand	60	–
Total	9 824	2 147
Less restricted cash on Security bank account	(415)	(45)
Cash for the purposes of cash flow statement	9 409	2 102

As of 30 June 2005 cash with banks in USD in the amount of USD 2,103 thousand (as of 30 June 2004: USD 50 thousand) kept on Security bank account with a Belgian bank, was pledged to secure the long-term loan facility obtained from this bank (Note 17). As of 30 June 2005 a part of cash on Security bank account in the amount of USD 415 thousand (as of 30 June 2004: USD 45 thousand) was restricted in use based on the loan agreement with the Belgian bank and thus was excluded from cash for the purposes of cash flow statement.

As of 30 June 2005 cash held on a transit bank account was represented by EUR 800 thousand contributed to the share capital of the Holding on 14 June 2005 (Note 2) and transferred to a current bank account on 26 July 2005.

6. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Trade accounts receivable	7 318	2 271
Allowance for estimated irrecoverable amounts	(517)	(381)
Total	6 801	1 890

As of 30 June 2005 accounts receivable from one European customer accounted for approximately 18% of the total carrying amount of trade accounts receivable. As of 30 June 2004 accounts receivable from one Ukrainian and one European customer accounted for approximately 19% and 12% of the total carrying amount of trade accounts receivable, respectively.

7. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS, NET

The balances of prepayments to suppliers and other current assets as of 30 June 2005 and 2004 were as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Prepayments to suppliers	2 489	651
Investments available-for-sale		284
Short-term advance to a related party	692	
Loans to related companies and management	128	1 030
Other accounts receivable and other current assets	440	578
Allowance for estimated irrecoverable amounts of prepayments to suppliers and other current assets	(641)	(223)
Total	<u>3 108</u>	<u>2 320</u>

Short-term advance to a related party represents returnable interest-free financial aid in UAH with a maturity of less than one month. The advance was returned to the Group shortly after 30 June 2005.

8. TAXES RECOVERABLE AND PREPAID, NET

The balances of taxes recoverable and prepaid as of 30 June 2005 and 2004 were as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
VAT ("Value-added tax") recoverable and prepaid	6 005	1 435
Other taxes recoverable and prepaid	88	32
Allowance for estimated irrecoverable amounts of VAT recoverable	(141)	
Total	<u>5 952</u>	<u>1 467</u>

VAT recoverable and prepaid mainly represents VAT credits in relation to purchases of agricultural products on internal market in Ukraine. Allowance for estimated irrecoverable amounts of VAT recoverable was created in the amount of USD 141 thousand as of 30 June 2005 (as of 30 June 2004: USD 126 thousand) as a result of uncertainty of recoverability of this balance from the Ukrainian State budget.

9. INVENTORY

The balances of inventories as of 30 June 2005 and 2004 were as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Raw materials	2 466	5 945
Finished products	6 546	2 690
Goods for resale	776	556
Packaging materials	251	59
Fuel	247	135
Other inventories	772	717
Total	<u>11 058</u>	<u>10 102</u>

As of 30 June 2005 inventories with the carrying amount of USD 4,583 thousand (as of 30 June 2004: USD 629 thousand) were pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks (Notes 16, 17). In addition, as of 30 June 2005 the Group pledged future purchases of raw materials, goods for resale and finished products produced for the total amount of USD 3,271 thousand in prices as of 30 June 2005.

10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2005 and 2004 were as follows:

	30 June 2005		30 June 2004	
	Hectares	Amount	Hectares	Amount
Barley crops	2 407	553	3 574	596
Wheat crops	3 134	749	1 736	377
Maize crops	1 810	447	2 019	140
Sunflower-seeds crops	1 714	209	2 110	99
Soy crops	1 524	241	1 546	99
Other crops	1 385	141	905	104
Total	11 974	2 340	11 890	1 415

The following table represents the changes in the carrying amounts of biological assets during the year ended 30 June 2005:

As of 30 June 2004	1 415
Increase due to purchases and subsequent expenditures capitalized in biological assets	2 470
Gain arising from changes in fair value attributable to physical changes and to changes of the market price (included in other operating income)	303
Decrease due to harvest	(1 965)
Translation adjustment	117
As of 30 June 2005	2 340

11. PROPERTY, PLANT AND EQUIPMENT, NET

As of 30 June 2005 property, plant and equipment with the carrying amount of USD 62,679 thousand (as of 30 June 2004: USD 43,979 thousand) was pledged by the Group as collateral against short-term and long-term bank loans obtained from Ukrainian banks and the Belgian bank (Notes 16, 17).

The Group's uninstalled production equipment with the carrying amount of USD 1,392 thousand as of 30 June 2005 (as of 30 June 2004: nil) was held under finance lease (Note 18).

The following table represents movements in property, plant and equipment for the year ended 30 June 2005:

	Buildings and constructions	Production machinery and equipment	Agricultural vehicles and equipment	Transport vehicles	Fixtures, fittings and other fixed assets	CIP and uninstalled equipment	Total
Cost							
As of 30 June 2004	31 918	9 639	1 501	2 111	1 390	9 066	55 625
Cost of property, plant, and equipment of Subsidiaries acquired (Note 28)	4 033	2 419	–	177	160	79	6 868
Additions	–	–	–	–	–	9 083	9 083
Transfers	3 742	4 370	35	442	750	(9 339)	–
Disposals	(1 254)	(401)	(4)	(165)	(130)	(247)	(2 201)
Translation adjustment	2 033	362	46	130	140	555	3 266
As of 30 June 2005	40 472	16 389	1 578	2 695	2 310	9 197	72 641
Accumulated depreciation							
As of 30 June 2004	–	–	(12)	(6)	(6)	–	(24)
Change for the year	(1 549)	(1 460)	(332)	(472)	(404)	–	(4 217)
Eliminated on disposals during the year	18	20	2	42	19	–	101
Translation adjustment	(143)	(61)	(30)	(26)	(28)	–	(288)
As of 30 June 2005	(1 674)	(1 501)	(372)	(462)	(419)	–	(4 428)
Net book value							
As of 30 June 2005	38 798	14 888	1 206	2 233	1 891	9 197	68 213
As of 30 June 2004	31 918	9 639	1 489	2 105	1 384	9 066	55 601

12. INTANGIBLE ASSETS, NET

The following table represents movements in intangible assets for the year ended 30 June 2005:

	Trademarks	Other intangible assets	Total
Cost			
As of 30 June 2004		69	69
Intangible assets of Subsidiaries acquired (Note 28)	6 877		6 877
Additions		6	6
Disposals		(15)	(15)
Translation adjustment	344	4	348
As of 30 June 2005	7 221	64	7 285
Accumulated Amortisation			
Amortisation charge Disposals Translation adjustment		(13)	(13)
As of 30 June 2005		(27)	(27)
Net Book Value		15	15
As of 30 June 2005		(1)	(1)
As of 30 June 2004	–	(26)	(26)
Net Book Value			
As of 30 June 2005	7 221	38	7 259
As of 30 June 2004	–	56	56

Included in intangible assets of Subsidiaries acquired during the year ended 30 June 2005 is the "Schedry Dar" trademark with the value of USD 6,877 thousand. This trademark is used by the Group for sale of bottled sunflower oil mostly in the Ukrainian market and is pledged as security for long-term loans as of 30 June 2005 (Note 17).

Management of the Group expects the demand for bottled sunflower oil to be stable in the foreseeable future. The Group believes that as a result of further promotion of the "Schedry Dar" trademark the current market share possessed by the bottled sunflower oil sold under this trademark will be stable as well and thus the Group will be able to obtain economic benefits from it during an indefinite period of time. Accordingly, the trademark "Schedry Dar" is considered to have indefinite useful life and thus is not amortized but tested for impairment by comparing its recoverable amount with its carrying amount annually and whenever there is an indication that the trademark may be impaired.

13. GOODWILL

The following table represents movements in goodwill for the year ended 30 June 2005:

As of 30 June 2004	64
Goodwill arising on acquisition of Subsidiaries (Note 28)	2 764
Translation adjustment	142
As of 30 June 2005	2 970

14. OTHER NON-CURRENT ASSETS

The balances of other non-current assets as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Grain elevators lease rights ("DAK Asset") (Note 30)	2 591	1 895
Prepayments for property, plant and equipment	2 036	195
Guarantee bank account	428	428
Prepayment for acquisition of Subsidiaries (Note 28)	–	1 500
Other non-current assets	83	279
Total	5 138	4 297

Grain elevators lease rights ("DAK Asset")

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

The "DAK Debt" was effectively purchased for a consideration of USD 979 thousand, out of which USD 809 thousand were included in advances from customers and other current liabilities as of 30 June 2004 (Note 15).

As "DAK" failed to settle in cash its debt on the last re-scheduled maturity date on 31 January 2003 the parties agreed that the "DAK Debt" would be recovered by granting to the Group the right for operating lease of the property of four grain elevators owned by "DAK" and by set-off of the related rentals payable against the "DAK Debt" for the total nominal amount of USD 4,872 thousand.

The description of the lease terms is as follows:

Assets leased	Storage capacity of leased grain elevators	End of lease period	Monthly rental payable
Property of three grain elevators	296 thousand tons of wheat (aggregated)	December 2012	USD 38 thousand (aggregated)
Property of one grain elevator	60 thousand tons of wheat	December 2006	USD 8 thousand

The "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period. The implicit annual discount rate approximates market interest rate in UAH at inception and equals 22%.

As of 30 June 2004 the nominal value of the "DAK debt" totaling USD 5,748 was represented by initial amount of debt of USD 5,369 thousand and the related penalties for non-payment of USD 379 thousand. The nominal value of the operating lease payments available for set-off with "DAK" under the described lease agreements totaled USD 4,872 thousand as of 30 June 2004. The asset related to difference of USD 876 thousand between the nominal value of the "DAK Debt" and the nominal value of the operating lease payments available for set-off had been written-off as of 30 June 2004 due to low probability of its recoverability. However, during the year ended 30 June 2005 the Group managed to realize USD 170 thousand of this amount by set-offs against additional accounts payable for services obtained from "DAK". This transaction was recognized as "Other Income" in the consolidated income statement of the Group for the year ended 30 June 2005 in the note line "Income from "DAK Asset" (Note 27).

Guarantee bank account

The guarantee bank account represents cash kept on interest-free deposit account, maturing in July 2007, at the Belgian bank in order to secure the long-term credit facility obtained from this bank for financing the Group's acquisition of machinery and equipment (Note 17).

15. ADVANCES FROM CUSTOMERS AND OTHER CURRENT LIABILITIES

The balances of advances from customers and other current liabilities as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Advances from customers	1 848	482
Accrued payroll, payroll related taxes and bonuses	1 280	569
Taxes payable and provision for tax liabilities	434	152
Accounts payable for property, plant and equipment	268	203

	30 June 2005	30 June 2004
Obligation under finance lease payable within one year (Note 18)	235	–
Provision for unused vacations and other provisions	211	137
Provision for contingent liabilities related to Government agricultural assistance programs (Note 30)		
Accounts payable and short-term promissory notes issued	178	181
Provision for contingent liabilities related to Government agricultural assistance programs (Note 30)	–	532
Accounts payable and short-term promissory notes issued	–	809
Other accounts payable and other current liabilities	305	540
Total	4 759	3 605

As of 30 June 2005 taxes payable and provision for tax liabilities included provision for income tax liability amounting to USD 336 thousand, which related to contributions of additional paid-in capital (Notes 21, 29).

16. SHORT-TERM BORROWINGS

The balances of short-term borrowings as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Bank credit lines	2 249	8 936
Overdraft	7	
Interest accrued	5	
Total	2 261	8 936

The balances of short-term borrowings as of 30 June 2005 were as follows:

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	13,0%	USD	August 2005	879
Ukrainian subsidiary of an European bank	LIBOR + 8,5%	USD	September 2005	800
Ukrainian bank	12,5%	USD	September 2005	570
<i>Total bank credit lines</i>				2 249
European bank	LIBOR + 2,4%	USD		7
<i>Total overdrafts</i>				7
Interest accrued				5
Total				2 261

The balances of short-term borrowings as of 30 June 2004 were as follows:

Lender	Interest rate	Loan currency	Maturity	Amount due
Ukrainian bank	13,5%	USD	July 2004 – March 2005	7 121
Ukrainian bank	11,5%	USD	July 2004	1 541
Ukrainian bank	22,0%	UAH	July 2004	274
Total				8 936

As of 30 June 2005 the overall maximum credit limit for short-term bank credit lines and overdrafts amounted to USD 5,570 thousand (as of 30 June 2004: USD 21,640 thousand).

As of 30 June 2005 and 2004 short-term borrowings were secured as follows:

Carrying value Assets pledged	Carrying amount	
	30 June 2005	30 June 2004
Property, plant and equipment (Note 11)	2 914	33 370
Ownership rights on intercompany sales proceeds	–	3 900
Inventory (Note 9)	214	629
Total	3 128	37 899

In addition, controlling stakes in the following Subsidiaries were pledged to secure the short-term and long-term bank loans (Note 17) of the Group as of 30 June 2005 and 2004:

Name of Subsidiary, stake in which was pledged	
30 June 2005	30 June 2004
CJSC "Poltava oil crushing plant – Kernel Group"	CJSC "Poltava oil crushing plant – Kernel Group"
JSC "Reshetilovski elevator"	JSC "Reshetilovski elevator"
JSC "Khorolskiy elevator"	JSC "Khorolskiy elevator"
JSC "Globinsky elevator kliboproduktiv"	JSC "Globinsky elevator kliboproduktiv"
"Karlivka-Agro" CJSC	"Karlivka-Agro" CJSC
"Sagaydak-Agro" CJSC	"Sagaydak-Agro" CJSC
"Galeschina-Agro" CJSC	"Galeschina-Agro" CJSC
"Lazorkovski Elevator" CJSC	"Lazorkovski Elevator" CJSC
"Novo-Sanzharski elevator" CJSC	"Novo-Sanzharski elevator" CJSC
CJSC "Mirgorodskiy elevator"	JSC "Mirgorodsky kombinat kliboproduktiv No. 2"
JSC "Golovanivske hlibopriemalne pidpriemstvo"	"Poltavaavtotransservis" CJSC
JSC "Pidgorodnanski elevator"	CJSC "JSC Selkhoztehnika"
JSC "Poltavske klibopriemalne pidpriemstvo"	
"Gogoleve-Agro" CJSC	

Another owner of these Subsidiaries, the nominal holder of the shares on behalf of the Beneficial Owner additionally pledged its stake in the Group Subsidiaries to secure the short-term and long-term bank loans of the Group as of 30 June 2005 and 2004.

17. LONG-TERM BORROWINGS

The balances of long-term borrowings as of 30 June 2005 and 2004 were as follows:

	30 June 2005	30 June 2004
Long-term bank loans	49 344	6 353
Long-term borrowings from related parties	4 089	6 634
Interest accrued	404	48
Less: Current portion of long-term borrowings	(18 409)	(3 150)
Total	35 428	9 885

Long-term bank loans

The balances of long-term bank loans as of 30 June 2005 were as follows:

Lender	Type of loan	Interest Rate	Loan currency	Maturity Date	Amount due
Ukrainian bank	Credit line	12,0%	USD	August 2005	12 654
Ukrainian bank	Credit line	12,0%	USD	August 2006	9 809
Ukrainian bank	Credit line	12,0%	USD	March 2006	6 999
Ukrainian bank	Credit line	16,5%	UAH	November 2007	5 780
Ukrainian bank	Credit line	12,0%	USD	February 2007	4 949
Ukrainian bank	Credit line	12,5%	USD	September 2007	3 500
Belgian bank	Term loan	4,23%	USD	July 2007	3 225
Ukrainian bank	Credit line	16,0%	UAH	July 2005	692
Ukrainian bank	Credit line	12,0%	USD	April 2006	625
Ukrainian bank	Term loan	14,0%	USD	September 2005	567
Ukrainian bank	Credit line	16,0%	UAH	August 2005	544
Total					49 344

Included in above amounts are long-term loans from Ukrainian banks with original maturity date within one year after 30 June 2005 for the carrying amount of USD 7,565 thousand which were excluded from current portion of long-term borrowings and reclassified to long-term borrowings as of 30 June 2005 due to the fact that the Group intended to refinance these obligations on a long-term basis and that intention was supported by refinancing agreements concluded subsequent to 30 June 2005 (Note 33).

The balances of long-term bank loans as of 30 June 2004 were as follows:

Lender	Type of loan	Interest Rate	Loan currency	Maturity Date	Amount due
Belgian bank	Term loan	3,98%	USD	July 2007	4 333
Ukrainian bank	Credit line	13,5%	USD	April 2006	1 375
Ukrainian bank	Credit line	13,5%	USD	February 2007	645
Total					6 353

a) Long-term loan from a Belgian bank

Loan from the Belgian bank was obtained in July 2003 to finance acquisition of machinery and equipment for production of sunflower-seed oil and meal. The loan agreement stipulated the Group entering into agreement with an European customer to sell annually approximately 12,000 tons of sunflower seed oil (hereinafter referred to as the "Off-take Agreement"), to be delivered in quarterly amounts of approximately 3,000 tons. According to the Off-take Agreement all the cash proceeds from sales to the European customer should be paid on Security bank account with the Belgian bank. As of 30 June 2005 the loan was secured by property, plant and equipment with the carrying amount of USD 5,995 thousand (as of 30 June 2004: USD 5,679 thousand) (Note 11) financed by the loan, Guarantee bank account in the amount of USD 428 thousand (as of 30 June 2004: USD 428 thousand) (Note 14), Security bank account in the amount of USD 2,103 thousand (as of 30 June 2004: USD 50 thousand) (Note 5), insurance of a Belgian insurance institution and sales proceeds under the Off-take Agreement.

As of 30 June 2005 total quantity of sunflower oil to be supplied after 30 June 2005 under the terms of the Off-take agreement was within the range from 8,550 tons to 9,450 tons which corresponded to the amount of USD 5,318 thousand to USD 5,878 thousand in prices as of 30 June 2005 (Note 30).

b) Long-term loans from Ukrainian banks

Long-term loans from Ukrainian banks as of 30 June 2005 were represented by revolving credit line facilities from two banks (as of 30 June 2004: from one bank) with the overall maximum credit limit of USD 56,530 thousand (as of 30 June 2004: USD 6,500 thousand).

As of 30 June 2005 and 2004 long-term loans from Ukrainian banks were secured as follows:

Carrying value Assets pledged	Carrying amount	
	30 June 2005	30 June 2004
Property, plant and equipment (Note 11)	53 770	10 609
Inventory (Note 9)	4 369	–
Intangible assets (Note 12)	7 221	–
Controlling stakes in Subsidiaries (Note 16)	Not quantifiable	Not quantifiable
Total	65 360	10 609

c) Long-term borrowings from related parties

Long-term borrowings from related parties as of 30 June 2004 were represented by two unsecured loan facilities denominated in USD and bearing interest rate of 14% payable to a company located in a Baltic country (hereinafter referred to as the "Lender").

During the year ended 30 June 2005 one of these loan facilities was repaid. As of 30 June 2005 the Beneficial Owner of the Group arranged to replace the Group liability under the other facility for an interest-free loan payable to the Beneficial Owner for the same nominal amount of USD 6,118 thousand (including capitalized interest in the amount of USD 769 thousand) repayable in October 2012. The loan from the Beneficial Owner was recognized in the consolidated financial statements of the Group at its fair value being the nominal loan amount discounted at annual market rate at inception assessed at 12%. The difference between the nominal amount of the loan received from the Beneficial Owner and its fair value in the amount of USD 2,029 thousand was recognized in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005 as a contribution of additional paid-in capital (Note 21).

The liability to the Lender under the replaced loan facility was assigned to the Beneficial Owner himself. As of 30 June 2005 the Beneficial Owner disagreed with the Lender on the amount of the loan liability and the related interest payable to the Lender. The arrangement between the Group and the Beneficial Owner stipulates that in case of adverse outcome of this disagreement the Group will be liable for repayment of additional amounts of this loan and the related interest, if any, accrued to the Beneficial Owner. As of 30 December 2005 the arguable balance of the loan liability and the related interest amounts to approximately USD 430 thousand (Note 30).

18. OBLIGATION UNDER FINANCE LEASE

	Minimum lease payments 30 June 2005	Present value of minimum lease payments 30 June 2004
Amounts payable under finance leases		
Within one year	343	235
Later than one year and not later than five years	1 370	1 157
	1 713	1 392
Less: Future finance charges	(321)	
Present value of lease obligations	1 392	1 392
Less: Amount due for settlement within one year (Note 15)		(235)
Amount due for settlement after one year		1 157

In April – July 2005 CJSC "Poltava Oil-Extraction Plant – Kernel Group", a Subsidiary, entered into four finance lease contracts to acquire equipment for production of bottled sunflower oil with an Ukrainian subsidiary of an European bank for the total amount of USD 5,628 thousand.

During the year that ended on 30 June 2005 the Group obtained production equipment under one of these contracts for the amount of USD 1,392 thousand. Subsequent to 30 June 2005 the Group obtained equipment under the three remaining finance lease contracts for the total amount of USD 4,236 thousand subject to future finance charges of USD 1,029 thousand (Note 33).

The finance lease liability is denominated in USD and bears interest rate of 8.25% per annum.

19. INCOME TAXES

As of 30 June 2005 and 2004 the major components of deferred tax assets and liabilities were as follows:

	<u>30 June 2005</u>	<u>30 June 2004</u>
Deferred tax assets arising from		
Valuation of accounts receivable	220	127
Valuation of advances from customers	348	139
Inventory valuation	294	0
Valuations of property, plant and equipment	183	165
Tax losses carried forward	146	779
Valuations of accrued expenses and other temporary differences	583	361
Deferred tax asset	<u>1 774</u>	<u>1 571</u>
Less: Valuation allowance	(670)	(966)
Net deferred tax asset after valuation allowance	<u>1 104</u>	<u>605</u>
Deferred tax liability arising from		
Valuations of property, plant and equipment	(8 708)	(7 497)
Inventory valuation	–	(217)
Valuation of intangible assets	(1 806)	(12)
Valuation of prepayments to suppliers and prepaid expenses	(397)	(177)
Deferred tax liability	<u>(10 911)</u>	<u>(7 903)</u>
Net deferred tax liability	<u>(9 807)</u>	<u>(7 298)</u>

As of 30 June 2005 valuation allowances totaling USD 670 thousand (as of 30 June 2004: USD 966 thousand) were recorded in relation to temporary differences arising on valuation of tax losses carried forward, a part of property, plant and equipment, and a part of accounts receivable due to uncertainty of realization of these deferred tax assets.

As of 30 June 2005 all deferred taxes arose on temporary differences related to assets and liabilities of Subsidiaries located in Ukraine. The corporate income tax rate in Ukraine was 25% as of 30 June 2005 and 2004.

Income taxes applicable to the Kernel Group International LLC and Inerco UK LLP are taxed directly to the owners of these companies.

The components of income tax expense for the year ended 30 June 2005 were as follows:

	<u>30 June 2005</u>
Current income tax expense	138
Deferred tax benefit	(405)
Income tax benefit	<u>(267)</u>

The income tax charge for the year ended 30 June 2005 is reconciled to the profit before income tax per consolidated income statement as follows:

	<u>30 June 2005</u>
Profit before income tax	323
Tax at the statutory income tax rate in Ukraine of 25%	81
Expenditures not allowable for income tax purposes	302

30 June 2005

Non-taxable income	(354)
Change in valuation allowance	(296)
Income tax benefit	(267)

The following table represents movement in deferred tax liability for the year ended 30 June 2005:

Deferred tax liability as of 30 June 2004	7 298
Deferred tax liability of Subsidiaries acquired (Note 28)	2 456
Deferred tax benefit	(405)
Translation adjustment	458
Deferred tax liability as of 30 June 2005	9 807

20. MINORITY INTEREST

The following table represents movements in minority interest for the year ended 30 June 2005:

As of 30 June 2004	15 380
Effect of contributions of additional paid-in capital (Notes 21, 29)	(396)
Minority share in profits of Subsidiaries during the year ended 30 June 2005	131
Translation adjustment	614
As of 30 June 2005	15 729

21. ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital as of 30 June 2005 was formed by additional contributions from the Beneficial Owner of the Group and its related parties, and the effect of change in reporting entity (Note 29).

The following table represents movements in additional paid-in capital for the year ended 30 June 2005:

As of 30 June 2004	6 303
Release of trade and other accounts payable due from the Group (Note 29)	1 312
Release of loans issued by the Group (Note 29)	(1 005)
Fair value adjustment on loan payable to the Beneficial Owner (Notes 17, 29)	2 029
Total effect of contributions of additional paid-in capital	2 336
Tax effect of contributions of additional paid-in capital (Notes 15, 29)	(336)
Effect on minority interest of contributions of additional paid-in capital (Notes 20, 29)	396
Effect of changes in reporting entity (Note 2)	22 999
As of 30 June 2005	31 698

22. REVENUE

The revenue for the year ended 30 June 2005 was as follows:

	<u>30 June 2005</u>
Revenues from sales of finished products	74 071
Revenues from sales of goods for resale	56 448
Revenues from services	12 540
Other revenue	<u>704</u>
Total	<u>143 763</u>

During the year that ended on 30 June 2005 revenues from sales to two European customers accounted for approximately 34% of the total revenue.

23. COST OF SALES

The cost of sales for the year ended 30 June 2005 was as follows:

	<u>30 June 2005</u>
Cost of goods for resale and raw materials used	105 665
Payroll and payroll related costs	6 932
Depreciation	3 933
Rent	795
Other operating costs	<u>3 257</u>
Total	<u>120 582</u>

24. DISTRIBUTION COSTS

The distribution costs for the year ended 30 June 2005 were as follows:

	<u>30 June 2005</u>
Carriage and freight	8 229
Payroll and payroll related costs	887
Marketing and advertising	700
Sanitation services	420
Certification	395
Depreciation	103
Other	<u>707</u>
Total	<u>11 441</u>

25. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the year ended 30 June 2005 were as follows:

	<u>30 June 2005</u>
Payroll and payroll related costs	2 602
Repairs and material costs	759
Audit, legal and other professional fees	736
Bad debt expense	569
Rent	476

30 June 2005

Business trip expenses	343
Communication services	326
Taxes other than income tax	280
Bank services	180
Information services	164
Insurance	103
Depreciation and amortization	83
Other	466
Total	7 087

26. FINANCE COSTS

The finance costs for the year ended 30 June 2005 were as follows:

30 June 2005

Interest expense on bank loans	5 398
Interest expense on borrowings from related parties	770
Other finance costs	472
Total	6 640

27. OTHER INCOME, NET

The other income for the year ended 30 June 2005 were as follows:

30 June 2005

Income from "DAK Asset"	863
Gain on sale of equity investments	305
Loss on disposal of property, plant and equipment	(483)
Other income, net	198
Total	883

"Income from "DAK Asset" for the year ended 30 June 2005 represents change in value of the "DAK Asset" as a result of passage of time and partial realization of the nominal amount of the "DAK Debt", which was not recognized as asset at 30 June 2004, by additional set-offs with "DAK" (Note 14).

28. ACQUISITION OF SUBSIDIARIES

On 30 September 2004 the Group Acquired 100% interest in CJSC "MZRM – Striletskaya Step" and LLC "Zhytnitsa", which together form the "DAR Group", for the consideration of USD 13,962 thousand.

This transaction was accounted for using the purchase method of accounting. The fair value of each class of the DAR Group's assets, liabilities and contingent liabilities acquired were as follows:

Net assets acquired

Cash	13
Trade and other accounts receivable	150
Taxes recoverable and prepaid	276
Inventory	115
Property, plant and equipment (Note 11)	6 868
Intangible assets (Note 12)	6 877

Trade and other accounts payable	(645)
Deferred tax liability (Note 19)	(2 456)
Fair value of net assets acquired	11 198
Goodwill (Note 13)	2 764
Total consideration, satisfied by cash	13 962
Less: Cash acquired	(13)
Less: Prepayment made at 30 June 2004 (Note 14)	(1 500)
Net cash outflow arising on acquisition	12 449

29. TRANSACTIONS WITH RELATED PARTIES

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

The Group had the following balances outstanding with related parties as of 30 June 2005 and 2004:

	Related party balances as of 30 June 2005	Total category as per consolidated balance sheet as of 30 June 2005	Related party balances as of 30 June 2004	Total category as per consolidated balance sheet as of 30 June 2004
Trade accounts receivable, net (Note 6)	–	6 801	296	1 890
Prepayments to suppliers and other current assets, net (Note 7)	820	3 108	1 659	2 320
Other non-current assets (Note 14)	56	5 138	52	4 297
Trade accounts payable	–	2 451	665	1 420
Advances from customers and other current liabilities (Note 15)	–	4 759	2 408	3 605
Current portion of long-term debt (Note 17)	347	18 409	1 364	3 150
Long-term borrowings (Note 17)	3 742	35 428	5 281	9 885

Transactions with related parties for the year that ended 30 June 2005 were as follows:

	Amount of transactions with related parties	Total category as per consolidated income statement
Sales (Note 22)	625	143 763
General and administrative expenses (Note 25)	376	7 087
Finance costs (Note 26)	770	6 640

- During the year ended 30 June 2005 the Group purchased raw materials and goods for resale from related parties for the amount of USD 624 thousand
- During the year ended 30 June 2005 the Beneficial Owner arranged to release the Group's trade and other accounts payable to related companies under common control by the Beneficial Owner in the amount of USD 1,312 thousand (Note 21). Along with that, the Beneficial Owner also arranged to release other related companies under his control from their liabilities to the Group for loans issued to them by the Group before 30 June 2004 in the amount of USD 1,005 thousand. (Note 21). The related effect on provision for income tax liability amounted to USD 336 thousand (Note 15) and the related effect on minority interest amounted to USD 241 thousand (increase in minority interest). Both of these releases as well as the related effects on provision for income tax liability and minority interest were reflected in movement of additional paid-in capital in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005.
- During the year ended 30 June 2005 the Beneficial Owner increased the Group's ownership interest in a number of Subsidiaries as shown in Note 1 by effectively free-of-charge withdrawal of shares in these Subsidiaries from the nominal shareholders, which resulted

in decrease of the balance of minority interest for USD 637 thousand. This decrease was reflected as a contribution of additional paid-in capital in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005. Taking into account effect on minority interest rising on release of trade and other accounts payable and release of loans issued by the Group as discussed above in this note, total decrease in minority interest as a result of contributions of additional paid-in capital during the year ended 30 June 2005 amounted to USD 396 thousand (Note 21).

- d) As discussed in Note 17, during the year ended 30 June 2005 the Beneficial Owner arranged to replace the Group liability under the interest-bearing loan payable to a company located in a Baltic country with the interest free loan payable to the Beneficial Owner for the same nominal amount of USD 6,118 thousand. As a result of this transaction the Group recognized USD 2,029 thousand in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005 as a contribution of additional paid-in capital (Note 21).
- e) During the year ended 30 June 2005 the Beneficial Owner made a withdrawal amounting to USD 904 thousand which was reflected in movement of retained earnings in the consolidated statement of changes in shareholders' equity for the year ended 30 June 2005.

As of 30 June 2005 minority interest in the amount of USD 15,729 thousand (as of 30 June 2004: USD 15,380 thousand) (Note 20) includes USD 8,562 thousand (as of 30 June 2004: USD 8,518 thousand) attributable to one related party – nominal holder of the shares in Subsidiaries on behalf of the Beneficial Owner.

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

30. COMMITMENTS AND CONTINGENCIES

Operating Environment – The principal business activities of the Group's are within 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 are any adverse changes in the political and business environment.

Taxation – Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the Ukrainian tax environment is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest.

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

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

Retirement and Other Benefit Obligations – The major part of the Group's employees receive pension benefits from the Pension Fund, an 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 2005 the Group was not liable for any significant supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees.

Legal Issues – The Group is involved in litigation and other claims that are in the ordinary course of its business activities.

Management of the Group believes that the resolution of such matters will not have a material impact on its financial position.

"DAK Asset" – As discussed in Note 14 the "DAK Asset" is a non-current asset valued at the present value of the saved rentals payable for the leased property of the "DAK" grain elevators during the agreed lease period and amounts to USD 2,591 thousand as of 30 June 2005 (as of 30 June 2004: USD 1,895 thousand).

"DAK" is a State company, which has been loss-making for a number of recent years. In October 2005 the Chief Executive Officer of "DAK" announced "DAK" insolvency and as a result the State authorities are currently considering reorganization or privatization of "DAK". One of the suggested actions within the reorganization procedures under consideration include initiation of court proceedings aimed at termination of "DAK" agreements on lease of its grain elevators.

In addition, the Law "On restoring solvency of a debtor or declaring it a bankrupt" ("the Law on Bankruptcy") stipulates a process of sanation within bankruptcy procedures as one of the procedures aimed at restoring solvency of a debtor. The Law on Bankruptcy also stipulates under certain conditions the right of the appointed sanation manager to initiate court proceedings aimed at termination of agreements of a debtor under sanation concluded with its counterparties.

Accordingly, should the State authorities finally opt to reorganize "DAK" or should the bankruptcy procedures and subsequently sanation of "DAK" be initiated there is a risk that the lease agreements between "DAK" and the Group will be terminated which will result in provision for impairment for the "DAK Asset" and this provision could be material.

Loan from the Beneficial Owner – As mentioned in Note 17, there is a disagreement between the Beneficial Owner and its related party located in a Baltic country in relation to the loan and the related interest payable by the Beneficial Owner to this party. The arrangement between the Beneficial Owner and the Group stipulates the Group's liability for repayment of additional amounts of loan and the related interest, if any, accrued to the Beneficial Owner under this loan facility. As of 30 December 2005 the arguable balance of the loan and the related interest amounts to approximately USD 430 thousand.

Contingent Liability Related to Government Assistance Programs – During 1995–1999 the State Treasury of Ukraine through the State Reserve of Ukraine, local state administrations and "DAK" (collectively "State representative bodies") implemented government assistance/loan programs ("Government assistance programs") to support collective agricultural farms ("Agricultural farms"). According to these programs, the grain elevators acted as state agents responsible for delivery of goods (fuel, fertilizers, grain seeds, etc.) from the State representative bodies to Agricultural farms and subsequent receipt of grain products from Agricultural farms as a settlement of their liabilities to the State representative bodies. Under a number of Government assistance programs some grain elevators were also obliged to sign direct purchase agreements with the State representative bodies and the corresponding direct sale agreements with Agricultural farms and, accordingly, were obliged to account at their balance sheets for these transactions.

As a result of such Government assistance programs, total liabilities to State representative bodies, recorded in the statutory accounting registers and off-balance sheet records of grain elevators of the Group amounted to USD 1,133 thousand as of 30 June 2005. The current Ukrainian legislation is uncertain in determining whether the liabilities under such Government assistance programs are to be repaid by the grain elevators involved or not and, therefore, there is a possibility that the State representative bodies may claim the repayment of the total amount of these liabilities in the amount of USD 1,133 thousand from the Group's grain elevators.

The Group management assesses the probability of such outcome as less than probable and believes that the provision for contingent liability to the State representative bodies in the amount of USD 178 thousand recognized as of 30 June 2005 is adequate (Note 15).

Capital Commitments – As of 30 June 2005 the Group had capital commitments on acquisition of production equipment in the amount of approximately USD 4,236 thousand under three finance lease agreements (Note 18) subject to future finance charges of USD 1,029 thousand and additional capital commitments of USD 596 thousand (as of 30 June 2004: USD 527 thousand).

Contractual Commitments on Sales – As of 30 June 2005 the Group was committed to sales of finished goods (sunflower oil) to one European customer in quantity within the range from 8,550 tons to 9,450 tons which corresponded to the amount of USD 5,318 thousand to USD 5,878 thousand (Note 17) in prices as of 30 June 2005.

Operating Leases – As of 30 June 2005 and 2004 the Group had outstanding commitments under non-cancellable operating leases agreements which all fall due as follows:

Lease term	Future minimum lease payments as of 30 June 2005	Future minimum lease payments as of 30 June 2004
Within 1 year	1 564	281
From 1 to 5 years	4 328	704
More than 5 years	1 476	163
Total	7 368	1 148

Operating lease payments mainly represent rentals payable by the Group for "DAK" grain elevators and equipment (Note 14), office premises and land in Ukraine. Rentals for land are determined in accordance with Ukrainian legislation.

31. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit Risk – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. Limits on the level of credit risk by customer are approved on a regular basis by the management of the Group.

Currency Risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The management of the Group sets limits on the level of exposure by currencies.

Interest Rate Risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

Currently, the Group's approach to the interest risk limitation is borrowing at fixed rates.

Liquidity Risk – The Group's objective is to maintain the balance between continuous funding and flexibility in the use of bank loan funds and settlements with suppliers. In accordance with the Group's plans its demand in the working capital will be satisfied mainly by cash inflows generated by operating activities. The Group may also use loan funds unless proceeds from operating activities are insufficient for appropriate settlement of liabilities.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As of 30 June 2005 and 2004 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

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

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

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

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

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

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

33. SUBSEQUENT EVENTS

- a) Subsequent to 30 June 2005 the Group negotiated with Ukrainian and European commercial banks short-term and long-term credit facilities to finance its operating activities for the overall maximum credit limit of USD 59,745 thousand and pledged its inventory, property, plant and equipment, and property rights for sales agreements to secure these loan facilities. In addition, the Group refinanced on a long-term basis its obligations under current portion of loans payable to Ukrainian banks for the total carrying amount of USD 7,565 thousand (Note 17).
- b) Subsequent to 30 June 2005 the Group has attracted most of employees of the regional offices from a subsidiary of another grain trader operating in Ukraine. These regional offices were engaged in purchasing grain and other agricultural products from farmers and also engaged in support of export sales of that grain trader. The Group incurred no costs associated with this transaction except for payroll costs paid to attracted employees in the normal course of business.
- c) In July–August 2005 the Group acquired production equipment under three finance lease agreements for the total amount of USD 4,236 thousand subject to future finance charges of USD 1,029 thousand (Note 18).
- d) Subsequent to 30 June 2005, "Kernel-Trade" LLC, a Subsidiary, performed two issues of domestic corporate bonds denominated in UAH for the total amount of USD 9,892 thousand repayable in September–October 2008. The bonds bear coupon interest of 14% per annum, interest is payable on a quarterly basis.

ANNEX I

DEFINED TERMS

"Admission"	Admission of Shares to trading on the WSE
"Allotment Date"	The date on which the Offer Shares will be allocated to Investors and on which the Offer Price and the final number of the Offer Shares to be offered in the Offering are determined
"AMC"	The Antimonopoly Committee of Ukraine
"Articles of Association"	The articles of association of the Company
"Board of Directors"	The Board of Directors of the Company
"Call Option"	The Call Option granted to the Selling Shareholder under the Put and Call Option Agreement pursuant to which the Selling Shareholder may demand that the Option Shares be sold to it
"CIF"	(<i>Cost, Insurance and Freight</i>) as defined under INCOTERM 2000 of the International Chamber of Commerce – a common term in a sales contract meaning that the selling price includes the cost of the goods, the freight or transport costs and also the cost of marine insurance
"CIS"	The Commonwealth of Independent States
"CJSC"	Closed joint-stock company under Ukrainian law
"CMU"	The Cabinet of Ministers of Ukraine
"Companies' Act 1915"	The Luxembourg law of 10 August, 1915, regarding commercial companies, as amended
"Company", "Issuer", "Kernel Holding"	Kernel Holding S.A a public limited company (<i>société anonyme</i>), having its registered office at 65, boulevard Grande-Duchesse Charlotte, L-1331 Luxembourg, Grand Duchy of Luxembourg and registered with <i>Registre de Commerce et des Sociétés</i> in Luxembourg under number B.109.173
"Consolidated Financial Statements"	Audited consolidated financial statements of Kernel Holding S.A. and its subsidiaries for the past three financial years ending June 30, 2005, 2006 and 2007
"CSSF"	<i>Commission de Surveillance du Secteur Financier</i> – capital market regulatory authority in Luxembourg
"Current Report"	The official electronic information dissemination service as defined in article 56.1 of the Public Offering Act
"DAF"	(<i>Delivery at Frontier</i>) as defined under INCOTERM 2000 of the International Chamber of Commerce – a common term in a sales contract meaning that the selling price includes transportation costs to the named place of delivery at the frontier
"EBRD"	European Bank for Reconstruction and Development
"EEA"	European Economic Area
"Escrow Shares"	8,420,000 Shares transferred by Namsen to Fortis (Intertrust) Luxembourg as the escrow agent pursuant to the Fiduciary Escrow Agreement
"ESPI"	The electronic reporting system in Poland

"EU"	The European Union
"EUR", "€", "euro"	The lawful currency of the European Economic and Monetary Union., of which Luxembourg is a member
"FAO"	Food and Agriculture Organization
"FAPRI"	Food and Agriculture Policy Research Institute
"FOB"	(<i>Free On Board</i>) as defined under INCOTERM 2000 of the International Chamber of Commerce – a common term in a sales contract meaning that the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays freight, insurance, unloading costs and transportation from the port of destination to the factory
"FSMA"	The United Kingdom Financial Services and Markets Act 2000
"General Meeting of Shareholders"	The General Meeting of Shareholders of the Company
"Global Coordinator and Bookrunner"	ING Bank NV, London Branch
"Group", "Kernel Group"	Kernel Holding S.A together with its direct and indirect subsidiaries
"Group Subsidiary"	Any direct or indirect subsidiary of the Company
"Hryvnia" or "UAH"	The lawful currency of the Republic of Ukraine
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRIC"	International Financial Reporting Interpretations Committee
"IFRS"	International Financial Reporting Standards
"IFRS Financial Statements"	Consolidated Financial Statements and Pro Forma Financial Information contained in the Prospectus
"IMF"	The International Monetary Fund
"Inerco Trade"	Inerco Trade S.A., the Company's subsidiary incorporated under the laws of Switzerland
"Inerco Ukraine"	LLC "Inerco Ukraine", the Company's subsidiary incorporated under the laws of Ukraine
"Institutional Investors"	Selected corporate entities (legal persons) and non-corporate entities other than individuals, to whom the Offering is addressed
"Kernel-Capital"	LLC "Kernel Capital", the Company's subsidiary incorporated under the laws of Ukraine
"Kernel-Trade"	LLC "Kernel-Trade", the Company's subsidiary incorporated under the laws of Ukraine
"Listing Agent"	ING Securities S.A., Warsaw, the offeror in the Offering in the territory of Poland
"Listing Date"	First day of trading in Shares on the WSE
"LLC"	Limited liability company under Ukrainian law
"Luxembourg Corporate Governance Code"	Corporate governance code contained in "Ten principles of corporate governance of the Luxembourg stock exchange"

"Luxembourg Disclosure Act"	The Luxembourg Act dated 4 December 1992 relating to the information to be published when acquiring or disposing of an important participation in a listed company, as amended
"Management Committees"	Strategic Committee, Budget Committee and Trading Committee of the Group
"Management Team"	Management Team of the Group consisting of members of the Management Committees
"Managers"	Global Coordinator and Bookrunner, and Polish Manager
"Market Abuse Act 2006"	The Luxembourg act dated 9 May 2006 relating to market abuses
"Maximum Price"	The maximum price at which the Offer Price will be set
"Member State"	A Member State of the European Economic Area
"Mémorial C"	Official gazette in Luxembourg – <i>Mémorial C, Recueil des Sociétés et Associations</i>
"MiFiD"	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC
"MT"	metric tone
"NBA"	The National Bank of Poland
"NBU"	The National Bank of Ukraine
"NDS"	<i>Krajowy Depozyt Papierów Wartościowych S.A. (KDPW S.A)</i> , the National Depository for Securities – the clearing and settlement institution in Poland
"New Shares"	Up to 17,779,048 newly issued ordinary shares of Kernel Holding S.A without indication of a nominal value, offered by the Company for subscription in the Offering
"Offer Price"	The offer price per Offer Share determined on the Allotment Date
"Offer Shares"	Up to 21,279,048 ordinary bearer shares, such amount to be increased by up to 3,191,857 Overallotment Shares, in the corporate capital of Kernel Holding S.A. offered in the Offering, including New Shares and Sale Shares
"Offering"	The offering of up to 21,279,048 Offer Shares, such amount to be increased by up to 3,191,857 Overallotment Shares, based on this Prospectus
"Option Shares"	6,670,000 Shares in the Company subject to the Call and Put Option Agreement
"Over Allotment Option"	The option that the Selling Shareholder will grant to the Global Coordinator and Bookrunner, on behalf of the Managers, exercisable for up to 30 days following the Listing Date, to purchase a number of additional shares representing up to 15% of the Offer Shares, solely to cover over-allotments, if any, made in connection with the Offering and to cover short positions resulting from stabilisation transactions
"Overallotment Shares"	Up to 3,191,857 Shares, the number of additional shares representing up to 15% of the Offer Shares under the Over Allotment Option
"PAP"	The Polish Press Agency
"PFSA"	The Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), the capital market regulatory authority of the Republic of Poland.

"PLN", "Polish zloty"	The lawful currency of the Republic of Poland.
"Polish Manager"	ING Securities S.A., Warsaw
"Price Range"	A price range, if any, for the Offering, announced by the Company and the Selling Shareholder upon consultation with the Managers, within which the Offer Price will be set. The top end of the Price Range will not be higher than the Maximum Price
"Prospectus"	This Prospectus constituting a prospectus in the meaning of the Prospectus Directive prepared for the purpose of the Offering and the Admission
"Prospectus Act 2005"	Luxembourg law dated July 10, 2005 relating to prospectuses for securities, implementing the Prospectus Directive into the Luxembourg law
"Prospectus Directive"	Directive 2003/71/EC of the European Parliament and of the Council of the European Union of 4 November, 2003, on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and any relevant implementing measures.
"Public Offering Act"	The Polish Act of 29 July, 2005, on Public Offerings and Conditions governing the Admission of Financial Instruments to Trading on Organized Markets, and on Listed Companies
"Public Takeovers Law"	The Luxembourg law on public takeovers dated 19 May 2006
"Put and Call Option Agreement"	The agreement relating to certain shares in the Company as described in the Prospectus (see " <i>Principal Shareholders and Selling Shareholder</i> ") pursuant to which the Selling Shareholder may purchase the Option Shares.
"Regulation 809/2004", "Prospectus Regulation"	Commission Regulation (EC) no 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended.
"Regulation S"	Regulation S promulgated under the United States Securities Act of 1933, as amended, governing offers and sales made outside the United States without registration under the US Securities Act
"Retail Investors"	Individuals who intend to purchase Offer Shares in the Offering
"Sale Shares"	Up to 3,500,000 existing ordinary bearer shares of the Company, held by the Selling Shareholder and offered for sale in the Offering
"Selling Shareholder", "Namsen"	Namsen Limited, a company incorporated under the law of Cyprus with its registered office in Nikosia, P.C. 2406 Egkom, 13 Aqiu Prokopiou Street, Cyprus that is offering the Sale Share for sale in the Offering
"Settlement Date"	The date of the settlement of the Offering
"Shares"	The ordinary bearer shares of Kernel Holding S.A. without indication of a nominal value each
"Stabilisation Regulation"	The European Commission Regulation (EC) no. 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments
"Subscription Periods"	The period in which Investors may place orders to subscribe for or purchase the Offer Shares

"Takeover Directive"	Directive 2004/25/EC of the European Parliament and of the Council of 21, April, 2004, on takeover bids
"Trading in Financial Instruments Act"	The Polish Act of 29 July, 2005, on Trading in Financial Instruments
"Underwriting Agreement"	The agreement in respect of the Offering to be entered into on or about the Allotment Date by the Issuer, the Selling Shareholder, Mr. Andrey Verevskyy and the Global Coordinator and Bookrunner, and the Listing Agent
"US Securities Act"	The United States Securities Act of 1933, as amended
"USD", "US\$", "US Dollars"	US dollar, the lawful currency of the United States of America
"USDA"	United States Department of Agriculture
"WSE"	The Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.), a regulated market in Poland
"WSE Corporate Governance Rules"	Polish Principles of Corporate Governance contained in "Best Practices in Public Companies in 2005" approved by the WSE
"WTO"	The World Trade Organization

ANNEX II

ARTICLES OF ASSOCIATION

TITLE I. – DENOMINATION, REGISTERED OFFICE, OBJECT, DURATION

ARTICLE 1. – There is hereby established a public limited company under the name of "KERNEL HOLDING S.A.".

ARTICLE 2. – The registered office of the corporation is established in Luxembourg.

It may be transferred to any other place in the municipality of Luxembourg by a decision of the board of directors.

If extraordinary political or economic events occur or are imminent, which might interfere with the normal activity at the registered office, or with easy communication between this office and abroad, the registered office may be declared to have been transferred abroad provisionally until the complete cessation of these abnormal circumstances.

Such decision, however, shall have no effect on the nationality of the company. Such declaration of the transfer of the registered office shall be made and brought to the attention of third parties by the organ of the corporation, which is best situated for this purpose under such circumstances.

ARTICLE 3. – The corporation is established for an unlimited period.

ARTICLE 4. – The purpose of the company is the acquisition, the management, the enhancement and the disposal of participations in whichever form in domestic and foreign companies. The company may also contract loans and grant all kinds of support, loans, advances and guarantees to companies, in which it has a direct or indirect participation or which are members of the same group.

It may open branches in Luxembourg and abroad.

Furthermore, the company may acquire and dispose of all other securities by way of subscription, purchase, exchange, sale or otherwise.

It may also acquire, enhance and dispose of patents and licenses, as well as rights deriving therefrom or supplementing them.

In addition, the company may acquire, manage, enhance and dispose of real estate located in Luxembourg or abroad.

In general, the company may carry out all commercial, industrial and financial operations, whether in the area of securities or of real estate, likely to enhance or to supplement the above-mentioned purposes.

TITLE II. – CAPITAL, SHARES

ARTICLE 5. – The corporate capital is set at one million two hundred thirty two thousand three hundred and sixty eight United States Dollars and two cents (USD 1,232,368.02) divided into forty-six million six hundred seventy thousand (46,670,000) shares without indication of a nominal value.

The shares of the company may be created at the owner's option in certificates representing single shares or in certificates representing two or more shares.

The shares shall be in a bearer or in a registered form.

The corporation may, to the extent and under the terms permitted by law, purchase its own shares.

The corporate capital may be increased or reduced in compliance with the legal requirements.

The authorised corporate capital, the corporate capital issued at the incorporation of the corporation and at subsequent capital increases resolved by an extraordinary general meeting of the shareholders not included, is fixed at four hundred sixty-nine thousand four hundred seventy-three dollars of the United States of America and fifty three Cents (USD 469,473.53.-) represented by seventeen million seven hundred seventy-nine thousand forty-eight (17,779,048) shares without indication of a nominal value.

During a period to expire right after the closing of the initial public offering of the shares of the corporation in Poland or the closing of any other offering of the shares of the corporation, which ever event occurs first, and in any case no later than a term of five (5) years from the date of publication of the present deed, the board of directors will be and is hereby authorised to issue shares with or without share premium and to grant options to subscribe for shares. Such increased amounts of capital need not be subscribed for in full, but may be subscribed for, sold and issued as the board of directors may from time to time decide. The term or extent of this authority may be extended by resolution of the shareholders in general meeting from time to time, in the manner required for amendment of these articles of association. The board of directors is authorised to determine the conditions attaching to any subscription for the new shares from time to time. The board of directors is also authorised to issue such shares without reserving to the existing shareholders any preferential subscription rights. The board of directors may delegate to any duly authorised officer of the corporation or to any other duly authorised person, the power of accepting, subscription and receiving payment for shares representing part or all of such increased amount of capital.

TITLE III. – MANAGEMENT

ARTICLE 6. – The corporation shall be managed by a board of directors composed of at least three (3) directors, who need not to be shareholders of the corporation. At least two (2) directors must be independent from the corporation, affiliates of the corporation and shareholders holding at least five per cent (5%) of total votes in the corporation. The directors shall be appointed by the shareholders at a general meeting of shareholders, which shall determine their number, remuneration and term of their office. The term of the office of a director may not exceed six (6) years and the directors shall hold office until their successors are elected. The directors may be reelected for consecutive terms of office.

In case the company is incorporated by a sole shareholder, or if, at a general meeting of shareholders, it is noted that the company only has one shareholder, the composition of the board of directors may be limited to one sole director until the next annual general meeting at which it is noted that the company has (again) more than one shareholder.

In this case, the sole director exercises the powers devolving on the board of directors.

The directors are elected by a simple majority vote of the shares present or represented. Any director may be removed at any time with or without cause by the general meeting of shareholders.

In the event of a vacancy in the office of a director because of death, retirement or otherwise, this vacancy may be filled out on a temporary basis until the next meeting of shareholders, in compliance with the applicable legal provisions.

ARTICLE 7. – The board of directors will elect from among its members a chairman. When he is prevented, he is replaced by the eldest director. The first chairman shall be appointed by the extraordinary general shareholders' meeting following the incorporation of the company.

The board of directors convenes upon call by the chairman or by the eldest director, when the chairman is prevented, as often as the interest of the corporation so requires. It must be convened each time two directors so request.

Decisions shall be taken by a majority vote of the directors present or represented. In the event that in any meeting the number of votes for and against a resolution shall be equal, the chairman of the meeting shall not have a casting vote. In case of a tie, the proposed decision is considered as rejected.

Board resolutions can also be taken by circular letter but only if adopted unanimously, the signatures of the different board members may be apposed on several exemplars of the board resolution in writing.

Any director may participate in a meeting of the board of directors by videoconference or similar means of telecommunication allowing his identification. Such means shall comply with technical characteristics guaranteeing an effective participation to the board of directors whose deliberations are broadcasted continuously. Participating in a meeting by such means shall constitute presence in person at such meeting. The holding of the meeting with such communication means at a distance is reputed to be held at the registered office of the corporation.

ARTICLE 8. – The board of directors is vested with the broadest powers to perform all acts of administration and disposition in compliance with the corporate object.

All powers not expressly reserved by law or by the present articles of association to the general meeting of shareholders fall within the competence of the board of directors. In particular, the board of directors shall:

- prepare once a year and present to the annual general meeting of shareholders an annual report on the corporate situation;
- prepare once a year and present to the annual general meeting of shareholders an evaluation of the board of directors' activity in the past year;
- review and opine on matters to be resolved by the general meeting of shareholders.

The board of directors may pay interim dividends, in compliance with the legal requirements.

Any material agreement between the corporation and its related party must be approved in advance by the board of directors, with at least one independent director voting in favour of such resolution. Typical transactions made in the ordinary course of business on arms-length basis with entities majority owned by the corporation or other parties do not need to be approved by the board of directors.

In the case of a conflict of interest of any director, it being understood that the mere fact that the director serves as an officer or a member of governing bodies of a shareholder or of an affiliated corporation of a shareholder shall not constitute a conflict of interest, he must inform the board of directors of any such existing or potential conflict and may not take part in the vote but will be counted in the quorum. A director having a conflict on any item on the agenda must declare this conflict to the chairman before the meeting starts.

Any director having a conflict due to a personal interest in a transaction submitted for approval to the board of directors conflicting with that of the corporation, shall be obliged to inform the board of directors thereof and to cause a record of his statement to be included in the minutes of the meeting. He may not take part in the business of the meeting, but will be counted in the quorum. At the following general meeting, before any other resolution to be voted on, a special report shall be made on any transactions in which any of the directors may have a personal interest conflicting with that of the corporation.

ARTICLE 9. – The corporation will be bound in any circumstances by joint signatures of two directors or by the sole signature of a managing director, without prejudice of special decisions that have been reached concerning the authorized signature in case of delegation of powers or proxies given by the board of directors pursuant to article 10 of the present articles of association.

ARTICLE 10. – The board of directors may generally or from time to time delegate the power to conduct the daily management of the corporation as well as the representation of the corporation in relation to such management as provided for by article 60 of the law of August 10th 1915 on commercial companies and the amendment hereto, to an executive or other committee or committees whether formed from among its own members or not, or to one or more directors, managers or other agents who may act individually or jointly. The delegation to a member of the board of directors imposes to the board of directors an obligation to report annually to the ordinary general annual meeting the remunerations, fees and any advantages granted to the delegated person. The board of directors shall determine the scope of the powers, the conditions for withdrawal and the remuneration attached to these delegations of authority including the authority to sub-delegate.

The board of directors may establish one or several committees composed of members of the board and / or external persons to whom it may delegate powers and functions from time to time. If an audit committee is established, at least one independent director with finance and accounting expertise should be a member of that committee.

The board of directors may also confer special powers upon one or more attorneys or agents of its choice.

ARTICLE 11. – Any litigations involving the corporation either as plaintiff or as defendant, will be handled in the name of the corporation by the board of directors, represented by its chairman or by the director delegated for this purpose.

TITLE IV. – SUPERVISION

ARTICLE 12. – The operations of the corporation shall be supervised by one or several independent auditors (*réviseurs d'entreprises*) chosen amongst the members of the Luxembourg *Institut des réviseurs d'entreprises*. The independent auditor(s) shall be appointed and dismissed by the general meeting of shareholders.

TITLE V. – GENERAL MEETING

ARTICLE 13. – The general meeting of shareholders shall represent the entire body of shareholders of the corporation. It shall have the broadest powers to order, carry out or ratify all acts relating to the operations of the corporation.

The annual meeting will be held in Luxembourg at the place specified in the convening notices on the sixteenth of October at 5.00 p.m.

If such day is a legal holiday, the general meeting will be held on next following business day. Other meetings of shareholders may be held at such places and times as may be specified in the respective notices of meeting.

The general meeting of shareholders shall meet upon call by the board of directors. Shareholders representing ten per cent (10%) of the subscribed share capital may, in compliance with the law of August 10th 1915 on commercial companies and the amendment hereto, request the board of directors to call a general meeting of shareholders.

If the registered shares have been issued by the corporation, general meetings of shareholders shall be convened pursuant to a notice setting forth the agenda sent by registered letter at least eight (8) days prior to the meeting to each shareholder at the shareholder's address in the register of shareholder, or as otherwise instructed by such shareholder. If the corporation has issued bearer shares, all convening notices for any general meeting of shareholders shall be made by announcements published in the *Memorial C, Recueil des Sociétés et Associations* and in a one newspaper which is nationally distributed in Luxembourg as well as by means of additional publications if and as the board of directors deems necessary.

If all shareholders are present or represented and consider themselves as being duly convened and informed of the agenda, the general meeting may take place without notice of meeting.

If so specified in the convening notices, any shareholder may participate in a meeting of shareholders by videoconference or similar means of telecommunication allowing their identification. Such means shall comply with technical characteristics guaranteeing an effective participation to the general meeting whose deliberations are broadcasted continuously. Participating in the meeting by such means shall constitute presence in person at such meeting.

The board of directors may determine all other conditions which must be fulfilled by shareholders in order to attend a meeting of shareholders.

The general meeting of shareholders shall designate its own chairman who shall preside over the meeting. The chairman shall designate a secretary who shall keep minutes of the meeting.

The business transacted at any meeting of the shareholders shall be limited to the matters contained in the agenda (which shall include all matters required by law) and business incidental to such matters.

Each share is entitled to one vote at all general meetings of shareholders. A shareholder may act at any meeting of shareholders by giving a written proxy to another person, who need not be a shareholder.

Unless otherwise provided by law, the resolutions of the general meeting are passed by a simple majority vote of the shareholders present or represented.

TITLE VI. – ACCOUNTING YEAR, ALLOCATION OF PROFITS

ARTICLE 14. – The accounting year shall begin on July 1 and shall terminate on June 30 of the following year.

ARTICLE 15. – After deduction of any and all of the expenses of the corporation and the amortizations, the credit balance represents the net profits of the corporation. Of the net profits, five percent (5,00%) shall be appropriated for the legal reserve; this deduction ceases to be compulsory when the reserve amounts to ten percent (10,00%) of the capital of the corporation, but it must be resumed until the reserve is entirely reconstituted if, at any time, for any reason whatsoever, it has been touched.

The balance is at the disposal of the general meeting.

TITLE VII. – DISSOLUTION, LIQUIDATION

ARTICLE 16. – The corporation may be dissolved by a resolution of the general meeting of shareholders.

The liquidation will be carried out by one or more liquidators, physical or legal persons, appointed by the general meeting of shareholders which will specify their powers and fix their remunerations.

TITLE VIII. – GENERAL PROVISIONS

ARTICLE 17. – All matters not governed by these articles of association are to be construed in accordance with the law of August 10th 1915 on commercial companies and the amendments hereto.

The Company

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

The Selling Shareholder
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13 Aqiou Prokopiou Street
Cyprus

Global Coordinator and Bookrunner
ING Bank NV, London Branch
60 London Wall
London EC2M 5TQ
England

Auditors

in Luxembourg

Jean Bernard Zeimet,
a certified auditor in Luxembourg,
an independent member of Baker Tilly International
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in Ukraine

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Legal Advisors to the Company and the Selling Shareholder

as to Polish law

Baker & McKenzie
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