Kernel Holding S.A.

and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements

Year Ended 30 June 2006

KERNEL
GROUP OF COMPANIES

STATEMENT OF MANAGEMENT RESPONSIBILITIES
IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. The Management is responsible for preparing the consolidated financial statements of the Group in accordance with International Financial Reporting Standards (IFRS).

2. In preparing these financial statements, the Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

3. The Management confirms that it has complied with the above mentioned requirements in preparing the consolidated financial statements of the Group.

4. The Management is also responsible for:

- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
- taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Management:

Verevskiy Andrey Mikhaylovych
Honorary Chairman

Usacheva Anastasia Ivanovna
Financial Director

Kyiv , Ukraine
September 1, 2007

BAKER TILLY
UKRAINE

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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

Reg. №668/1

September 1, 2007

«БЕЙКЕР ТІЛЛІ УКРАЇНА»
Ідентифікаційний код 30373906

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

KERNEL HOLDING S.A. AND SUBSIDIARIES

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CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

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
CURRENT ASSETS:			
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**
NON-CURRENT ASSETS:			
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			
CURRENT LIABILITIES:			
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**
NON-CURRENT LIABILITIES:			
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**
COMMITMENTS AND CONTINGENCES	*30*		
EQUITY ATTRIBUTABLE TO KERNEL HOLDING S.A.SHAREHOLDERS			
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 Chairmen

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

KERNEL
GROUP OF COMPANIES

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 Chairmen

Usacheva Anastasia Ivanovna,
Financial Director

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KERNEL GROUP OF COMPANIES

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)

	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	**1287**	(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 Chairmen

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages 9 to 41 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)

	30 June 2006	30 June 2005
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)**

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GROUP OF COMPANIES

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 on the Management:

Verevskiy Andrey Mikhaylovych,
Honorary Chairmen

Usacheva Anastasia Ivanovna,
Financial Director

The notes on pages 9 to 41 form an integral part of these consolidated financial statements.

(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 Incorpo-ration	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.	Luxem-bourg	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%

Subsidiary	Principal Activity	Country of Incorpo-ration	Group's Effective Ownership Interest as of 30 June 2006	Group's Effective Ownership Interest as of 30 June 2005
"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 "Agroservise"	Agricultural farms. Cultivation of agricultural products: corn, wheat, sunflower seed, barley, soybean.	Ukraine	19.0%	19.0%
LLC "Zernoservise"		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%

Subsidiary	Principal Activity	Country of Incorpo-ration	Group's Effective Ownership Interest as of 30 June 2006	Group's Effective Ownership Interest as of 30 June 2005
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%
"Galeschina-Agro" CJSC		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%
"Zherebkivsky 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%

KERNEL GROUP OF COMPANIES

Subsidiary	Principal Activity	Country of Incorpo-ration	Group's Effective Ownership Interest as of 30 June 2006	Group's Effective Ownership Interest as of 30 June 2005
LLC "Sahnovshina hleboproduct"	Grain elevators. Services on cleaning, drying and storage of grain.	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")		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 "Agroservise", LLC "Zernoservise", 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:

NOMINAL SHAREHOLDERS	30 June 2006 and 2005 Shares allotted and fully paid	Share owned,%
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	5.0556
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.

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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:

	30 June 2006	30 June 2005
Trade accounts receivable	10 025	7 318
Allowance for estimated irrecoverable amounts	(973)	(517)
Total	**9 052**	**6 801**

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:

	30 June 2006	30 June 2005
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	(821)	(641)
Total	**7 376**	**3 108**

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:

	30 June 2006	30 June 2005
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	(149)	(141)
Total	**9 468**	**5 952**

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:

	30 June 2006	30 June 2005
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).

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10. BIOLOGICAL ASSETS

The balances of biological assets as of 30 June 2006 and 2005 were as follows:

	30 June 2006		30 June 2005	
	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 (Note18)	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**
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:

Name of Subsidiary, stake in which was pledged

30 June 2006	**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 "Selesthchinski 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	August2005	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	**Present value of minimum lease payments**
	30 June 2006	**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	**Present value of minimum lease payments**
	30 June 2005	**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.

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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:

	30 June 2006	30 June 2005
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	**1 977**	**1 774**
Less: valuation allowance	-	(670)
Net deferred tax asset after valuation allowance	**1 977**	**1 104**
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	**(11 346)**	**(10 911)**
Net deferred tax liability	**(9 369)**	**(9 807)**

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.

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The components of income tax expense for the years ended 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
Current income tax expenses	363	138
Deferred tax benefit	(438)	(405)
Income tax benefit	**(75)**	**(267)**

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:

	30 June 2006	30 June 2005
(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
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
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	**10 685**	**7 087**

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27. FINANCE COSTS, NET

The finance costs for the years ended 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
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	**9 303**	**6 640**

28. OTHER (EXPENSES)/INCOME, NET

The other (expenses)/income for the years ended 30 June 2006 and 2005 were as follows:

	30 June 2006	30 June 2005
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	**(1 810)**	**883**

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 (Notee 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

a) 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).

b) 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).

c) 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).

d) 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).

e) 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).

f) 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).