KERNEL
GROUP OF COMPANIES

Andrey Verevskyy, Chairman of the Board

The financial year 2008 was a year of outstanding achievements for Kernel. Not only did the Company show very strong increases in both revenue and income, but is has also laid the foundations for further growth in each of its divisions. We believe our present development program will make us the leading agribusiness and edible oil company in Ukraine, and also provide us a strong base to look at opportunities abroad.

In July 2007, following the conclusion of production and marketing agreements for bottled oil under the trademarks "Chumak Zolota" and "Chumak Domashnya", we became the number 1 producer and marketer of bottled oil in Ukraine.

In November 2007, the Company was successfully listed on the Warsaw Stock Exchange and raised net US$152 million of new equity. This event marked the beginning of a new chapter in the corporate life of the Company, not only because of new business opportunities offered by a strong capital base, but also because of higher standards in corporate governance, transparency and accountability required from a public company.

In January 2008 Kernel took the strategic decision to develop large scale farming operations well in excess of plans originally stated at IPO. To this effect, a further US$82 million of net additional equity was raised from the market through a successful secondary offering of shares. As a result, Kernel has significantly expanded its farming operations and already controls and farms in excess of 78,000 ha of prime agricultural land in Ukraine.

Finally, in June 2008, Kernel secured control of a world class grain transshipment terminal in Illichevsk, the second largest deep water port on the Ukrainian Black Sea. Together with our extensive network of inland grain silos, we have created a unique commodity pipeline for grain produced and exported from Ukraine.

Both the developments in our upstream operations and our down stream control of logistics from producer to customer strengthen our capacity to increase and improve the Group's margins, diversify our business portfolio within the agribusiness sphere and, as a result, provide for sustainable results.

Total revenue increased from US$350 million as of 30 June 2007 to US$663 million as of 30 June 2006, a 89% year-on-year increase. Operating profit has increased from US$38,6 million as of 30 June 2007 to US$111,6 million as of 30 June 2008, a 189% year-on-year increase. Finally, net income has increased from US$18.6 million as of 30 June 2007 to US$82.2 million as of 30 June 2008, a 342% year-on-year increase.

Market Environment affecting FY2008

In financial year 2008, we took advantage of buoyant market conditions in both our grain and oil businesses. The significant price increases in the first 3 quarters of our financial year helped improve our margins and earnings in absolute terms.

In addition to international market conditions, high expectations for the 2008 grain harvest enabled the government of Ukraine to fully lift the grain export ban imposed in the fall of 2007. Even though export volumes were not significant, we took advantage of the important spreads between the domestic and international markets to achieve high margins in our grain activity.

The strong increases in vegetable oil prices on the international and domestic markets led the Government of Ukraine to seek measures in the spring of 2008 to contain the increase in the price of oil in Ukraine, in particular by imposing oil export restictions. However, the restrictions proved difficult to manage and ineffective, and were fully removed in May 2008. Our export sales of vegetable oil went unaffected by these temporary events.

In June 2008 the contaminated oil issue was also solved. The EU and Ukraine reached a global agreement for the import of vegetable oil produced in Ukraine and, in particular, agreed on quality control proceedures to insure that such contamination will not happen in the future. We have resumed supplying sunflower oil to the EU without any restrictions and believe that this issue has been finally solved.

FY2009 markets expectations and company performance.

International grain markets have come off their highs experienced in the first half of 2008. This of course will affect our grain sourcing and merchandizing activity as well as our farming in FY2009. However, if prices reached on the international market have come down substantially, prices at which we source grain have also decreased, such downward movement being amplified by a bumper harvest and general harvest pressure in Ukraine. Our forecast on margins generated in the grain business remain therefore unchanged. Volumewise, we benefit from the very substantial increase over FY2008 in the volume of grain exported from Ukraine in FY2009. Based on the large 2008 harvest, we have revised our initial plans for the grain division and now plan to export 1.6 million tons of grain over the season.

The bumper harvest is also expected to have a significant positive impact on income generated by our silo network. As a result of the lack of adequate grain storage capacity, fees for silo services have increased sustantially and volumes of grain stored in our silos are significantly higher than in the previous season. We would therefore expect income generated by our silo network to exceed our initial target.

The decrease in grain prices will negatively impact the farming activity of the Group and decrease operational profit initially expected from farming. Low margins in the farming business will on the other hand help the Group acquire prime farming enterprises in the best possible locations and at significantly lower prices than originally planned.

In oil, our largest business, prices on the international market have also significantly corrected, decreasing some 50% from their highs. While oil prices have fallen significantly, the price for sunflower seed in Ukraine has fallen even further, in particular dragged down by a sizable harvest forecasted in the 5 to 6 million ton range. As a result, the spread between prices of oil and feedstock has remained at planned levels. Also, thanks to capacity expansion, the Company will increase bulk oil export from 171,000t in FY2008 to 279,000t in FY2009, up 63% y-o-y. Altogether, with price pressure on the feedstock and the planned export volume increase, our outlook on operating income derived from bulk oil remains unchanged.

If bulk oil prices suffered a sharp drop over 2008, bottle oil prices have decreased by a modest 10% since reaching peak prices in spring, providing for margins significantly higher than planned. While we do expect the price of bottle oil to decrease further, this process will happen, we believe, over a number of months. Our bottle oil activity should therefore provide the Company with a natural hedge against the volatility experienced in the commodity markets, and we would expect this business to significantly outperform our initial plan for the year.

Our logistics division, centered on the Illichevsk grain handling and transshipment terminal recently purchased by the Company, is expected to capitalize on the significant grain export volumes generated by the large 2008 harvest in Ukraine. Grain throughput through Transbulkterminal is forecasted in excess of 3 million tons over the season, with EBITDA contribution over USD 20 million.

In conclusion, we expect continued benefits and synergies from our diversified portfolio of activities focused on agribusiness and edible oil and, while the farming sector will come under pressure in this financial year, we should see the other businesses of the Group performing to our satisfaction. In consideration of this outlook, our guidance for the next financial year remains unchanged, with revenues of $1100 million, EBITDA of $185 million and Net profit of $115 million.

Major Company developments

Our planned expansion in crushing capacity is continuing apace. Construction works are progressing at our new multi-seed crushing plant located in the north of Nikolaev oblast, with commissioning expected in the fall of 2009. Necessary contracts have been concluded with equipment suppliers to increase the capacity and improve crushing efficiency of our existing crushing plant in Poltava. With sunflower seed crushing capacity in excess of 1.4 million tons/yearby FY 2010, both developments in existing and new capacity will make Kernel the leader in the crushing industry in Ukraine.

In terms of new businesses, a major development is the acquisition of the grain handling and transshipment terminal in Illichevsk on the Black Sea. Not only is this new business expected to contribute significantly as an independent profit center, but also the terminal is expected to help the grain division achieve significantly higher export volumes. The territory of the terminal and its location will also provide the Company with an ideal expansion platform for the development of its future oil tank base, thereby achieving a fully integrated chain in the production and export of vegetable oil.

A further important Company development is the emphasis Kernel has put on large scale farming. Following the share capital increase effected early April, a number of farming enterprises have been acquired by the Company, thereby bringing prime farm land under control and management of the Company to 78 thousand ha as of June 2008. As previously mentioned, the Company will take advantage of the decrease in grain prices and the expected effect on farmers results, to carefully seek the best opportunities for the development of its existing land clusters.

Despite temporary volatility, Kernel will pursue its strategy to expand its farming business, capitalizing on low acquisition prices we believe can be achieved in the present environment. Kernel therefore expects to increase its landbank to 100,000 ha (up 28% y-o-y) in FY09 and increase by a further 150,000ha in FY10.

In conclusion, the Company is following the course, which was mapped out in the fall of 2007. Kernel remains confident about the long-term outlook for the global edible oil and grain markets and believes it has built a vantage position to further expand its businesses and become the leading company in Ukraine in all its business segments. We also strongly believe that the supply base and logistics network developed in Ukraine provides the Company with a strong platform to seek downstream opportunities in other markets and expand abroad.

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DIRECTORS REPORT

The Directors present their report to shareholders for the financial year ended 30 June 2008.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

We are an integrated bottled oil and agribusiness Group operating from the farm down to the final consumer. We own and operate oilseed crushing, oil refining and bottling facilities, an extensive network of grain silos in Ukraine as well as a grain handling and transhipment terminal in the port of Illichevsk, on the Ukrainian Black Sea. We market and deliver to our clients products created through the processing of oilseeds, whether in bulk or bottled under our own brand names, and also a wide range of agricultural commodities grown in Ukraine.

In the financial year to June 30, 2008, we had total net sales of US$663 million (up 89% y-o-y), EBIT of US$112 (up 189% y-o-y) million and net income of US$82 million (up 342% y-o-y).

We believe we are:

- the largest producer and marketer of bottled oil in Ukraine with an estimated domestic market share of 35%
- the second largest oilseed crusher in Ukraine with 17% of sunflower seed crushing capacity in Ukraine
- the second largest exporter of bulk sunflower oil with 12% of Ukrainian exports
- a leading grain exporter with 9% share of Ukrainian grain export
- the largest private grain silo network in Ukraine, with aggregate storage capacity of 1.7 million tons
- the second largest owner and operator of grain handling and port transshipment facilities in Ukraine.

Finally, we have developed a land bank totalling 78 thousand ha (up 162% y-o-y) of prime agricultural land, on which we grow various crops marketed or processed by our Group.

KEY PRODUCTS

We conduct our operations in four divisions:

- oil (which includes sunflower oil in bulk, refined oil in bulk and bottled oil)
- grain (grain trading, primarily export and grain silo services included)
- farming
- port (grain handling and transhipment services).

Oil Division

As of 30 June 2008, we owned and operated three oilseed crushing plants with a total processing capacity of 730,000 tons of sunflower seeds per year. We own and operate two oil refining and bottling facilities installed next to the Group's crushing operations with refining capacity of 173,000 t/year oil and capable of producing up to 140,000 tons of bottled oil per year, sold essentially under our Group 3 key retail brand names: Chumak Zolota, Stozhar and Shedry Dar. Our production for the reporting period was as follow:

	12 months ended 30.06.2007	**12 months ended 30.06.2008**
Crushing of sunflower seeds, tons	573 600	675 157
Oil refined volume, tons	105 092	119 778
Bottled oil produced, tons	66 959	95 072

The Oil segment accounted for 65% of FY2008 revenues (total $472m, c. 30% bottled oil, c.70% bulk oil).

We source feedstock from third party farmers through 13 regional purchasing offices and through our silo network and also from our own farming operations. Our suppliers are essentially the numerous farmers and regional traders active throughout the sunflower seed and grain belt of Ukraine. While we endeavour to maintain close and on-going commercial relationships with most of our suppliers, no one supplier accounts for more than a few percent of our raw material purchases and the loss of a supplier has no material effect on our activities.

Grain Division

We own and operate 25 grain silos representing a total grain storage capacity of 1.7 million tons and two trucking companies providing logistic support to our grain and oil activities.

We exported 317,000 t of grain in FY2008. This relatively low volume is largely due to the grain export ban imposed by the government of Ukraine in the fall of 2007 and is not representative, we believe, of the grain export potential of the Group, closer to 2 million of grains, particularly in view of the significant leverage provided by the port terminal. The Grain segment accounted for 32% of the total revenues of the Group ($237m including intra-segment sales). Largest grain export destinations are the EU, Northern Africa and the Middle East.

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

Our customers for our bottled oil products are retailers with a nationwide network of supermarkets in Ukraine and regional distributors with a strong and established presence in a specific region or large urban area of the country. The retail chains which we supply include retailers such as Fozzy Group, Metro Cash and Carry, ATB Market, Intermarket, Furshet. Distributors include companies such as Foodservice in the Donetsk and Lugansk regions, LAN Ukraine and Alt-Agro in Kiev, Guermes in the Odessa region, Ukr-Trade in the Kharkov region. As the markets change and develop, no one of our customers consistently and regularly accounts for a significant portion of our sales from one year to the next.

Farming Division

We harvested 68,000 t grain and oil crops for FY2008 (net amount). This division provided 3% of the Group's revenues in FY 2008 ($20m, included intra-segment sales). Land leased and farmed is located in the highly fertile black earth belt of central and southern Ukraine. Our farming operations are concentrated in the oblasts of Cherkassy (19%), Kirovograd (19%), Poltava (40%), Kharkov (19%) and Odessa (3%).

In calendar year 2008, we expect to harvest 255,000 t of grain and oilseeds. Our standard crop mix includes wheat, barley, sunflower, soy beans, corn and peas. Management expects a blended average yield of c.3 t / ha for the 2008 harvest over a total planted acreage of 85,000 ha at the time of harvest.

85% of Kernel farm produce is sold at market prices to Kernel's Oil and Grain divisions.

Port Division

The Group acquired in June 2008 a grain transshipment complex located in the Commercial Sea Port of Illichevsk, on the Black Sea, Ukraine. The terminal is fully consolidated as of 30 June 2008.

The terminal offers 2 deepwater berths with 11.5m draught allowing simultaneous loading of 2 Panamax vessels. With 200,000 t storage capacity and an estimated maximum yearly throughput capacity of 4.5 million t, the Terminal offers an ideal gateway for 20% of the grain exported from Ukraine, and is an optimal transit terminal for Kazakh and Russian grain exports.

We believe this acquisition will enable the Group to create the largest integrated grain supply chain in Ukraine, from farm gate to ship to final delivery in consumer countries.

While the grain terminal did not impact Group P/L in FY 2008, we expect revenue contribution c.US$40millon and EBITDA contribution c. US$20 million for FY 2009.

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DISCUSSION OF FINANCIAL RESULT

Revenue

Total revenue increased from US$350 million as of 30 June 2007 to US$663 million as of 30 June 2006, a 89% year-on-year increase. The increase reflects the capacity increasing and growth in production, a buoyant market in vegetable oil with prices increasing steadily throughout the season, as well as an increase of bottled oil sales following the agreements for bottled oil with the company "Chumak".

Our bulk sunflower oil sales have been relatively stable over last two financial years and generated respectively 46% and 49% of our total net sales in FY 2007 and FY 2008. Grain sales decreased from 34% of net sales in FY 2007 to 26% in FY 2008, due primarily to the grain export ban imposed by the government during the last reporting period.

Revenues from our bottled oil sales increased from US$57 million (16% of net sales) in the financial year 2007 to US$147 million (22% of net sales) for the financial year to 30 June 2008, a 158% year-on-year increase, with 35% of such increase resulting from the agreements concluded in June 2007 for production and marketing of oil under the trademarks "Chumak Zolota" and "Chumak Domashnya".

Cost of goods sold

Cost of raw materials

Cost of raw materials is the main cost of sales item for our oil and grain divisions and our bottled oil division. Raw materials have increased from US$243 million for the year ended 30 June 2007 to US$473 million for the year ended 30 June 2008, equivalent to 69.4% and 71% of sales respectively.

Payroll and related charges

Payroll and related charges have increased from US$13.6million to US$16.4 million, a 21% year-on-year increase. In relative terms, payroll decreased from 5% of cost of sales in 2007 to 3% of cost of sales in 2008.

Depreciation

Depreciation expenses remain less than 2% of sales for the year ended 30 June 2007 and 2008.

Gross profit

Gross profit increased from US$83 million as of 30 June 2007 to US$159 million as of 30 June 2008, a 92% year-on-year increase. The overall increase reflects volume increase following full integration of the acquisition of our competitor Evrotek in 2006, as well as the relative tightness of oil and grain supply on the international markets and price improving, with gross margins of 23.7% and 23.9% of sales for the year ended 30 June 2007 and 2008 respectively.

Operating expenses

Distribution costs

Distribution costs increased from US$39 million in the financial year ended 30 June 2007 to US$52 million in the financial year ended 30 June 2008. The 35% year-on-year increase is due to the increase in tonnage of bottled oil handled by our company, development of C&F sales and, to a lesser extent, to the increase in transport costs on our domestic and international markets over the reporting period.

General and administrative expenses

General and administrative expenses have increased from US$ 13.3 million as of 30 June 2007 to US$ 19.6 million as of 30 June 2008, a 47% year-on-year increase. In relation to sales, however, general and administrative expenses have decreased from 3.8% to 2.9% of sales for the year ended 30 June 2007 and 2008 respectively.

Operating profit

Income from operations has increased from US$38,6 million as of 30 June 2007 to US$111,6 million as of 30 June 2008, a 189% year-on-year increase. The bigger increase in operating result than in gross profit reflects primarily the economies of scale and low operating leverage of the Group.

Finance costs

Finance costs have increased from US$18.9 million as of 30 June 2007 to US$28.1 million as of 30 June 2008, a 49% year-on-year increase. In relation to sales, finance costs have decreased from 5.4% to 4.2% of sales for the year ended 30 June 2007 and 2008 respectively. The decrease reflects primarily additional equity the Group raised in November 2007 and April 2008.

Net income

Net income has increased from US$18.6 million as of 30 June 2007 to US$82.2 million as of 30 June 2008. As for increase in operating income, the increase in net income reflects economies of scale, relatively low operating leverage and improving the financial leverage of the Group.

Cash flow

Our principal sources of liquidity are cash obtained from operations, borrowings under various short-term and long-term bank facilities and lines of credit, and issuance of domestic bonds. Our bank credit lines are provided largely by international banking institutions, some of which operate in Ukraine through their domestic subsidiaries. Our bonds are purchased by international and domestic investors alike. Banks and bond investors provide financing to our Group either in US$ or in Hryvnia. While the beneficiaries of the financing will be our various operating subsidiaries responsible for international or Ukraine domestic sales, all our credit facilities are under the management and control of our centralized financial department operating out of Kiev. For information on material loan facilities extended to our Group Subsidiaries see notes 16, 17 and 31.

In the financial year to June 30, 2008, with sales growing by 89%, our working capital requirements increased by US$249 million, financed primarily through bank loans and bonds.

The strong development of our businesses, commodity price increases and the lifting of the grain export ban in April 2008 all led in financial year 2008 to sizable increases in inventories of readily marketable inventories, essentially sunflower seed ready for processing, sunflower oil resulting from the seed crushing process and grains. Significant growth of commodity prices led to a high level of inventories as of 30 June 2008 and negatively impacted our performance ratios and cash flow from operations, which, we believe, will improve in the financial year 2009.

With our high cash levels and the strong liquidity of our agricultural commodities inventory, coupled to our "balanced book" trading policy, we believe our working capital levels satisfy our present business needs.

Cash used in investing activities was US$170 million for the year ending 30 June 2008, primarily reflecting the acquisition of the grain port terminal in Illichevsk, expansion of our farming activity, increase of production capacity of the Volchansk crushing plant, investments in a new green field plant and modernization of our grain silos.

RISK FACTORS AND RISK MANAGEMENT POLICIES

We see the following industry-specific risks which can influence the financial results of the company.

- **Poor harvest.** Unexpected weather conditions can adversely affect harvests and the supply of raw materials, leading to a possible margin squeeze and decrease in capacity utilisation or government regulatory measures.
- **Bio-fuels industry slowdown.** A slowdown in the bio-fuels industry could reduce demand for rapeseed and corn, which could reduce demand for other vegetable oils such as sunflower oil. This, in turn, may negatively affect the company's earnings.
- **Export limitations and restrictions.** The recent bout of high inflation and rising soft commodity prices prompted the Ukrainian government to introduce temporary export quotas on socially important food products such as sunflower oil. While the export quotas were rapidly and fully lifted, such measures can negatively impact the volumes of oil Kernel is able to export. However, we would note that under such a scenario, the company is likely to earn higher processing margins, compensating for a decrease in volumes.
- **Increased competition from current and new players.** As the Ukrainian agricultural sector develops and crop production increases, crushers see opportunities to expand business. We therefore do not exclude an increase in the overall crushing capacity of the country and, consequently, increased competition in this field of business.
- **Quality requirements and regulations in food, grain, oil and protein meal.** There was a recent scare in some European markets due to contamination of Ukrainian sunflower oil. While the contaminated oil issue led to a temporary freeze in EU imports of vegetable oil produced in Ukraine, authorities of both the Ukraine and the EU have since agreed on strict quality control procedures enabling normal trade in vegetable oil to resume without any restrictions.

The Group's risk management policies are established by the Board of Directors to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Full overview of the Group's exposure to credit, liquidity and market risks are set in note 31 to the consolidated financial statement.

MANAGEMENT REMUNARETION

Management remuneration details for FY 2008 are disclosed in note 33 to the annual reports.

RELATED PARTY TRANSACTIONS

Information in respect of related party transactions is disclosed in note 29 to the consolidated report. The most significant transaction the Group executed with related parties in FY 2008 was related to the port terminal acquisition and farming entities acquisitions. These transactions were effected at cost with no profit at the related party level.

USE OF PROCEEDS

In FY08 the Company raised US$245 million in gross proceeds from the issue of New Shares in the IPO and in the Secondary Offering. The Company received net proceeds in the amount of US$234 million, after deducting commissions, costs and expenses associated with the Offering in the amount of $11million.. Proceeds of both offerings are used primarily for the following on-going developments:

- greenfield construction of a multiseed crushing plant with 510,000 tons/year crushing capacity in Ukraine
- acquisition of port grain storage and trans-shipment facilities in Illichevsk, Ukraine
- program for capacity increase at our existing crushing plants, to be implemented over the period 2008-2010
- increase of our farm land bank in Ukraine
- repayment of a bridge financing facility for the acquisition of “Chumak Zolota” and “Chumak Domashnya” bottled oil brands in July 2007
- increase in working capital needs following capacity expansion.

CHANGES IN MANAGEMENT

The following individuals were appointed Board Directors in September and October 2007:

Name	Position/Function	Appointment date	Term of office
Andrey Verevskyy	Chairman of the Board of Directors	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Patrick Conrad	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Victoriia Lukyanenko	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Anastasiia Usachova	Executive director	September 21, 2007	until the end of the annual General Meeting of Shareholders of 2010
Andrzej Danilczuk	Non-executive director	October 12, 2007	until the end of the annual General Meeting of Shareholders of 2008
Ton Schurink	Non-executive director	October 12, 2007	until the end of the annual General Meeting of Shareholders of 2008

No changes to the Board of Directors have occurred in the course of the reporting period.

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MANAGEMENT STATEMENT

This statement is provided to confirm that LLP BAKER TILLY UKRAINE and Réviseur d'Entreprises Jean Bernard Zeimet have been appointed in accordance with the applicable laws and performed the audit of the consolidated financial statements of Kernel Holding S.A. for the year ended 30 June 2008, and that the entities and the accountants performing the audit met the conditions necessary to issue an impartial and independent report on the audit in accordance with International Standards on Auditing.

On behalf of the Management

___________________________	_________________________
Conrad Patrick	Usachova Anastasiia
Director	Director

Kyiv, Ukraine

October 10, 2008

Kernel Holding S.A. and Subsidiaries

Consolidated Financial Statements

For the year ended 30 June 2008

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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INDEPENDENT AUDITOR'S REPORT

To the board of Directors of

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

Report on the consolidated financial statements

We have audited 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, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year that ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 the KERNEL HOLDING S.A. and its Subsidiaries (collectively - the "Kernel Group" or the "Group") as of June 30, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Managing Partner

"BAKER TILLY UKRAINE" LLP

«БЕЙКЕР ТІЛЛІ УКРАЇНА»

Ідентифікаційний код 30373906

Alexander Pochkun

10 October 2008

Kiev, Ukraine

Registration # 1008

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