



ANNUAL REPORT AND ACCOUNTS

A LEADING INTERNATIONAL  
AGRO-INDUSTRIAL  
COMPANY

2019



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# STRATEGIC REPORT

## PERFORMANCE HIGHLIGHTS FINANCIAL HIGHLIGHTS

### GROWTH IN DYNAMIC MARKETS

}	US\$ million	US\$ million	of total revenue	US\$ million	US\$	US\$ million	US\$ million
	<b>2,056</b>	<b>1,186</b>	<b>58%</b>	<b>376</b>	<b>2.04</b>	<b>350</b>	<b>1,139</b>
	<b>Revenue</b> (+32% y/y; 2018: US\$ 1,552 million)	<b>Export revenue</b> (+28% y/y; 2018: US\$ 924 million)	<b>Export revenue</b> (2018: 60%)	<b>Adjusted EBITDA</b> (net of IFRS 16) (-16% y/y; 2018: US\$ 450 million)	<b>Earnings per share</b> (+74% y/y; 2018: US\$ 1.17)	<b>10-year Eurobond issuance with a coupon of 6.25%</b>	<b>Net debt</b> (net of IFRS 16) (2018: US\$ 1,131) with US\$ 341 million in cash

## OPERATIONAL AND STRATEGIC HIGHLIGHTS

### ACQUISITION OF PERUTNINA PTUJ

a leading poultry producer and  
meat-processor based in the  
Balkans

### FULL LAUNCH OF PHASE 2 OF THE VINNYTSIA COMPLEX

six rearing sites (brigades) and a  
slaughterhouse, commissioned and  
operating at full capacity

### PHASE 1 OF #2 BIOGAS COMPLEX

at the Vinnytsia complex  
launched with 12 MW capacity

# COMPANY OVERVIEW

AN INTERNATIONAL COMPANY HEADQUARTERED IN UKRAINE, MHP IS A VERTICALLY-INTEGRATED, LEADING AGRO-INDUSTRIAL GROUP. IT IS THE LEADING DOMESTIC PRODUCER OF POULTRY PRODUCTS WITH THE HIGHEST MARKET SHARE AND STRONGEST DOMESTIC BRAND RECOGNITION<sup>1</sup>.



The Company's vision is to be a world-leading protein agri-business. The Company's mission is to provide its customers with high-quality and safe poultry products, anticipating and meeting their evolving priorities and requirements. Our vertically-integrated business model, experienced management team, diversified growth strategy and the deployment of modern innovative technologies are combined to underpin and drive MHP's success. The Company is also one of the largest grain producers in Ukraine and the leading processed-meat producer in Ukraine<sup>2</sup>.

## SUSTAINABLE GROWTH DRIVEN BY DIVERSIFIED INTERNATIONAL AND DOMESTIC STRATEGY

MHP continues to deliver upon its targeted international growth strategy supported by a strong position in its domestic markets.

The Company's strategy in domestic markets remains focussed on the shift towards higher value-added products such as the "ready-to-cook" and "ready-to-eat" ranges; and on the 'industrialisation' of its clients, with the Company anticipating their evolving requirements and providing solutions to meet them, at the same time as reducing both unit cost and risk for those clients.

The Company continues to invest in Ukraine and during 2019 it launched six rearing sites and an additional slaughterhouse line as part of Phase 2 of the Vinnytsia poultry complex; Phase 2 (240,000-260,000 tonnes of poultry meat) is expected to be operating at 100% capacity by the end of 2023.

MHP now exports to over 80 countries and export revenue constituted 58% of total revenue in 2019, driven by the continued implementation of the Company's geographic diversification strategy as well as product mix optimisation - the "right product to the right market" - to countries within the EU, MENA, CIS and Africa. As part of this strategy, and in particular in relation to the opening of prospective new markets, the Company will continue to focus on more customised products.

In February 2019, the Company completed its acquisition of Perutnina Ptuj ("PP") in Slovenia. PP is an international food-processing company and the largest producer of poultry meat and poultry meat products in Southeast Europe. Its products are sold under two strong brand names, "PP" and "Poli".

More information about PP can be found on pages 6 and 9. Its results are reported separately in the European Operating Segment ("EOS").

# MHP & PP





**MHP'S VERTICALLY-INTEGRATED BUSINESS MODEL MARKS IT OUT FROM ITS PEERS**

MHP owns and operates modern facilities at each of the key stages of the production process: grain and fodder production; egg incubation and grow-out; processing; sales, marketing and distribution. This vertically-integrated model delivers a considerably lower cost-base<sup>1</sup> versus industry peers, as well as enhanced quality control and higher biosecurity of the poultry flock. These factors are critical in an increasingly regulated industry and also for consumer choice and confidence, both of which are imperative to modern-day consumers. This business model significantly reduces the Company's dependence on suppliers and farmers and also its exposure to raw material price volatility.

**MHP'S FACILITIES ARE AMONGST THE MOST TECHNOLOGICALLY ADVANCED INTERNATIONALLY**

MHP's continued investment has enabled it to employ modern production assets and the Company believes that its chicken farms are amongst the most efficient in the world. This investment is driven by the Company's commitment to continuous improvement in operational efficiency, product development and innovation through investment in research & development.

**OUR BUSINESS SEGMENTS**

The Company is organised into four business segments: Poultry & Related Operations; Grain Growing; Meat-Processing & Other Agricultural Operations; and the European Operating Segment. More information on the operational and financial results of each of the business segments can be found in the Operational and Financial Review section on pages 19 to 24.

**POULTRY & RELATED OPERATIONS SEGMENT**

*(MHP, excluding Perutnina Ptuj ("EOS"))*

MHP is the leading poultry producer in Ukraine, accounting for approximately 30%<sup>2</sup> of chicken meat consumed in the country in 2019. MHP supplies chilled and frozen chicken and other meat products to a number of nationwide supermarket chains, including Fozzy, ATB-Market, Metro Cash & Carry, ECO, Novus and Auchan. MHP's brand names in Ukraine include Nasha Riaba and Ukrainian Chicken; export brand names include Qualiko, Ukrainian Chicken, Assilah, Sultanah, Al Hassanat and Bibilo. MHP also produces and sells vegetable oils (sunflower and soybean oils) as a by-product of its fodder production, mainly to international traders.

**GRAIN GROWING SEGMENT**

MHP has a leading grain cultivation business growing corn, sunflower and soybean to support the vertical integration of its chicken production. The Company is self-sufficient in corn with any excess production sold for export, providing one of the Company's sources of hard currency revenue. Increasingly, other grains such as wheat and rape are grown for sale to both domestic and international customers.

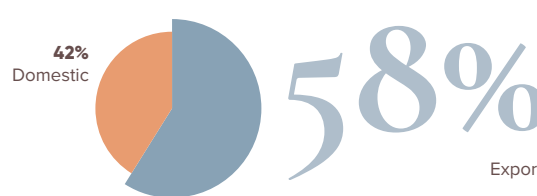
In 2019, MHP's landbank constituted approximately 380,000 hectares, one of the largest land portfolios in Ukraine. Crop yields are well above the Ukrainian average<sup>3</sup>.

The Company aims to increase the segment's profitability through sustainable optimisation of the landbank. This will be achieved via innovation and technology including Artificial Intelligence ("AI") and machine-learning algorithms for real-time analysis, forecasting and facilitation of decision making.

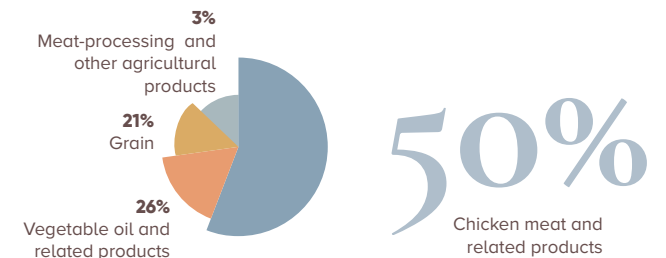
**2019 REVENUE BY BUSINESS SEGMENT**



**2019 REVENUE BY DESTINATION**



**2019 EXPORT REVENUE BY PRODUCT**



<sup>1</sup> MHP    <sup>2</sup> SSSU    <sup>3</sup> According to Latifundist.com rating

## MEAT-PROCESSING & OTHER AGRICULTURAL OPERATIONS SEGMENT

MHP's meat-processing business is an important driver of the segment's profitability as it produces value-added products for which customers are willing to pay a premium.

Processing includes the production of a wide variety of fresh meat products, prepared food and ready-to-eat food; these include sausages, cooked meats and convenience food products, predominantly from chicken meat.

The Company's convenience food and processed food brand names for the Ukrainian market include Bashchinsky, Lehkol, Sytni and Qualiko; MHP also exports some non-branded products. MHP is one of the leaders in the highly fragmented meat-processing market in Ukraine, accounting for approximately 15% of all sausage and cooked meats produced in Ukraine in 2019<sup>1</sup>.

### EUROPEAN OPERATING SEGMENT *(Operations of Perutnina Ptuj)*

The European Operating Segment comprises 100% of Perutnina Ptuj ("PP"), a leading poultry and processed meat producer in the Balkans with production assets in Slovenia, Croatia, Serbia, Bosnia and Herzegovina<sup>2</sup>.

PP owns distribution companies in Austria, North Macedonia and Romania and supplies products to 15 European countries. Products are sold under the PP (meat, sausages and snacks for

quickly-prepared, warm and healthy meals) and Poli (sausages, cold meats, pâté and snacks) brands. Perutnina Ptuj is the first company in Slovenia to introduce a new standard aligned to latest research into the well-being of animals. This standard exceeds EU legislative requirements. A large and growing part of PP production is governed by a rigid breeding standard of Animal Welfare thus allowing to sell under the PP NATUR Premium Brand.

Following the strategic acquisition of PP, MHP has diversified its production asset portfolio and now has significant assets in both Ukraine and the Balkans; this diversification is part of the Company's strategy to best position itself to manage any outbreaks of livestock diseases or geopolitical shocks.

**PP OWNS DISTRIBUTION COMPANIES  
IN AUSTRIA, NORTH MACEDONIA  
AND ROMANIA AND SUPPLIES  
PRODUCTS TO 15 EUROPEAN  
COUNTRIES. PRODUCTS ARE SOLD  
UNDER THE PP AND POLI BRANDS.**

PP operates a vertically-integrated business model with animal rearing processes following the strictest European Animal Welfare standards, which guarantees exports at premium prices to selected processors and markets of Western Europe. Management has been able to realise operational synergies based upon the similarity of the MHP and PP business models and these, combined with efficiency improvements, resulted in above-forecast profitability at PP during the 10 months in 2019 during which its results were consolidated.

### INVESTMENT AND COOPERATION

The Company's medium- to long-term strategy is to be an efficient and successful player in the consolidation of poultry assets and it continues to monitor potential M&A opportunities, both in poultry production and / or in meat-processing operations, internationally.

In the near term, MHP will also continue to invest in international greenfield projects. In February 2020 MHP announced that it was planning a project in Saudi Arabia; there is significant government support for the project and a feasibility study is ongoing. Investment projects in several Eastern European countries will also continue and there are plans to invest in Serbia and Croatia.



<sup>1</sup>MHP

<sup>2</sup> SURS (Statistical Office of the Republic of Slovenia)

# OUR BUSINESS MODEL

## HOW WE GENERATE REVENUE

### POULTRY & RELATED OPERATIONS SEGMENT

We produce and sell chicken meat (fresh and frozen); vegetable oils (sunflower and soybean); and mixed fodder

**US\$**  
**1,368**  
million revenue

**728,917**  
tonnes of poultry  
produced

### GRAIN GROWING SEGMENT

We grow crops for fodder production and for sale to third parties

**US\$**  
**268**  
million revenue

**2,4**  
million tonnes of  
crops produced

### MEAT-PROCESSING & OTHER AGRICULTURAL SEGMENT

We produce and sell sausages; processed and cooked meat; convenience foods; and produce from cattle and milk operations

**US\$**  
**149**  
million revenue

**54,525**  
tonnes of meat  
products produced

### EUROPEAN OPERATING SEGMENT

We produce and sell chicken meat and processed poultry meat products

**US\$**  
**271**  
million revenue

**79,358**  
tonnes of poultry  
produced

## HOW WE CREATE VALUE

### SUSTAINED INVESTMENT IN CAPEX AND R&D

Sustained CAPEX and R&D programmes have enabled consistent production expansion, rigorous cost control, developed and maintained product quality, and ensured high standards of product safety.

### MARKETPLACE

MHP is always looking to expand into new markets for our products and now sells its products to over 80 countries.

### INNOVATION

The Company looks for dynamic and innovative ways of developing our production and agricultural processes to improve efficiency, drive down costs and reduce our environmental impacts.

### LONG-TERM CASH AND REVENUE GENERATION

Our businesses have a consistent track record of revenue and cash generation providing a solid platform for value creation.

## OUR ASSETS

### OUR PEOPLE

We have a highly skilled and knowledgeable workforce, an experienced management team and we are committed to continuously investing in training and development.

### VERTICALLY-INTEGRATED STRUCTURE

Our structure differentiates us from our peers, and enables us to reduce our dependence on third-party suppliers and our exposure to raw material price volatility. It also ensures the maintenance of strict biosecurity and quality standards throughout the production process.

### MODERN AND EFFICIENT PRODUCTION ASSETS

Our investment has enabled us to employ modern production assets. The Company believes that its chicken complexes are amongst the most efficient in the world.

### STRONG BRANDS

Our brands have a high degree of domestic recognition with a reputation for quality, enabling products to be sold at premium prices.

# OUR BUSINESS MODEL AT MHP UKRAINE

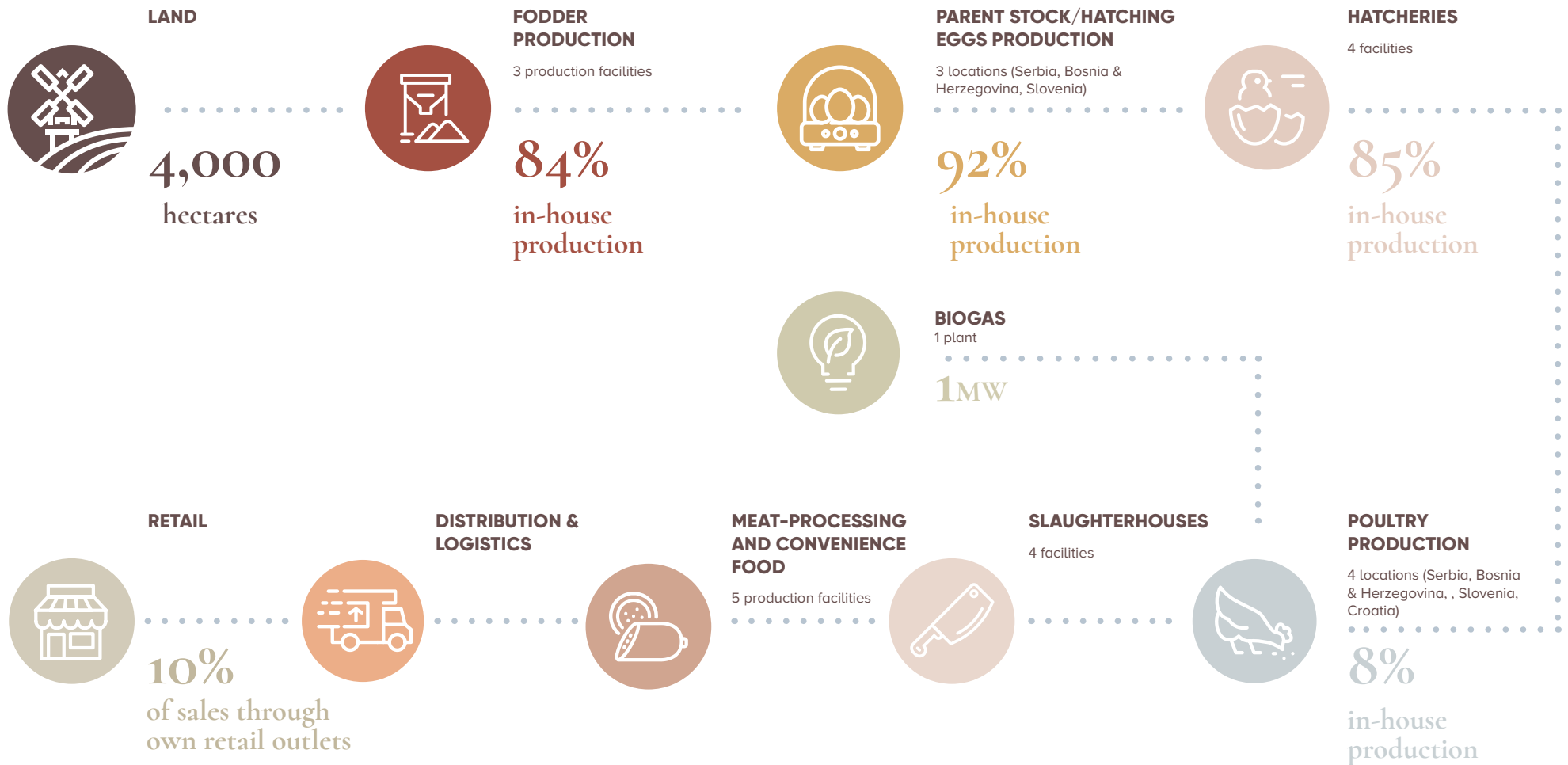


<sup>1</sup> Including 35,458 tonnes of meat-processing products and 19,236 tonnes of convenience food

<sup>2</sup> Biogas complexes at Oril-Leader (5 MW) and at Vinnytsia (12 MW) are complete, an additional 12MW biogas complex is not yet constructed



# OUR BUSINESS MODEL AT PERUTNINA PTUJ



# CHAIRMAN'S STATEMENT



”

“AGAINST A TURBULENT AND DYNAMIC GLOBAL BACKDROP, I REMAIN CONFIDENT THAT MHP, WITH ITS VERTICALLY-INTEGRATED BUSINESS MODEL, DIVERSIFIED EXPORT STRATEGY, STRONG FINANCIAL POSITION AND EXPERIENCED MANAGEMENT TEAM, IS WELL-POSITIONED TO OVERCOME THE SHORT-TERM CHALLENGES AND TO CAPITALISE UPON OUR SIGNIFICANT LONG-TERM OPPORTUNITIES.

THE ACQUISITION AND SUBSEQUENT INTEGRATION OF PERUTNINA PTUJ IN FEBRUARY 2019 DIVERSIFIED THE COMPANY'S PRODUCTION ASSETS, DELIVERED UPON OUR STRATEGY OF INTERNATIONAL EXPANSION AND DIVERSIFICATION AND DEMONSTRATED MHP'S ABILITY TO BE AN EFFICIENT AND SUCCESSFUL PLAYER IN THE LONG-TERM CONSOLIDATION OF GLOBAL PROTEIN ASSETS.”

Dear Shareholder,

During 2019, MHP continued to deliver upon its long-term growth strategy in both export and domestic markets. Group revenue growth of 32% year-on-year was achieved against a backdrop of challenging global protein markets and trade flows and is a testament to our business model, strategy and management team.

Global turbulence and uncertainty driven by the human Coronavirus (“COVID-19”) Pandemic and, to a lesser extent, by recent avian flu outbreaks in Eastern Europe have increased as we have moved through the first quarter of 2020 and that uncertainty is set to continue. I will return to our 2020 outlook in more detail later in the Statement.

**GROUP REVENUE  
GROWTH OF**

{ 32%

**YEAR-ON-YEAR WAS ACHIEVED IN  
CHALLENGING GLOBAL MARKETS**

## 2019 PERFORMANCE AND ACHIEVEMENTS

The launch of further sites as part of Phase 2 of the Vinnytsia poultry complex contributed to an 18% year-on-year increase in Group poultry production volumes. In addition, our strategy of geographic diversification and product mix optimisation led to an increase in volumes sold across a number of regions including MENA, the EU, Africa and Asia, at the same time as mitigating regional risks.

The Company's acquisition in February 2019 of Perutnina Ptuj ("PP"), a leading poultry and processed-meat producer based in the Balkans, increased 2019 Group revenue by US\$ 271 million and delivered a higher-than-expected 16% adjusted EBITDA margin. This demonstrates the ability of our experienced management team to integrate new acquisitions and to deliver operational synergies.

Group adjusted 2019 EBITDA (net of IFRS 16) of US\$ 376 million was lower than expected and down 16% (2018: US\$ 450 million), impacted by weaker export prices, especially poultry exports to the EU and crops (particularly corn); a ban on exports to KSA in Q4 2019; and the strengthening of the Ukrainian Hryvna (UAH). The adjusted EBITDA margin (net of IFRS 16) decreased to 18% (2018: 29%).

Our financial position was strengthened during the year with the raising of US\$ 350 million in a highly successful Eurobond issue at 6.25%, below Ukrainian sovereign yields. Proceeds from this new issue enabled full repayment of MHP's short-term borrowings extending MHP's maturity profile, making virtually all of its debt long term and providing us with a robust balance sheet going forward.

## CORPORATE GOVERNANCE

The Company recognises the importance of strong corporate governance in line with international best practice and has continued its rigorous approach and adherence to the UK

Corporate Governance Code 2018 to the extent practicable. It commissioned a third-party gap analysis to assist in the process and to advise on the implementation of corrective and / or evolutionary actions where necessary. As part of the continuing development plan for Board members, education programmes were completed by the NEDs as planned.

## BOARD DEVELOPMENTS

At the request of the Board, in March 2019 I agreed to support the CEO with the conduct of certain specific strategic projects and certain executive management functions where my knowledge and expertise are particularly helpful and as a consequence I moved to an executive position within the Company.

As a corollary to this, another independent NED, Mr Philip J Wilkinson OBE, was appointed in March 2020. Mr Wilkinson has significant experience in international poultry markets.

The Company complies with the UK Corporate Governance Code to the extent practical and in relation to this there were some changes to Board committees following my move to Executive Chairman. In March 2019, I stepped down from the Audit Committee ("AC") and Mr Wills was appointed as a member of the AC. In April 2020, I stepped down as Chairman of the Nominations and Remuneration Committee ("NRC") and an independent NED, Mr Wills, was appointed as Chairman of the NRC.

## OUR PEOPLE

Following our acquisition of PP, MHP now employs 31,427 people across seven countries. I am proud of their enduring commitment, professionalism and dedication to our customers. On behalf of our Board I offer them our sincere thanks.

The health and safety of our employees is paramount. MHP's dedicated and experienced HR team is working closely with

our employees and their representatives to ensure that everyone has the necessary support and assistance following the outbreak of the COVID-19 Pandemic.

## STAKEHOLDER ENGAGEMENT

Regular engagement, dialogue with and feedback from MHP's material internal and external stakeholders are important elements of the success of the Group and is the core of our business model.

Understanding our stakeholders' views informs and assists MHP's decision-making processes and helps drive progress towards the achievement of MHP's aims, objectives and strategy. In keeping with the requirements of Section 172 (1) of the UK Companies Act 2006, we have set out on pages 38 to 39 MHP's key stakeholder groups, their material issues and how MHP engages with them. Each stakeholder group requires a tailored engagement approach to foster effective communication and mutually beneficial relationships.

## CORPORATE RESPONSIBILITY

Responsible business is a critical element of the Company's long-term strategy. The Board is pleased with the progress achieved during 2019. A highlight was the launch of the first phase of MHP's second biogas plant. This project is being implemented in two phases with an eventual planned installed energy capacity of 29 MW. This will make the facility the largest biogas complex in the world for processing organic waste from broiler chickens.

I am excited by the work that the Company is undertaking in a number of key research and development areas including food quality and security, animal well-being and nutrition. I'm especially proud of our progress in the field of antibiotic-free poultry production. I'd like to draw your attention to the CEO's Statement in which Yuriy Kosyuk sets out in more detail our exciting advances in these fields.

<sup>1</sup> Revenue from PP is from 21 February 2019 when the acquisition was completed

## DIVIDEND

Although the Company has over US\$ 300 million of free cash, and we feel well-placed to weather the uncertainties of the months ahead, the Board felt it was prudent to take further actions to conserve cash. As part of these actions, on 13 April 2020, it agreed that the dividend should be reduced from approximately US\$ 80 million (US\$ 0.7474 per share) in 2019 to approximately US\$ 30 million (US\$ 0.2803 per share), to be paid to shareholders by the end of April 2020. The announcement will be published in due course.

## OUTLOOK FOR 2020

2020 is set to be challenging. At the time of writing, the world is coping with the COVID-19 Pandemic, a global emergency and crisis. In addition, an outbreak of H5N1 avian influenza in Ukraine (the Vinnytsia region) was announced in Q1 2020 and caused a temporary cessation of exports from Ukraine to the EU (reopened at the beginning of March 2020), Saudi Arabia and other MENA markets (reopened in February and March 2020), and CIS countries (expected to reopen from May 2020).

Furthermore, the disruption in global protein flows seen during 2019 is ongoing. African Swine Fever is still active in China and Southeast Asia, EU poultry over-production is set to continue, and global animal and feed commodity protein flows are still in the process of rebalancing as a result of disease and global political events.

These combined events are likely to have a significant effect on HORECA demand and economic activity and will impact MHP's financial results in 2020. Against this backdrop we continue to expect our main drivers of growth to be increases in poultry production volumes of c10,000 tonnes from PP and c25,000 tonnes from the Vinnytsia complex, respectively, combined with an increase in the efficiency of our grain growing operations driven by optimisation of production costs and land utilisation.



In spite of these short-term challenges, I remain confident that MHP, as a food producer and distributor with a highly experienced Board and senior management team, is well-positioned. I should like to take a moment to set out the factors underpinning my confidence in the business:

- **Vertical integration.** The Company's business model reduces its dependence on suppliers and exposure to raw material price volatility. It also provides higher biosecurity of the flock and quality control at the point of sale.
- **Sales to over 80 countries.** Continued execution of our diversified export strategy has led to MHP now exporting to over 80 countries globally, thus de-risking the Company in relation to geopolitical events as evidenced by our ability to mitigate the loss of volumes to Saudi Arabia in Q4 2019 by significantly increasing volumes to other markets.
- **30% domestic market share.** MHP is the leading poultry producer in Ukraine. Domestic demand for chicken is expected to remain strong and to have further growth potential as beef and pork are mostly produced by households and small farms and are far more expensive to produce and purchase than chicken.

- **Strong financial position.** The strengthening of our financial position in September 2019 through the issue of the US\$ 350 million Eurobond has provided us with a robust balance sheet with no requirements to refinance in the near term.

## CORONAVIRUS (COVID-19) PANDEMIC

At this stage it is difficult to estimate the duration and severity of the impact from the Pandemic.

The Company has put in place a wide range of measures to protect and support our employees. It has a strong balance sheet and cash position, but is actively pursuing additional opportunities to preserve cash and optimise its near term. Overall, MHP is well-placed to manage its way through the expected virus-related disruption over the coming months in 2020.

*Dr John Rich, Chairman  
13 April 2020*



# CEO'S STATEMENT



“AT THE TIME OF WRITING, WE FIND OURSELVES IN HIGHLY UNCERTAIN TIMES DUE TO THE COVID-19 PANDEMIC. I WANT TO REASSURE OUR PEOPLE THAT THEIR HEALTH AND SAFETY IS PARAMOUNT AND THAT WE WILL CONTINUE TO PROVIDE NECESSARY SUPPORT AND ASSISTANCE.

I REMAIN CONFIDENT THAT MHP IS UNIQUELY POSITIONED AND WILL NOT ONLY ADAPT TO SUCCESSFULLY MANAGE THE SHORT-TERM CHALLENGES, BUT WILL EVOLVE TO OPTIMALLY POSITION ITSELF TO CAPITALISE ON THE MEDIUM AND LONG-TERM OPPORTUNITIES IN OUR INDUSTRIES.

2019 WAS A CHALLENGING YEAR FOR MHP, BUT IT WAS ALSO A PIVOTAL YEAR IN OUR HISTORY. WE INTEGRATED PERUTNINA PTUJ (PP) INTO OUR OPERATIONS AND PERHAPS MORE IMPORTANTLY WE INSTIGATED CHANGE WE ARE IN THE PROCESS OF TRANSFORMING THE COMPANY'S BUSINESS MODEL SO THAT WE AS A GROUP ARE MORE EFFICIENT AND MORE CUSTOMER ORIENTED. THIS TRANSFORMATION WILL EMBRACE NEW TECHNOLOGY AND INNOVATION AND WILL RELY ON EACH AND EVERYONE OF OUR TALENTED AND COMMITTED EMPLOYEES. I AM CONFIDENT THAT THEY CAN RISE TO THE CHALLENGE AND DELIVER FOR OUR STAKEHOLDERS.”

## TURBULENT AND DYNAMIC GLOBAL MARKETS IN 2019

In 2019, global markets were disrupted following on from the events of 2018. African Swine Fever in China and Southeast Asia caused significant imbalances in all protein flows but had more impact in poultry production and regional pricing. The changing global poultry flows caused a significant disparity between export producers in terms of market access; Saudi Arabia, MHP's key market in the Middle East, was closed to Ukrainian exports in Q4 2019. Poland emerged as a key producer of poultry in 2019 which caused over-production within the EU, resulting in historically low prices for poultry breast meat.

## PERFORMANCE HIGHLIGHTS

Group revenue in 2019 amounted to US\$ 2,056 million (2018: US\$ 1,552 million), representing 32% growth year-on-year driven by an increase in the sale of poultry meat, vegetable oils and convenience food, as well as by the acquisition of Perutnina Ptuj (PP). Domestic revenues reflect growth of 39% whilst export growth was up 28%, driven by an increase in grains, vegetable oils and meat-processing products. Export revenue represented 58% of Group revenue in 2019 (2018: 60%). Adjusted EBITDA (net of IFRS 16) was US\$ 376 million and lower than expected and down 16% (2018: US\$ 450 million) resulting in an adjusted EBITDA margin (net of IFRS 16) of 18% (2018: 29%). The lower profitability was driven by lower commodity prices (both for crops and poultry) and the effects of adverse weather conditions, combined with the significant strengthening of the Ukrainian Hryvnia (13% in Q4 2019 alone) leading to higher US dollar denominated production costs.



## BUSINESS REVIEW

Despite the challenges, MHP made significant progress towards a number of strategic goals during the year and continued to execute upon its growth strategy in both export and domestic markets.

- **Integration of Perutnina Ptuj.** I am delighted with the way in which the newly-acquired Balkans operations have been so efficiently integrated into the Group and with the operational synergies that have been realised to date. There is more to achieve and there are also lessons to be learned from the PP operations that will be applied across the wider Group going forward.
- **Transformation from a raw materials company into a 'culinary' company.** A gradual strategic shift towards more customer-centric products is underway. The most important evolution in this tenet of our strategy during 2019 was the move towards more value-added primary and further-processed products for the Ukraine domestic market and, similarly, export markets. This strategic evolution, which is customer-led and involves us working closely with our customers as partners to anticipate their evolving needs,

will be rolled-out more extensively over the next several years and will transform the Company's sales from a commodity production base to a branded value-added base delivering higher margin products. This development also further mitigates risks in the movement of raw products for export when disease outbreaks occur in Eastern Europe.

- **Export volume growth.** Export revenue grew by 28% year-on-year and now constitutes 58% of total revenue, driven by the continued implementation of the Company's diversification strategy as well as product mix optimisation - the "right product for the right market" - to countries within the EU, MENA, CIS and Africa.

- **Mid-term growth opportunities.** In February 2020 we announced that MHP is planning a greenfield project in Saudi Arabia; there is significant government support for the project and a feasibility study is ongoing.

## 2020 STRATEGIC PRIORITIES

MHP has responded and adapted to the challenges of 2019 and continues to take positive steps to further enhance and optimise its business model.

- **Business transformation.** To increase MHP's financial strength, we have tasked a newly-created business transformation group with ambitious goals to improve the efficiency of all business processes. This includes transforming customer service, the digitalisation of processes and the creation of a new franchising business model. This team is in the early stages of investigating potential new products and processes which, over time, will create thoughtful, balanced solutions for increased efficiency.
- **Looking after our people as MHP transforms.** Our people are our greatest asset and MHP will ensure that they are looked after, including through a fair, transparent and

merit-based remuneration system whereby they are rewarded for their contribution. Andriy Bulakh, appointed Deputy CEO, People in January 2020, will oversee our work on developing the corporate culture, values and competency model; increasing the efficiency and productivity of employees and organisations; new training formats; and switching to more flat, flexible and adaptive staff management models featuring increased engagement.

- **Perutnina Ptuj.** Continued investment in PP remains a priority in order to capitalise on the opportunities for expansion into regional and Western European markets. We will focus on high-quality, branded ready-to-eat and ready-to-cook products. I am confident that PP will continue to deliver and will be a leader in poultry production in Europe in the medium-term.
- **Investment in 'Commercial Kitchens'.** A 'Commercial Kitchen' concept is being developed and is planned to be implemented in Ukraine during 2020, whereby the Company will directly supply end customers rather than HORECA processors.

## GROUP REVENUE IN 2019 AMOUNTED TO US\$ MILLION

# 2,056

- **Production volume growth.** During its annual strategy meeting in May 2019, the Company reiterated its previous production target of 850-880,000 tonnes of poultry meat by 2024. We continue to expect PP and the expanded Vinnytsia complex to be our main drivers of production growth in 2020 towards this goal.
- **Increasing the profitability of our agricultural operations.** Spring crops are a key driver of the Company's results. The Grain Growing segment is therefore refocussing. It is increasing the number of hectares in which spring crops (corn, soy and sunflower) are sown and reducing the number of hectares in which winter crops (wheat, barley and rapeseed) are sown. This, combined with the optimisation of production costs and the use of technology including Artificial Intelligence, will increase the efficiency of the Grain Growing segment.
- **Export growth.** We will continue to execute our geographical diversification strategy and to focus upon more customised products as part of a strategy to access new prospective markets.
- **Long-term goal to be an efficient and successful player in the global protein industry consolidation.** We continue to monitor developments and potential M&A opportunities, both in poultry production and in the meat-processing industry, internationally.
- **To promote the sustainable development of the business.** MHP is committed to reducing greenhouse gas emissions with a long-term goal of being carbon neutral for every kilogram of poultry meat produced. The Company's largest biogas facility is in production with one more unit (12 MW) planned. In addition, a research programme focussed on carbon sequestration, whereby carbon dioxide and other forms of carbon are stored in the soil for the long-term, is ongoing.

## INNOVATION AND RESEARCH & DEVELOPMENT

The Company's Centre of Innovation has continued its active programme in 2019, both in Ukraine and in the Balkans. Key advances made in relation to the production of poultry meat included the following:

- **Antibiotic-free.** Significantly more production (in excess of 30% of total volumes) is now designated as "antibiotic-free" and the Company remains on target to produce in excess of 85% of poultry meat on an antibiotic-free basis by 2023. In early 2020, an antibiotic-free line of poultry products was launched in Ukraine for domestic consumers (see also case study on page 43). An important planned development of the Nasha Riaba brand in 2020 underlines MHP's industry-leading commitment to eliminate the use of antibiotics in the chicken meat production process. Nasha Riaba product labelling will highlight the brand's long term commitment to the eradication of antibiotic use; this step will further reinforce MHP's commitment to improving human health and healthy eating. MHP plans to achieve this aim by setting step-by-step targets and rigorous and robust testing.
- **Health and nutrition.** A two-year MHP research programme has enabled the Company to confirm and to state on its products that its poultry products have lower levels of saturated fats and higher levels of polyunsaturated fats; this is a significant mitigation factor in human coronary artery disease and a key driver of sales growth for increasingly health conscious consumers.

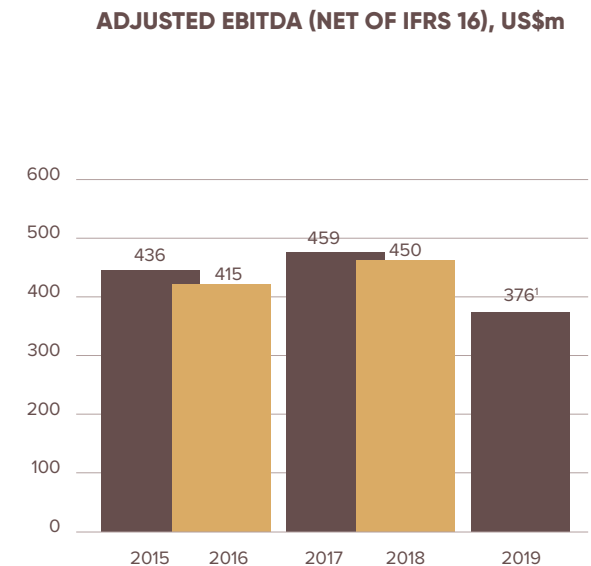
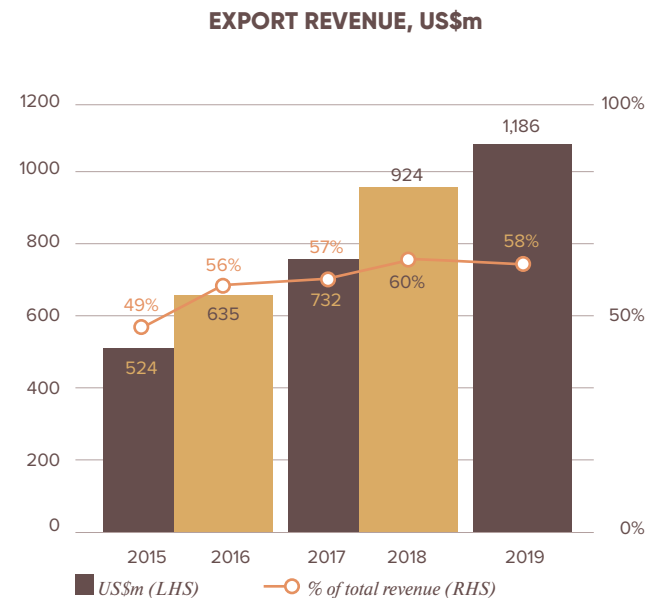
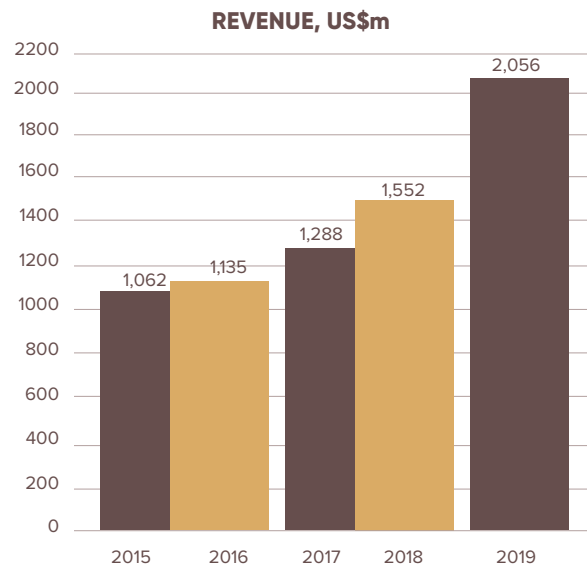
*Yuriy Kosyuk, CEO and Founder of MHP  
13 April 2020*

# BUSINESS REVIEW

## KEY PERFORMANCE INDICATORS

WE MONITOR PROGRESS AGAINST THE DELIVERY OF OUR STRATEGIC GOALS USING SEVERAL FINANCIAL KEY PERFORMANCE INDICATORS (“KPIs”).

Each KPI provides a way of measuring elements of our strategy. Our strategy focusses upon the medium to long term period and therefore we consider how we have performed over a number of years, showing the KPIs for the last five years.



<sup>1</sup> Adjusted EBITDA (after implementation of IFRS 16) comprised US\$ 427 million



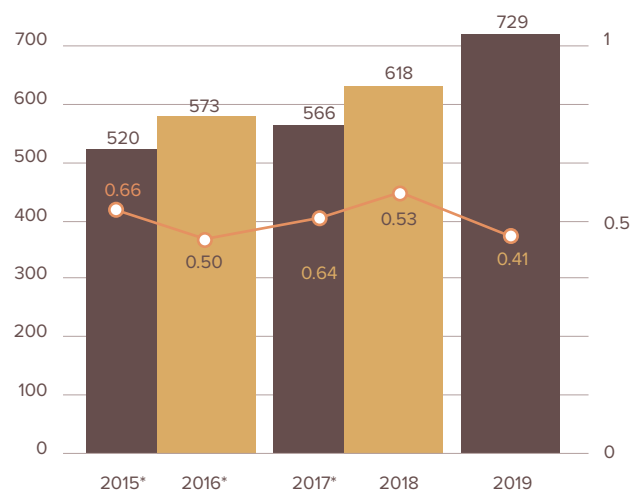
# KEY PERFORMANCE INDICATORS

REVENUE, US\$m	EXPORT REVENUE, US\$m	ADJUSTED EBITDA, US\$m
<b>How we calculate it</b>		
As reported.	Revenue to destinations outside of country of production, received in hard currency.	Adjusted EBITDA is defined as profit before tax, net finance costs, depreciation and amortisation, net after-tax exceptional and non-recurring items, net foreign exchange loss, and net other expenses.
<b>Why we measure it</b>		
To ensure we are successful in growing the business.	To ensure we are delivering on our strategy of international expansion in turn leading to additional hard currency revenue. Export revenue provides MHP with a natural hedge against local currency volatility.	To track the underlying performance of the business.
<b>2019 Progress</b>		
Revenue was up 32% y/y driven by an increase in the sale of poultry meat, vegetable oils and convenience food, as well as by the acquisition of Perutnina Ptuj.	Export revenue was up 28% y/y driven by an increase in exports of grains, vegetable oils and meat-processing products.	Adjusted EBITDA (net of IFRS 16) was down by 16% y/y (adjusted EBITDA after implementation of IFRS 16 was down by 5% y/y) mainly due to a decrease in prices of both poultry and grains, as well as higher US\$ production costs due to the strengthening of the UAH.
<b>Link to strategy</b>		
Execution of our diversified sales strategy – both for exports and domestic sales.	Export growth through sales diversification and market targeting.	Production efficiency and focus on consumer innovation.
<b>Change to KPI</b>		
KPI unchanged y/y.	KPI unchanged y/y.	KPI unchanged y/y.

# KEY PERFORMANCE INDICATORS BY SEGMENT

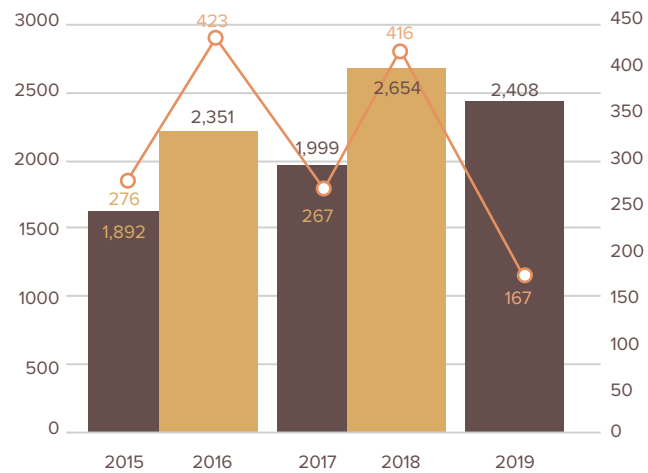
THE COMPANY IS UNDERPINNED BY ITS VERTICALLY-INTEGRATED BUSINESS MODEL, ITS EXPERIENCED MANAGEMENT TEAM AND ITS DIVERSIFICATION STRATEGY IN BOTH DOMESTIC AND INTERNATIONAL MARKETS.

**POULTRY & RELATED OPERATIONS SEGMENT**



■ Production of poultry, thousand tonnes (LHS)  
—○ EBITDA per kg, US\$ (net of IAS 41) (RHS)

**GRAIN GROWING SEGMENT**



■ Production of grains, thousand tonnes (LHS)  
—○ EBITDA (net of IFRS 16) per ha, US\$ (RHS)

**CONSOLIDATED 2019 GROUP  
ADJUSTED EBITDA  
MARGIN (NET OF IFRS 16)<sup>1</sup>**

# 18%

<sup>1</sup> Adjusted EBITDA margin (after implementation of IFRS 16) comprised 21%

# FINANCIAL AND OPERATIONAL REVIEW

## EVENTS DURING AND POST REPORTING PERIOD

Further to the announcement in February 2019 of the acquisition by the Company of Perutnina Ptuj, the largest producer of poultry meat and poultry meat products in the Balkans region of Southeast Europe, MHP completed the acquisition of minority shareholders at the end of September 2019 and is now the 100% owner of PP.

On 13 September 2019, MHP announced that it had completed the issue of a US\$ 350 million Eurobond of 6.25% notes due 19 September 2029 - making it the longest-dated Eurobond issue by a Ukrainian corporate with the lowest coupon ever issued in the private sector in Ukraine. Proceeds from this new issue enabled full repayment of MHP's short-term liabilities (US\$ 335 million at the end of H1 2019), extending MHP's maturity profile and making virtually all of its debt long term.

## OPERATIONAL HIGHLIGHTS

In 2019, MHP continued to launch additional production sites as part of Phase 2 of the Vinnytsia poultry complex bringing the total number of rearing sites to six. The Company's other poultry production facilities continued to operate at full capacity during the period.

- Poultry production volumes (excluding the European Operating Segment) reached 728,917<sup>1</sup> tonnes, up 18% year-on-year (2018: 617,943 tonnes). Poultry production volumes from the European Operating Segment amounted to 79,358 tonnes;

- The average chicken meat price decreased by 5% year-on-year to UAH 38.06 per kg (2018: UAH 39.86 per kg) (excluding VAT). The average price of chicken meat produced by the European Operating Segment during 2019 was EUR 2.64 per kg;
- Chicken meat exports increased by 25% to 357,433 tonnes (excluding the European Operating Segment's 13,881 tonnes), compared with 286,846 tonnes in 2018, as a result of increased exports mainly to countries in the MENA region and the EU.

## FINANCIAL HIGHLIGHTS

- Revenue of US\$ 2,056 million, increased by 32% year-on-year (2018: US\$ 1,552 million);
- Export revenue of US\$ 1,186 million, comprised 58% of total revenue (2018: US\$ 924 million, 60% of total revenue);
- Operating profit of US\$ 216 million was down 31% year-on-year (2018: US\$ 312 million) and operating margin declined to 11% (2018: 20%);
- Adjusted EBITDA margin (net of IFRS 16) decreased to 18% (2018: 29%); adjusted EBITDA (net of IFRS 16) decreased to US\$ 376 million versus US\$ 450 million in 2018;
- Net profit for the period was US\$ 215 million (2018: US\$ 128 million).

## FINANCIAL OVERVIEW

<b>in mln. US\$, unless indicated otherwise</b>	<b>2019</b>	<b>2018<sup>2</sup></b>	<b>% change</b>
<b>Revenue</b>	<b>2,056</b>	<b>1,552</b>	<b>32%</b>
IAS 41 standard gains/(losses)	(40)	32	-225%
<b>Gross profit</b>	<b>398</b>	<b>422</b>	<b>-6%</b>
Gross profit margin	19%	27%	-8 pps <sup>3</sup>
<b>Operating profit</b>	<b>216</b>	<b>312</b>	<b>-31%</b>
Operating profit margin	11%	20%	-9 pps
<b>Adjusted EBITDA<sup>4</sup></b>	<b>427</b>	<b>450</b>	<b>-5%</b>
Adjusted EBITDA margin <sup>4</sup>	21%	29%	-8 pps
<b>Adjusted EBITDA (net of IFRS 16)</b>	<b>376</b>	<b>450</b>	<b>-16%</b>
Adjusted EBITDA margin (net of IFRS 16)	18%	29%	-11 pps
<b>Net profit before foreign exchange differences</b>	<b>30</b>	<b>116</b>	<b>-74%</b>
Net profit margin before foreign exchange gain/(loss)	1%	7%	-6 pps
Foreign exchange gain <sup>5</sup>	185	12	n/a
<b>Net profit/(loss)</b>	<b>215</b>	<b>128</b>	<b>68%</b>
Net profit margin	10%	8%	2 pps

<sup>1</sup> Production volume of chicken meat only without by-products

<sup>2</sup> Information for the Q4 2019 and for the year ended 31 December 2019 is presented excluding results of discontinued operation, which is presented as a single amount as loss after tax from discontinued operations

<sup>3</sup> pps – percentage points

<sup>4</sup> After implementation of IFRS 16

<sup>5</sup> Average official FX rate for 12 months: UAH/US\$ 25.8373 in 2019 and UAH/US\$ 27.2016 in 2018

**Currency risk**

During the year ended 31 December 2019, the Ukrainian Hryvnia appreciated against the EUR and the US\$ by 20.03% and 16.90% respectively (2018: appreciated against the EUR by 5.62% and 1.37% against the US\$). As a result, during the year ended 31 December 2019, the Group recognised a net foreign exchange gain of US\$ 185,291 thousand (2018: foreign exchange gain of US\$ 11,638 thousand) in the consolidated statement of profit or loss and other comprehensive income.

Currency risk is mitigated by the generation of foreign currency revenue from the sale of products including sunflower oil, grain and chicken meat. This is sufficient for servicing the Group's foreign currency denominated liabilities. Sales for the years ended 31 December 2019 and 31 December 2018 are shown in the table to the right.

**MAJOR PRODUCT TYPES IN 2019 AND 2018**

US\$ thousand	2019	2018
Chicken meat and related products	588,903	471,177
Vegetable oil and related products	302,600	274,313
Grain	251,836	156,511
Other agricultural products	42,362	21,703
	<b>1,185,701</b>	<b>923,704</b>

The functional currency for the Ukrainian companies of the Group is the UAH. However, for the convenience of stakeholders, MHP presents its financial statements in US dollars (US\$) using quarterly average and historical exchange rates.

**RELEVANT EXCHANGE RATES**

Currency	Closing rate as at 31 December 2019	Average for 2019	Closing rate as at 31 December 2018	Average for 2018
UAH/US\$	23.6862	25.8373	27.6883	27.2016
UAH/EUR	26.4220	28.9406	31.7141	32.1341

## SEGMENT PERFORMANCE

### POULTRY & RELATED OPERATIONS SEGMENT – KEY OPERATIONAL DATA

	2019	2018	% change
<b>Poultry</b>			
<b>Sales volume, third party, tonnes</b>	<b>669,964</b>	<b>593,527</b>	<b>13%</b>
-Sales in Ukraine, third parties, tonnes	312,531	306,680	2%
-Export sales volume, third party, tonnes	357,433	286,846	25%
Average price per 1 kg net of VAT, UAH	38.06	39.86	-5%
Average price per 1 kg net of VAT, USD	1.47	1.47	0%
Price per 1 kg net of VAT, UAH (Ukraine)	37.49	36.62	2%
Price per 1 kg net of VAT, USD (export)	1.49	1.59	-6%
<b>Sunflower oil</b>			
Sales volume, third party tonnes	384,150	315,079	22%
<b>Soybean oil</b>			
Sales volume, third party tonnes	51,771	50,044	3%

#### Chicken meat

The aggregate volume of chicken meat sold to third parties increased by 13% during 2019 mainly as a result of the increased production of heavier chicken and a decreased share of thinning as well as the launch of new rearing sites as part of Phase 2 of the Vinnytsia poultry complex.

MHP continued to follow its strategy of both geographic diversification and product mix optimisation, building up volumes

of chicken meat sold across MENA, the EU, Africa and Asia. Alongside this strong international growth, domestic sales in Ukraine increased by 2% year-on-year to 312,531 tonnes (2018: 306,680 tonnes).

During 2019, the aggregate average chicken meat price was UAH 38.06, 5% lower than 2018 mainly due to the substantial drops in poultry prices in EU countries as well as the revaluation of the UAH.

#### Vegetable oil (sunflower and soybean)

During 2019, MHP's sales of sunflower oil increased by 22% y/y to 384,150 tonnes. Sales of soybean oil increased by 3% y/y during 2019 to 51,771 tonnes.

### POULTRY & RELATED OPERATIONS SEGMENT – FINANCIAL RESULTS AND TRENDS

in mln. US\$, unless indicated otherwise	2019	2018	% change
<b>Revenue</b>	<b>1,368</b>	<b>1,241</b>	<b>10%</b>
Poultry and other	1,073	973	10%
Vegetable oil	295	268	10%
<b>IAS 41 standard gains/(losses)</b>	<b>9</b>	<b>(1)</b>	<b>n/m</b>
<b>Gross profit</b>	<b>273</b>	<b>301</b>	<b>-9%</b>
Gross margin	20%	24%	-4 pps <sup>1</sup>
<b>Adjusted EBITDA</b>	<b>281</b>	<b>311</b>	<b>-10%</b>
Adjusted EBITDA margin	21%	25%	-4 pps
Adjusted EBITDA per 1 kg (net of IAS 41)	0.41	0.53	-23%

During 2019, segment revenue increased by 10% y/y driven mostly by an increase in sales volume of chicken meat and vegetable oil, but partly offset by the decreased prices of chicken meat.

IAS 41 standard gains/(losses) reflect the net change in fair value of biological assets and agricultural produce. IAS 41 standard gain during 2019 amounted to US\$ 9 million, mainly as a result of an increase of poultry meat stocks, but partly offset by the decrease in prices.

Segment gross profit for 2019 decreased by 9% y/y driven by lower prices of chicken meat and higher US\$ production costs due to the strengthening of the UAH as well as the higher cost of mixed fodder protein components and payroll costs.

During 2019, adjusted EBITDA decreased by 10%, in line with the decrease in gross profit.

<sup>1</sup> pps – percentage points



**GRAIN GROWING SEGMENT – KEY OPERATIONAL DATA**

In 2019 MHP harvested around 360,000 hectares of land in Ukraine and gathered around 2,4 million tonnes of crops, 9% lower y/y mainly due to MHP's historically record high harvest of corn in 2018. MHP average yields are significantly higher than Ukraine's average for almost all crops due to operational efficiency and the employment of best technology.

**GRAIN GROWING SEGMENT – FINANCIAL RESULTS AND TRENDS**

Segment revenue for 2019 amounted to US\$ 268 million, up 48% year-on-year (2018: US\$ 181 million). The increase was mainly attributable to the higher level of crops in stock designated for sale as of 31 December 2018, in turn due to the record yields in 2018.

IAS 41 standard losses for 2019 amounted to US\$ 50 million. The loss was primarily driven by a substantial decrease in the prices of crops (especially corn).

The 2019 adjusted EBITDA of the segment decreased by 28%, y/y mainly due to the decrease in prices as well as higher US\$ production costs from the strengthening of the UAH and accentuated by the seasonality of operations with major expenses incurred in H1 2019.

<sup>1</sup> Only land of Grain Growing segment

<sup>2</sup> Including barley, rye, sugar beet, sorghum and other and excluding land left fallow as part of crop rotation

<sup>3</sup> MHP yields are net weight, Ukraine yields are bunker weight

<sup>4</sup> After implementation of IFRS 16

<sup>5</sup> in US\$

**HARVEST CAMPAIGN RESULTS**

	2019 <sup>1</sup>		2018 <sup>1</sup>	
	Production volume (in tonnes)	Cropped land (in hectares)	Production volume (in tonnes)	Cropped land (in hectares)
Corn	1,312,416	140,221	1,344,547	123,398
Wheat	300,396	46,797	295,640	48,379
Sunflower	237,755	65,447	235,245	72,981
Rapeseed	122,597	41,233	125,346	38,541
Soya	102,418	38,197	114,322	37,558
Other <sup>2</sup>	332,007	27,581	539,322	41,963
<b>Total</b>	<b>2,407,589</b>	<b>359,476</b>	<b>2,654,422</b>	<b>362,820</b>

**MHP HARVEST YIELDS**

	2019		2018	
	MHP's average <sup>3</sup>	Ukraine's average <sup>3</sup>	MHP's average <sup>3</sup>	Ukraine's average <sup>3</sup>
	(tonnes per hectare)		(tonnes per hectare)	
Corn	9.4	7.1	10.9	7.8
Wheat	6.4	4.3	6.1	3.7
Sunflower	3.6	2.6	3.2	2.3
Rapeseed	3.0	2.6	3.3	2.7
Soya	2.7	2.3	3.0	2.6

**GRAIN GROWING SEGMENT – FINANCIAL RESULTS AND TRENDS**

in mln. US\$, unless indicated otherwise	2019	2018	% change
<b>Revenue</b>	<b>268</b>	<b>181</b>	<b>48%</b>
IAS 41 standard gains/(losses)	(50)	33	-252%
<b>Gross profit</b>	<b>29</b>	<b>108</b>	<b>-73%</b>
<b>Adjusted EBITDA<sup>4</sup></b>	<b>109</b>	<b>151</b>	<b>-28%</b>
<b>Adjusted EBITDA (net of IFRS 16)</b>	<b>60</b>	<b>151</b>	<b>-60%</b>
Adjusted EBITDA per 1 hectare (net of IFRS 16) <sup>5</sup>	167	416	-60%

### MEAT-PROCESSING & OTHER AGRICULTURAL OPERATIONS SEGMENT – KEY OPERATIONAL DATA

Meat-processing products	2019	2018	% change
Sales volume, third party tonnes	35,458	33,975	4%
Price per 1 kg net of VAT, UAH	67.34	62.22	8%

During 2019 sales of processed-meat products increased by 4% y/y and reached 35,458 tonnes. The average processed meat price increased by 8% y/y to UAH 67.34 per kg in 2019, mostly driven by the implementation of the improved sales and marketing strategy.

Convenience food	2019	2018	% change
Sales volume, third party tonnes	19,236	17,997	7%
Price per 1 kg net of VAT, UAH	40.97	42.53	-4%

Sales volumes of convenience food increased by 7% y/y in 2019 to 19,236 tonnes, driven mainly by a high base effect, whereby salted fillet (a semi-final product) was included previously. The average price in 2019 decreased by 4% y/y to UAH 40.97 per kg (excluding VAT).

<sup>1</sup> Includes convenience food products, milk, cattle, goose meat, foie gras and feed grains

<sup>2</sup> Results of PP from 21 February 2019 when the acquisition was completed

<sup>3</sup> Includes sausages and convenience foods

<sup>4</sup> After implementation of IFRS 16

### MEAT-PROCESSING & OTHER AGRICULTURAL OPERATIONS SEGMENT – FINANCIAL RESULTS AND TRENDS

Segment revenue for 2019 increased by 15% y/y, in line with an increase in price and volume for meat processing, and amounted to US\$ 149 million.

The segment's adjusted EBITDA increased to US\$ 20 million in 2019 compared to US\$ 16 million in 2018, an increase of 25% y/y driven mostly by higher returns earned from meat-processing products.

in mln. US\$, unless indicated otherwise	2019	2018	% change
<b>Revenue</b>	<b>149</b>	<b>130</b>	<b>15%</b>
Meat processing	118	103	15%
Other <sup>1</sup>	31	27	15%
<b>IAS 41 standard gains</b>	<b>2</b>	<b>-</b>	<b>100%</b>
<b>Gross profit</b>	<b>19</b>	<b>12</b>	<b>58%</b>
Gross margin	13%	9%	4 pps
<b>Adjusted EBITDA</b>	<b>20</b>	<b>16</b>	<b>25%</b>
Adjusted EBITDA margin	13%	12%	1 pps

### PERUTNINA PTUJ'S ADJUSTED EBITDA MARGIN IN 2019

16% }

### EUROPEAN OPERATING SEGMENT (PP) – KEY OPERATIONAL DATA

Poultry	2019 (10 months) <sup>2</sup>
Sales volume, third party tonnes	51,101
Price per 1 kg net of VAT, EUR	2.64

Meat-processing products <sup>3</sup>	2019 (10 months)
Sales volume, third party tonnes	30,282
Price per 1 kg net of VAT, EUR	2.71

### EUROPEAN OPERATING SEGMENT (PP) – FINANCIAL RESULTS AND TRENDS

in mln. US\$, unless indicated otherwise	2019 (10 months) <sup>2</sup>
<b>Revenue</b>	<b>271</b>
IAS 41 standard gains	-
<b>Gross profit</b>	<b>77</b>
Gross margin	28%
<b>Adjusted EBITDA<sup>4</sup></b>	<b>44</b>
Adjusted EBITDA margin <sup>4</sup>	16%
<b>Adjusted EBITDA (net of IFRS 16)</b>	<b>42</b>
Adjusted EBITDA margin (net of IFRS 16)	15%

The European Operating Segment's revenue amounted to US\$ 271 million for the 10 months in 2019. Adjusted EBITDA<sup>4</sup> was US\$ 44 million and the adjusted EBITDA margin<sup>4</sup> was 16%.

## CURRENT GROUP FINANCIAL POSITION AND CASH FLOW

(in mln. US\$)	2019	2018
<b>Cash from operations</b>	<b>310</b>	<b>306</b>
Change in working capital	192	(45)
<b>Net cash from operating activities</b>	<b>502</b>	<b>261</b>
<b>Cash used in investing activities</b>	<b>(333)</b>	<b>(224)</b>
<i>Including:</i>		
Net cash outflow on acquisition of subsidiaries	(206)	-
Net cash inflow from disposal of subsidiaries	-	7
CAPEX <sup>1</sup>	(113)	(252)
<b>Cash used in financing activities</b>	<b>37</b>	<b>137</b>
Dividends	(85)	(89)
<b>Total financial activities</b>	<b>(48)</b>	<b>48</b>
<b>Total change in cash<sup>2</sup></b>	<b>121</b>	<b>85</b>

Cash flow from operations before changes in working capital for 2019 amounted to US \$310 million (2018: US\$ 306 million).

Positive cash flow effects from changes in working capital during 12M 2019 mostly reflect reduction in inventory as unusually high stocks of sunflower and soya crops as of 31 December 2018 (following record high yields in 2018) were utilized or sold during the period. Additional effect arises due to increase in amounts payable for seeds and plant protection products to be paid in 2020, as well as reimbursement of VAT receivable for previous periods.

During 2019, total CAPEX amounted to US\$ 113 million mainly related to the launch of production sites of Phase 2 of the Vinnytsia poultry complex.

<sup>1</sup> Calculated as cash used for Purchases of property, plant and equipment plus cash used for purchases of other non-current assets

<sup>2</sup> Calculated as Net cash from operating activities plus Cash used in investing activities plus Total financial activities

<sup>3</sup> Net of IFRS 16 adjustments: as if any lease that would have been treated as an operating lease under IAS 17 as was in effect before the 1 January 2019, is treated as an operating lease for purposes of this calculation. In accordance with covenants in MHP's bond and loan agreements, these data exclude the effects of IFRS 16 on accounting for operating leases.

<sup>4</sup> Calculated as if acquisitions of subsidiaries had occurred on the first day of the year. LTM adjusted EBITDA of Perutnina Ptuj d.d amounted to US\$ 45 million

## DEBT STRUCTURE AND LIQUIDITY

in mln. US\$	31 December 2019	31 December 2018
<b>Total Debt<sup>3</sup></b>	<b>1,480</b>	<b>1,343</b>
Long-term Debt <sup>3</sup>	1,448	1,206
Short-term Debt <sup>3</sup>	32	137
Cash and cash equivalents	(341)	(212)
<b>Net Debt<sup>3</sup></b>	<b>1,139</b>	<b>1,131</b>
LTM adjusted EBITDA <sup>3,4</sup>	379	450
Net Debt / LTM adjusted EBITDA <sup>3,4</sup>	3.01	2.51

As of 31 December 2019, long-term debt represented 98% of total outstanding debt. The weighted average interest rate was around 7%.

As of 31 December 2019, MHP's cash and cash equivalents amounted to US\$ 341 million.

Net debt increased to US\$ 1,139 million, compared to US\$ 1,131 million as of 31 December 2018.

The Net Debt<sup>3</sup> / LTM adjusted EBITDA (net of IFRS 16) ratio was 3.01 as of 31 December 2019, which is higher than the limit of 3.0 imposed by the Eurobond agreement. Although exceeding the ratio of 3.0 does not constitute the breach of any covenant under the loan agreement, it does lead to the introduction of additional control measures by MHP. In particular, MHP has to supervise and assess any issuance of additional debt, restricted payments (e.g. dividend distribution, investment in third parties), mergers with third parties outside of the Group and the granting of financing of any kind to third parties.

Such restrictions become effective on the date of publication of the audited financial statements as of and for the year ended 31 December 2019.

As a hedge for currency risks, revenue from the export of grain, sunflower and soybean oil, sunflower husks, and chicken meat are denominated in foreign currency, covering debt service expenses in full.

Export revenue for 2019 amounted to US\$ 1,186 million or 58% of total revenue (2018: US\$ 924 million or 60% of total sales).

## OUTLOOK FOR 2020

A number of challenges have combined to create an unusual degree of uncertainty in early 2020. In particular, the combination of the COVID-19 Pandemic and an outbreak of H5N1 avian influenza in the Vinnytsia region of Ukraine in Q1 2020, which caused a temporary cessation of exports from Ukraine to the EU, Saudi Arabia and other MENA markets and CIS countries, is expected to adversely affect MHP's financial results for the year.

Against this backdrop, the Company's main drivers of growth are expected to be increases in poultry production volumes of c10,000 tonnes from Perutnina and c25,000 tonnes from Vinnytsia respectively, combined with an increase in the efficiency of grain growing operations driven by optimisation of production costs and land utilisation.

With its vertically-integrated business model and efficient cost base, the Board believes that MHP is well-placed to manage its way through the expected disruption over the next few months and remains confident that the Group will deliver a strong financial result in 2020.

## FINANCIAL POLICIES

### MHP HAS INCLUDED CERTAIN MEASURES IN THIS REPORT THAT ARE NOT MEASURES OF PERFORMANCE UNDER IFRS, INCLUDING EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (“EBITDA”) AND LAST TWELVE MONTHS’ EBITDA (“LTM EBITDA”) BOTH AT A CONSOLIDATED AND AT A SEGMENT LEVEL.

Adjusted EBITDA, LTM Adjusted EBITDA and Segment Adjusted EBITDA are presented in this Report because the Directors consider them to be important supplemental measures of the Group’s financial performance.

Additionally, the Directors believe these measures are frequently used by investors, analysts and stakeholders to evaluate the efficiency of the Group’s operations and its ability to employ its earnings for the repayment of debt, capital expenditure and working capital requirements.

MHP defines Adjusted EBITDA as profit for the year before income tax expense, finance costs, finance income, depreciation and amortisation expense, impairment of property, plant and equipment, net foreign exchange gain/loss, and net other expenses. Depreciation and amortisation expenses are components of both cost of sales and selling, general and administrative expenses in the consolidated financial statements.

The introduction of IFRS 16 on Leases from January 2019 has caused adjustments to the financial statements and as a result, the comparability of results between 2018 and 2019 is impacted by these adjustments. To ensure comparability of Adjusted EBITDA year to year, MHP has chosen to present Adjusted EBITDA for 2019 both before and after adjustment for IFRS 16.

LTM Adjusted EBITDA (net of IFRS 16) is defined as Adjusted EBITDA (net of IFRS 16) for the prior 12 consecutive

months ending on such date of measurement; LTM Adjusted EBITDA calculated as if acquisitions of subsidiaries had occurred on the first day of the prior 12 consecutive months ending on such date of measurement. LTM Adjusted EBITDA excludes the effects of IFRS 16 on accounting for operating leases. Adjusted EBITDA is derived by adjusting EBITDA (as defined above) for losses/gains on impairment/ reversal of impairment of property, plant and equipment, net losses on disposals of subsidiaries, other expenses, net and foreign exchange (loss)/gain. The Group believes that this measure is more useful in evaluating the financial performance of the Company and its subsidiaries than traditional EBITDA due to the exclusion of items that management considers not to be representative of the underlying operations of the Group.

The Group’s Segment measure in the consolidated financial statements is defined as “Segment result” and represents operating profit by Segment before unallocated corporate expense, being the Segment measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of Segment performance.

Within the Management Report, the reported Segment result is adjusted for the amount of depreciation and amortisation per Segment in order to present “Segment Adjusted EBITDA” to external users, which MHP feels is a more commonly-used external metric familiar to investors. Net debt is defined as bank borrowings, bonds issued and lease obligations less cash and cash equivalents. Net debt ( net of IFRS 16) is

defined as Net debt less the effects of lease liabilities recognised under IFRS 16.

The Group believes that net debt is commonly used by securities analysts, investors and other interested parties in the evaluation of a company’s leverage.

In MHP’s bond and loan agreement covenants the definitions Adjusted EBITDA, LTM Adjusted EBITDA and Net debt exclude the effects of IFRS 16 on accounting for operating leases. They are calculated as if any lease that would have been treated as an operating lease under IAS 17 (as was in effect before 1 January 2019), is treated as an operating lease.

Adjusted EBITDA is not a measure of MHP’s operating performance under IFRS and should not be considered as an alternative to profit for the year, operating profit, Segment result or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of MHP’s liquidity.

Such measures presented in this Annual Report may not be comparable to similarly titled measures of performance presented by other companies, and should not be considered as substitutes for the information contained in the consolidated financial statements.



**RECONCILIATION OF ADJUSTED EBITDA**

US\$ thousand	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year from continuing operations	221,105	129,378
Income taxes	32,107	50,527
Finance costs	147,552	138,019
Finance income	(8,034)	(4,457)
Depreciation and amortisation expense	205,691	134,066
<b>EBITDA</b>	<b>598,421</b>	<b>447,553</b>
<b>Adjustments:</b>		
Loss on impairment/reversal of impairment of property, plant and equipment, net	6,244	3,803
Other expenses, net	8,064	10,561
<b>Foreign exchange loss/(gain), net</b>	<b>(185,291)</b>	<b>(11,638)</b>
<b>Adjusted EBITDA</b>	<b>427,438<sup>1</sup></b>	<b>450,259</b>
Effect of IFRS 16	(50,975)	-
<b>Adjusted EBITDA (net of IFRS 16)</b>	<b>376,463</b>	<b>450,259</b>

<sup>1</sup> Adjusted EBITDA (net of IFRS 16) amounted to US\$ 376 million

**RECONCILIATION OF NET DEBT**

Calculation of net debt was aligned with definitions used for the purpose of assessment of compliance with debt covenants provided in the respective loan agreements. Thus, the accrued interest which has been included previously as part of the carrying amount of bank borrowings, bonds issued and finance lease obligations has been excluded from the amount of total debt. As of 31 December 2019 and 2018 the leverage ratio was as follows:

US\$ thousand	Year ended 31 December 2019	Year ended 31 December 2018
Bank borrowings	100,825	238,498
Bonds issued	1,365,669	1,090,935
Finance lease obligations	215,863	13,442
<b>Total debt</b>	<b>1,682,357</b>	<b>1,342,875</b>
Cash and cash equivalents	(340,735)	(211,768)
<b>Net debt</b>	<b>1,341,622</b>	<b>1,131,107</b>
Effect of IFRS 16	(202,802)	-
<b>Net debt (net of IFRS 16)</b>	<b>1,138,820</b>	<b>1,131,107</b>

Segment results represent operating profit, as adjusted for unallocated corporate expenses, which is reconciled to Segment Adjusted EBITDA before unallocated expenses by adding back Segment depreciation as illustrated in the following tables:

**SEGMENT PERFORMANCE**

US\$ million	Year ended 31 December 2019					
	Poultry & Related Operations Segment	Grain Growing Segment	Meat-Processing & Other Agricultural Operations Segment	European Operating Segment	Eliminations	Consolidated
External sales	1,367,554	268,419	148,673	271,297	-	2,055,943
Sales between business segments	49,633	246,477	949	-	(297,059)	-
Total revenue	1,417,187	514,896	149,622	271,297	(297,059)	2,055,943
<b>Segment results</b>	<b>182,778</b>	<b>28,972</b>	<b>12,820</b>	<b>25,196</b>	<b>-</b>	<b>249,766</b>
Depreciation and amortisation	98,526	80,115	7,544	18,523		204,708
Segment Adjusted EBITDA before unallocated expenses	<b>281,304</b>	<b>109,087</b>	<b>20,364</b>	<b>43,719</b>		<b>454,474</b>
Unallocated expenses						(28,019)
Unallocated depreciation and amortisation						983
Adjusted EBITDA <sup>1</sup>						427,438

# RISK MANAGEMENT

The environment and markets in which we operate are dynamic and subject to constant change. We must be able to respond to these changes, taking appropriate levels of risk to protect our market position and to capitalise on opportunities. A failure to manage these changes and risks could have an adverse impact on our business and on the achievement of our strategic goals and financial performance. We have integrated our risk management processes into our strategy and embedded them throughout the Company, thereby aligning risk management, strategy and performance across all entities, departments and functions. This enables us to make better business decisions.

## RISK MANAGEMENT FRAMEWORK

To understand our risk profile and align it with our objectives and decision-making processes, we operate a global risk framework based upon the recommendations in the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) Enterprise Risk Management Framework. The COSO Framework defines how to identify, classify, assess and manage the risks that MHP faces in order to provide reasonable assurance regarding the achievement of the Company's strategy and objectives. The implementation and functioning of our Risk Management Policy is supported by Management team and employee training programmes.



- Our Management team identifies risks that may affect the achievement of the Group's strategy and business objectives.

- Identified risks are assessed and risk tolerance is set.
- Risks are prioritised in order of severity of potential impact on strategy and business objectives.
- A risk scoring system is used to help quantify both the probability and potential impact of each major risk after the effect of mitigating actions, to assess residual risks against the Company's risk appetite and prioritise further risk management actions.
- A portfolio view of risk appetite is assumed.

- Responses to risks are implemented in the context of the Group's risk appetite.

- New risks and changes in existing risks are monitored on a continuous basis.

- Key risks are discussed regularly by the Management team and reported at least annually to the Board through the Audit Committee.
- Risk management information is used to make informed decisions.

### RISK OVERSIGHT

The Audit Committee monitors the effectiveness of the Company's risk management and control systems through regular updates from Management, reviews of the key findings of the external and internal auditors, and an annual review of the risk management process and risk matrix. Results are reported regularly to the Board, which has overall responsibility for risk management.

The Internal Audit function provides objective assurance to the Management team and to the Audit Committee on the effectiveness of risk management and helps Management to continuously improve its risk management framework and processes.

The Company's approach to the identification and assessment of risks, and the response to risks, is based on best business practices and international COSO Enterprise Risk Management standards.

### ENHANCEMENTS TO RISK MANAGEMENT OVER THE PAST 12 MONTHS

We constantly strive to improve our risk management processes. In 2019, we continued to enhance our risk management culture throughout the Group, including within the newly-acquired PP:

I. **Encouraging the identification of risks:**

Managers encourage open communication and promote and support disclosure and risk management discussions.

II. **Embedding risk management within every role and function:**

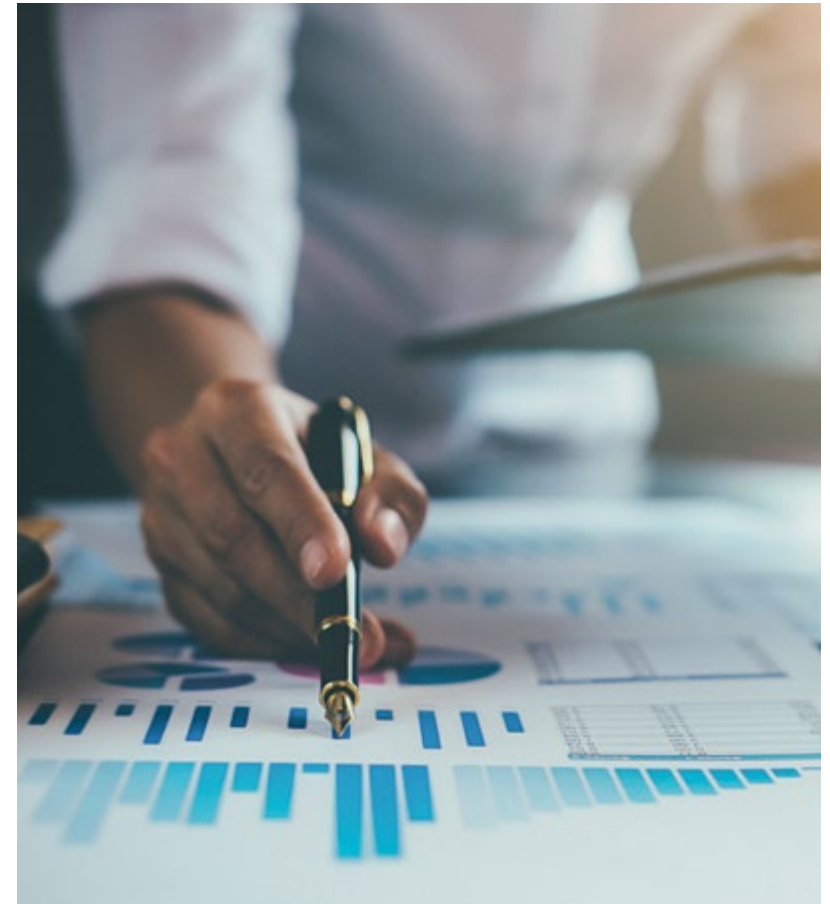
Every employee shares the responsibility for managing risk.

III. **Continuous identification and assessment of risks:**

Process owners regularly look for new operational risks, reassess the status of known risks, and re-evaluate or update plans to prevent or respond to problems associated with these risks.

# COSO

**OUR RISK FRAMEWORK IS BASED UPON THE RECOMMENDATIONS IN THE COSO ENTERPRISE RISK MANAGEMENT FRAMEWORK**



THE PRINCIPAL RISKS FACING THE GROUP ARE SET OUT IN THE TABLE BELOW

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
<b>BUSINESS RISKS</b>			
Fluctuations in prices for grains and related products required for production input	↔	Fluctuations in prices of grains and related products in Ukraine and globally may affect the cost of chicken production and therefore the profitability of MHP's grain growing operations, which could materially affect MHP's operating results.	MHP drives cost efficiency across all its businesses, supported by its vertically-integrated business model. MHP minimises the impact of fluctuations in world grain prices by growing internally 100% of the corn required for poultry feed production. The Company has also adopted an innovative approach by replacing a significant proportion of expensive imported soybean protein with protein from sunflower seeds grown by MHP.
Fluctuations in demand for and market prices of chicken meat and crops	↑	MHP's business and financial results are dependent upon prices for chicken products and crops, both in Ukraine and worldwide.	<p>Demand for chicken in Ukraine is expected to remain strong and to have further growth potential as beef and pork are mostly produced by households and small farms and are far more expensive to produce and purchase than chicken. Chicken meat is the most affordable kind of meat from both a price and diet perspective. MHP products are available for purchase through different sales channels at all times and the Company offers competitive trade terms to its customers. MHP's domestic strategy and in particular its focus on higher value-add products are drivers for increasing the Company's profitability from chicken meat sales in Ukraine.</p> <p>In international markets, MHP continues to execute upon its strategy of geographic diversification of exports combined with product mix optimisation and a focus on customised products for new potential markets.</p> <p>The risk level increased year-on-year due to weak export prices as market prices of crops (especially corn) and chicken exports (mainly to the EU) decreased substantially.</p>
Failure to implement growth strategy and expansion into export markets	↑	MHP may be unsuccessful in its attempt to increase market share in export markets for its chicken meat and may be impacted by import restrictions imposed on agricultural commodities by other countries.	<p>MHP has in place a long-term strategy for the Group's expansion into diversified export markets. MHP sees more uncertainty in the Middle East and Africa compared with the EU. However, MHP's market share of key poultry markets remains relatively low (less than 10%) allowing MHP to redistribute volumes between markets without disruption and to grow its presence gradually; this will be partly through growth in population and consumption per capita and partly through offering better service and quality to our customers.</p> <p>The risk level increased year-on-year due to restrictions in place on sales to the Kingdom of Saudi Arabia ("KSA") - one of the Company's largest and most profitable export markets. From September 2019 to February 2020, MHP was prohibited from exporting poultry to KSA. To mitigate the revenue impact, MHP significantly increased its share of whole frozen chicken and fillet sales to other countries during Q4 2019, partially compensating for the loss in volumes to the KSA market. To reduce the impact of any disruptions to trade flows in future, MHP will continue to execute its strategy of geographic diversification.</p>

<sup>1</sup> Company's estimate



Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
<p>Outbreaks of avian flu and other livestock diseases</p>	<p>↑</p>	<p>Avian flu and other diseases may result in:</p> <ul style="list-style-type: none"> <li>• loss of livestock;</li> <li>• loss of customers;</li> <li>• export restrictions;</li> <li>• distribution of disease; and</li> <li>• significant financial losses.</li> </ul>	<p>To ensure the well-being of livestock at MHP's facilities, the Company has implemented high biosecurity standards and systems supplemented by a set of preventive veterinary-sanitary and hygiene measures, including:</p> <ul style="list-style-type: none"> <li>• Ongoing monitoring of avian flu cases worldwide followed by rigorous assessment of MHP's existing biosecurity systems based on identifying the reasons causing those cases;</li> <li>• Geographic separation of poultry-rearing facilities with a significant distance between each facility;</li> <li>• Where any infected areas are identified, immediate actions are taken to limit the access of all visitors to MHP facilities;</li> <li>• Constant monitoring of poultry conditions, including analysis of indicators of their well-being and health and investigation of the quality of raw materials (litter, food, water) and products (poultry carcasses); and</li> <li>• Monitoring compliance with biosafety rules.</li> </ul> <p>The risk level remains high and increased year-on-year due to an outbreak of avian flu at a third party's facilities in the Vinnytsia region in January 2020.</p> <p>MHP is also assisting all other poultry producers (mainly egg layers) in the Vinnytsia region to strengthen their own biosecurity.</p>
<p>Moratorium on the sale of agricultural land in Ukraine</p>	<p>↔</p>	<p>Ukraine's Verkhovna Rada voted on 30 March 2020 to abolish a moratorium on the sale of agricultural land. The moratorium preventing either individuals or legal entities from selling or otherwise disposing of agricultural land, except through inheritance, exchanges or government appropriation, was first imposed in 2001. It was supposed to remain in force only until the beginning of 2005, however, it has been extended every year since then.</p> <p>The law will enter into force from July 2021, with only individuals able to buy agricultural land for the first two years after this, and no more than 100 hectares to one buyer. This will increase to 10 thousand hectares per buyer from 2023, with companies and other legal entities then being allowed to buy agricultural land, although only if they are owned by Ukrainian citizens. It is still a question of whether foreigners will be allowed to buy land. These changes might influence existing relationships with landlords for MHP.</p>	<p>MHP supports the opening of the land market and free competition in this area. We believe, that in most cases, owners of the land will not work on it, due to absence of required technology and labour, thus, we will continue to rent land from owners. We have long-term land lease agreements, and what can change for MHP is that hundreds of individual agreements with physical persons might convert to consolidated contracts with new bigger land owners. MHP does not see the economic feasibility of buying land and will therefore continue renting it.</p>

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
Occurrence of a material environmental or health and safety incident	↔	The occurrence of a material environmental or health and safety incident could impact day-to-day operations, leading to financial penalties and reputational harm.	MHP maintains robust environmental and health and safety policies, management systems and procedures in line with best practice and legal requirements. These are regularly reviewed and updated, and employees participate in frequent training and development activities.
Occurrence of a material product quality or product safety incident	↔	The occurrence of a material product quality or product safety incident could impact day-to-day operations, leading to financial penalties and a reduction in brand value.	MHP prioritises product safety and quality in line with international best practice and applicable regulations. It maintains robust quality and safety management systems and has an excellent track record in this area.
Fluctuations in commodity prices such as gas, fuel and energy	↔	Changes in commodity prices affect MHP's production and distribution costs and in turn impact operating results and cash flows.	MHP tightly monitors and controls its gas, fuel and energy costs. Energy price risks are mitigated by a priority focus on developing renewable sources of energy and a continued increase in the use of co-generation and alternative energy technology. The processing of sunflowers results in the production of large volumes of husks that are burned to generate steam heat for fodder complexes.
Unfavourable weather conditions	↔	Extreme changes in temperature or rainfall including weather change in summer and winter could influence agricultural productivity as a whole and crop yield, harvesting and transportation costs in particular.	Ukraine's weather is generally temperate, with plenty of sunshine in summer and adequate rainfall. This combines with extremely fertile soil to create excellent growing conditions. MHP's management team supports the use of modern technology to achieve a yield which is significantly higher than the average for Ukraine <sup>1</sup> .
Failure to successfully integrate newly-acquired businesses	↔	The integration of newly-acquired businesses in Europe might be subject to a number of challenges and uncertainties, including: the diversion of Management's attention from other business issues and potential disruption to MHP's ongoing business; the potential necessity of coordinating geographically-separated facilities; incurring unanticipated expenses; the consolidation of functional areas where appropriate; adapting MHP's business model and practices to different jurisdictions; adapting any acquired companies' practices and policies to those of MHP; and possible inconsistencies in standards, controls, procedures and policies, operating systems and business culture.	<p>MHP has prepared a succession and development plan for the Company's managers which allows them to participate intensively in the management of new businesses. MHP has also developed a plan of key controls and safeguards to be put in place. MHP has experience of managing businesses located outside its main countries of operation and such practices can be extended to cover newly-acquired businesses. During the due diligence process on potential target acquisitions, MHP pays specific attention to the production and safety standards of those potential acquisitions and develops plans to align such standards with those of MHP. This is also factored into the Company's financial resource allocation.</p> <p>Since taking control in February 2019, MHP has started integrating PP into the Group and implementation of business processes at PP to MHP standards. This has led to significant improvements in production efficiencies and improved financial performance of PP during 2019. Many of the business functions were successfully centralised with additional plans for 2020. Though full integration will continue over the next 2-3 years, initial results show that risks are low that this integration of PP will not be completed successfully.</p>

<sup>1</sup> Company's estimate

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
<p>Lack of highly-qualified staff at strategic level and production enterprises</p>	<p>↔</p>	<p>The agriculture industry is facing a number of personnel challenges including: the migration of skilled workers to neighbouring countries; move of labor force from villages to urban environment; the ageing of the current workforce; and changes in the required skills base. A lack of qualified science, engineering, technical and other employees could increase risks to the long-term future of the business.</p>	<p>MHP works to maintain positive relationships with employees and strives to build upon its reputation as a high-quality, responsible employer of choice. As part of this, MHP provides a number of programmes designed to enrich its employees and the broader community including:</p> <ul style="list-style-type: none"> <li>• Education and professional programmes for the younger generation;</li> <li>• “Personnel Reserve” and “New Horizon” training programmes for prospective and high-performing employees respectively;</li> <li>• A strategic action plan to build and support schools in regions where its facilities operate; and</li> <li>• Development of a digitalisation strategy that is in the process of implementation and focusses on automating business processes and decision making (including artificial intelligence).</li> </ul>
<p>Outdated equipment and technology</p>	<p>↑</p>	<p>Changes in technology and global digital transformation may render the current technologies and IT systems obsolete or require MHP to make substantial capital investments.</p> <p>Manufacturing processes in the agricultural industry are prone to technological and process changes which may render MHP’s current processes obsolete. Moreover, IT systems of the Group and the processes within such systems might require transformation to meet the challenges of the digital era. MHP might face a lack of in-house expertise and/or resistance of process owners whilst it is accomplishing its transformation strategy. In order to orchestrate this transformation successfully, MHP may be required to invest substantial sums of money to adopt newer technologies and processes. The level of investment required could have a material adverse effect on MHP’s business, results of operations, financial position and prospects.</p>	<p>The risk level increased year-on-year with the acquisition of Perutnina Ptuj at which outdated equipment and technology limit production capacity and require gradual replacement. MHP has developed and implemented an investment plan that addresses this requirement.</p> <p>A digital transformation strategy is in place across all entities within the MHP Group focussing on the upgrades, optimisation and automation of key business processes. Experienced and competent internal project managers and subcontractors are in place to direct the successful implementation of the digitalisation strategy.</p> <p>MHP has consistently invested in technology for the automation of the business processes and improvement in productivity.</p>

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
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Inefficient procurement and an increase in production costs



An increase in MHP's production costs could materially and adversely affect its profitability.

MHP strives to continually improve its procurement procedures and production processes. The procurement of strategic items is centralised with a high level of regulation and control. KPIs are set and are closely monitored with a view to decreasing the costs of production.

## FINANCE RISKS

Fluctuations in foreign exchange rates



MHP operates globally and has operations and transactions in different currencies. Fluctuations in the value of the Ukrainian Hryvna versus the US\$ and other currencies give rise to transaction and translation exposure.

The majority of MHP's borrowings are denominated in US\$. The resulting exposure is hedged by the generation in 2019 of 58% of total revenue in US\$ from the export of sunflower and soybean oils, chicken meat and grain. The amount of export sales will continue to increase with the further expansion of the Vinnytsia poultry complex and the strengthening of the Group's positions in export markets. The hard currency revenue generated will be more than sufficient for MHP to continue to service all dollar-denominated loans and payments.

The risk increased year-on-year due to the adverse impact of US\$ transaction exposure. The decline in Group profitability in Q4 2019 was partially driven by the 13% strengthening of the UAH, as while 58% of the Group's revenue is denominated in US\$, most costs are incurred in UAH. Profits were primarily impacted in the grain growing operations and the impact was accentuated by the seasonality of operations with major expenses incurred in H1 2019. At the same time the Group has US\$ 185 million foreign exchange gain in P&L, which is balancing the negative operational effect.

Fluctuations in interest rates



Changes in interest rates affect the cost of borrowings, the value of our financial instruments, profit and loss and shareholders' equity.

MHP monitors its interest rate exposure and analyses the potential impact of interest rate movements on its net interest expenses.

MHP's debt portfolio is well-balanced as of 2019 year end with an 98% / 2% share of fixed / floating interest rates. The majority of MHP's borrowings are from foreign banks at rates lower than those available in Ukraine; a significant part of the Company's debt is also in the form of Eurobonds issued at fixed interest rates.

The proportion of fixed interest rate debt increased year-on-year, decreasing the risk of an adverse impact from interest rate fluctuations.



Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
Credit risk	↔	Counterparties involved in transactions with MHP may fail to make scheduled payments, resulting in financial losses to MHP.	<p>MHP has a diversified pool of customers. The amount of credit allowed to any one customer or group of customers is strictly controlled. Credit offered to major groups of customers, including supermarkets and franchisees is, on average, between 5 and 21 days. To hedge this risk, MHP procedures require verification of counterparties' solvency prior to the signing of an agreement with contractors. Policies and operating guidelines include limits in respect of counterparties to ensure that there is no significant concentration of credit risk.</p> <p>Credit risks are managed by security paragraphs, which are included in agreements with customers. At foreign subsidiaries of MHP, an insurance company is involved to approve the credit limit and to insure against risk of non-payment.</p>
Liquidity risk	↑	If, in the long term, MHP is unable to generate and maintain positive operating cash flows and operating income, it may need additional funding. MHP's inability to raise capital on favourable terms could lead to a default on its payment obligations and could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.	<p>MHP maintains efficient budgeting and cash management processes to ensure that adequate funds are available to meet its business requirements. MHP adopts a flexible CAPEX programme enabling capital projects to be deferred if necessary. MHP has an irreducible balance in hard currency on correspondent accounts and maintains a certain level of undrawn credit lines.</p> <p>In 2019, MHP refinanced the notes due in April 2020 ("2020 Notes") through the issue of a US\$ 350 million Eurobond for an additional 10 years. As a result long-term debt comprised more than 95% of MHP's total debt portfolio (97% as of 2019 year end).</p> <p>We assess that risk slightly increased according to potential influence of COVID-19.</p>
Inefficient investments	↔	Inefficient regulation of the Company's investment appraisal and realisation procedures or a lack of evaluation or proper authorisation of investment projects could result in the implementation of unauthorised and unprofitable investment decisions and subsequent poor use of capital.	MHP has developed and implemented procedures to ensure due process in this area. The Evaluation of Investment Projects procedure requires that the Investment Committee approves investment projects. All of the Company's investment projects are documented with a formal investment appraisal report and financial model which are jointly approved by the Investment Committee. All major investment decisions are approved by the Board.

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
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**STAKEHOLDER RELATIONS RISKS**

Local communities	↓	A deterioration in local community relationships may lead to disruption in day-to-day business activities, adverse perceptions about MHP's approach to human rights, the environment and negative reputational effects.	MHP is in regular dialogue with its local communities and other stakeholders in the regions in which it operates. The Company aims to conduct these relationships sensitively and with mutual respect. It also prioritises the human rights of its local communities. MHP has designed and implemented stakeholder relations programmes in line with good international practice. This activity includes regular meetings with local community representatives, roadshows to enable local people to meet the Company and the design and maintenance of a variety of communication channels. MHP also supports, designs and conducts a number of projects in conjunction with local authorities and local communities that aim to improve local standards of living and infrastructure.
Investor and other stakeholder relations	↔	Inaccurate or out-of-date information about MHP and its activities leads to negative impacts on the Company's reputation and adverse impacts on its relations with material stakeholders including its shareholders.	<p>MHP further developed its local stakeholder relations in 2019 following the successful implementation of a range of Corporate Responsibility projects including:</p> <ul style="list-style-type: none"> <li>• The roll-out of educational programmes at all levels, from kindergarten to adult-learning;</li> <li>• The development and encouragement of local entrepreneurship through new projects and programmes. Entrepreneurship is important for the development of regions and local communities; it creates new jobs, develops infrastructure, and encourages innovation and the rational use of resources. MHP works in partnership with entrepreneurs to develop and improve local communities; and</li> <li>• The development of infrastructure and safety, which includes environmental safety, healthcare, product quality and safety, safety of buildings, structures and other infrastructure.</li> </ul> <p>MHP maintains an experienced and well-resourced communications and investor relations team that is supported by a national and international network of professional advisors. The team is tasked with ensuring that MHP's investor and wider communications activities are conducted in line with international good practice. The team also ensures that information about the Company is distributed in a timely manner, is accurate and up-to-date. MHP also monitors external commentary about its activities to ensure that any inaccuracies are addressed promptly. A qualitative measurement of the Company's image is performed on a regular basis and monitored by its senior management team and the Board.</p>

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
<b>COMPLIANCE RISKS</b>			
Legal and regulatory risk	↔	The Group's businesses may be affected by regulatory developments in any of the countries in which MHP operates, including changes in fiscal, tax or other regulatory regimes. Potential impacts include higher costs to meet new environmental requirements; the possible expropriation of assets; other taxes; or new requirements for local ownership.	MHP's management team actively monitors regulatory developments in the countries in which the Group operates. MHP's financial control framework has adopted tax and treasury approaches fully in compliance with relevant local laws in the jurisdictions in which the business is registered. MHP pays its taxes in full in all jurisdictions in which it operates. Moreover, MHP is consistently developing and integrating into its business practices standards such as the Market Abuse Regulation and sustainability reporting.
Bribery and corruption	↔	A material bribery or corruption incident could lead to significant reputational harm, adverse stakeholder relations, financial penalties and could threaten MHP's licence to operate.	MHP maintains robust anti-bribery and corruption policies and procedures which are regularly reviewed and monitored by the Audit Committee. These include a Code of Ethical Conduct and investigation procedures which all employees are required to adhere to, and address matters such as bribery, gifts, supplier and customer relations, conflicts of interest and other areas of potentially corrupt activity. MHP operates a whistle blower hotline for the reporting of suspected bribery and corruption
Failure to comply with the covenants under loan agreements	↑	A failure by MHP to comply with restrictive covenants under the terms of its indebtedness could put MHP into default.	MHP has developed and follows control procedures to monitor compliance with the covenants. In 2019, implemented a "Procedure for "consolidated leverage ratio more than 3.0x", which contains a roles and responsibility matrix, communication rules and a modelling tool, which is used before approval and actioning of transactions which have limitations according to the covenant.
<b>BUSINESS CONTINUITY RISK</b>			
Failure of IT systems could materially affect MHP's business	↔	MHP is becoming more dependent on IT systems and considers these critical to successful business operations. MHP relies on its IT systems in many areas of its business, including aspects of accounting records, business monitoring, execution, production of orders, invoicing, payment monitoring and health and safety. Although MHP backs up its IT systems and has a disaster recovery plan, the failure of IT systems could have a material adverse effect on MHP's business, results of operations, financial condition and prospects.	A number of measures have been implemented across the Company to reduce the risk of IT system failure. These include: the implementation of additional business continuity measures; the organisation of reserved data channels; moving services to the Cloud; and the establishment of an incident management process providing continuous support for the business. In addition, the Information Security ("IS") team performs regular audits of critical IT services in order to determine any IS weakness and to perform penetration testing of Company vulnerabilities. It also increases employee awareness of IS risks and focusses on developing proper behaviours.

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
<p>COVID-2019</p>	<p>↑</p>	<p>The global pandemic of Coronavirus (COVID-2019) might have negative effects on MHP's business:</p> <ol style="list-style-type: none"> <li>1. If employees of MHP become infected, this may lead to temporary disability or death of key personnel or temporary disability of a critical number of personnel. As a result, this will lead to interruption of the critical functions and business processes of the Company.</li> <li>2. Global pandemic, quarantine and trade restrictions might result in decrease of sales, loss of customers and revenue.</li> <li>3. Potentially, there might be interruptions in supply and production.</li> <li>4. Economic crisis, caused by the pandemic, COVID-19 have negative effect on the banking system and counterparties of MHP that potentially might also influence liquidity position of MHP.</li> </ol>	<ol style="list-style-type: none"> <li>1. As of April 2020, the level of absenteeism at MHP Group's enterprises is at the same level as in the previous years (3-5%). Company management implemented a range of measures for preventing sickness and the spread of infection within the company (remote working, additional medical screenings, corporate transfers and protective masks etc.). In particular, at production facilities the work is organised in shifts of small numbers of people that allows limiting contact and minimising the potential for spread of infection. In addition to this, wait list of potential workers have been developed, for the case if replacement of infected persons and of those who will be on quarantine will be required. In addition to the prevention measures already taken, the Company has updated contingency plans for all enterprises and offices which provide management and employees with strict instructions on how they should behave in the case of: employees were in contact with an infected person, employees infected at office/production facility, death of employees due to coronavirus. These rules of behaviour have been drawn up with a view to minimising the consequences of and spread of the virus.</li> <li>2. The main changes for sales in Ukraine occurred within the fresh chicken segment where we observed temporary increases of sales due to changes in customers' behaviour - increased demand when people were stocking up for the quarantine period. Sales in the HoReCa channel have almost ceased. We also expect that part of our franchising network will be closed due to quarantine restrictions. These changes are not expected to have a significant impact on our total sales or revenues; the volume will be redistributed to other channels (large chains, supermarkets). In export markets we face restrictions on movements between EU countries, a number of countries have suspended the operation of services and ports as a result of the quarantine. We have maximised stock levels for EU sales and we have changed our logistics routes by switching to sea transportation to Rotterdam. A number of countries have imposed restrictions on movements of population, on the operation of markets and wholesale bases. In some countries the work of licensing services and the banking system has been partially suspended. Overall, we face a decrease of sales in the food service sector and HoReCa. However, consumption in other channels is increasing. Due to the current situation, orders are being redistributed to new customers and partially increased to existing customers via current channels. The volume reorientation process is very dynamic.</li> </ol>

Principal risk	Year-on-year change in risk level	Impact	How we manage the risk
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COVID-2019



3. We have enough raw materials in stock to continue normal operations (grain growing business, poultry production etc.) Although the company has high dependency on imports, we have effectively managed our supply and have enough stock to ensure continuity of our production and operations for Q2 2020 and are increasing stocks for the next 2-3 months.
4. We are able to finance our needs by cash from operations, but in case additional liquidity is required we will be able to finance it by short-term loans. Having good long-term relationships with banks, we have preconfirmed limits for financing with 10 banks. In addition to this, we have started cooperation with several new financial institutions for additional standby loans.





# S172 STATEMENT & STAKEHOLDER ENGAGEMENT

## SECTION 172(1) COMPANIES ACT 2006 STATEMENT

Recorded in the table below are MHP's key stakeholder groups, their material issues and how MHP engages with them. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships.

By understanding these stakeholders, MHP can factor into Boardroom discussions the potential impact of its decisions on each stakeholder group and consider their needs and concerns.

This in turn ensures that MHP continues to provide the products that its customers require, works effectively with the workforce, makes a positive contribution to local communities and achieves long-term sustainable returns for

its investors. Acting in a fair and responsible manner is a core element of MHP's business practice.

More information appears in the Corporate Responsibility section on pages 41 to 45 and within the Non-Financial Report which will be published in June 2020.

## STAKEHOLDER ENGAGEMENT

Regular engagement, dialogue and feedback with MHP's material internal and external stakeholders is an important element of the success of the business and the operation of its business model. Understanding their views informs and assists MHP's decision-making process and helps drive progress towards the achievement of MHP's aims, objectives and strategy.

The following table summarises MHP's key stakeholders, their areas of interest and how the organisation engages with each stakeholder group.

MHP regularly reviews its understanding of each stakeholder group, their areas of interest and its ongoing communications, reporting and dialogue activities.

MHP employs experienced and qualified employee teams to conduct these activities. They include members of the Board, senior management, investor relations staff, human resources personnel and local stakeholder representatives.

These are supported when required by external advisors and services.

Stakeholder	Key stakeholder issues	How we engage
<p><b>WORKFORCE</b> MHP has a dedicated and experienced workforce that is committed to and is a key element in achieving MHP's aims and objectives</p>	<ul style="list-style-type: none"> <li>• A shared vision for MHP's long-term success;</li> <li>• Learning and development opportunities;</li> <li>• Employee health and well-being;</li> <li>• A conducive workplace featuring diversity, inclusion, flexibility, responsible business practice and clear communication;</li> <li>• Fair and transparent employment terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular two-way communication;</li> <li>• Clear communication of Company and management goals;</li> <li>• Training, education and mentoring;</li> <li>• Programmes for the development of innovative thinking (Bank of ideas, MHP accelerator);</li> <li>• Corporate volunteering;</li> <li>• Grievance mechanism;</li> <li>• Regular surveys;</li> <li>• Workplace wellness programme.</li> </ul>
<p><b>COMMUNITIES</b> MHP's reputation and business continuity are supported by its aim to be a proactive and supportive member of its local communities and a good neighbour</p>	<ul style="list-style-type: none"> <li>• Transparency, clear communication and opportunities to engage;</li> <li>• Development and support of local infrastructure and services;</li> <li>• MHP's approach to environmental, health and safety issues;</li> <li>• Local employment opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder Engagement Plan;</li> <li>• Grievance mechanism;</li> <li>• Regional recruiting programme;</li> <li>• Medical assistance in the village programme;</li> <li>• Regular public hearings;</li> <li>• Regular investment in public infrastructure in partnership with local stakeholders.</li> </ul>

Stakeholder	Key stakeholder issues	How we engage
<p><b>CUSTOMERS, BUSINESS PARTNERS AND SUPPLIERS</b> MHP's ongoing and uninterrupted business continuity relies on the strength of its relationships with its customers, suppliers and business advisors</p>	<ul style="list-style-type: none"> <li>• Fair business conduct, terms and conditions;</li> <li>• MHP's approach and performance relating to biosecurity, product quality, environmental, health and safety matters;</li> <li>• Transparency, clear communication channels and opportunities to engage.</li> </ul>	<ul style="list-style-type: none"> <li>• Interaction via tender platform;</li> <li>• Dedicated staff teams to interact with customers, suppliers and business advisors;</li> <li>• Provision of questionnaire facilities;</li> <li>• Participation in regular customer due diligence processes.</li> </ul>
<p><b>SHAREHOLDERS, FINANCIERS AND THE INVESTMENT COMMUNITY</b> MHP's ongoing access to capital and liquidity depends on maintaining strong and lasting relationships with investors, debt providers, financiers and financial analysts</p>	<ul style="list-style-type: none"> <li>• Financial and share price performance;</li> <li>• Credit rating;</li> <li>• Strategy;</li> <li>• Risk management;</li> <li>• Environmental, social and governance ("ESG") approach and performance;</li> <li>• Transparency, regular and proactive communication and reporting.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular provision of conference calls for the investment community;</li> <li>• Investor Day in September 2019;</li> <li>• Quarterly results announcements;</li> <li>• One-to-one meetings with investors and financiers;</li> <li>• Annual general meeting;</li> <li>• Dedicated IR section on the Company's website;</li> <li>• Annual financial and non-financial reports;</li> <li>• Site visits.</li> </ul>
<p><b>GOVERNMENTS AND REGULATORS</b> MHP's licence to operate is dependent on its relations with government and regulators and operating within the applicable laws and regulations</p>	<ul style="list-style-type: none"> <li>• Adherence to applicable laws and regulations;</li> <li>• Support and cooperation with local economic development agencies;</li> <li>• Investment into infrastructure, education and medical developments;</li> <li>• Transparency, clear communication channels and opportunities to engage.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings with local government;</li> <li>• Participation in local infrastructure, health and education projects;</li> <li>• Close cooperation with local regulators over matters such as maintenance of strict bio-security, health and safety and environmental matters.</li> </ul>
<p><b>MEDIA</b> An important element of all of MHP's key stakeholder relations is that the media reports timely and accurate information about its activities</p>	<ul style="list-style-type: none"> <li>• Receipt of timely, complete and up-to-date news and information about MHP's activities</li> <li>• Contact information for the media</li> <li>• Transparency, clear communication channels and opportunities to engage</li> </ul>	<ul style="list-style-type: none"> <li>• Company website</li> <li>• Regular distribution of Company news and information</li> <li>• Availability of senior management for media interviews and briefings</li> <li>• Site-visits for the media</li> </ul>

# CORPORATE RESPONSIBILITY

THIS SECTION OF THE ANNUAL REPORT IS PROVIDED TO GIVE READERS AN OUTLINE UNDERSTANDING OF THE COMPANY'S APPROACH TO CORPORATE RESPONSIBILITY MATTERS AND HOW THIS ASPECT OF THE BUSINESS IS INTEGRATED INTO ITS OVERALL STRATEGY. DETAILED INFORMATION WILL BE PROVIDED IN THE FORTHCOMING NON-FINANCIAL REPORT WHICH WILL BE PUBLISHED IN JUNE 2020. THE NON-FINANCIAL REPORT WILL APPLY THE LATEST APPLICABLE GLOBAL REPORTING INITIATIVE ("GRI") FRAMEWORK.

## STRIVING TO ACHIEVE THE BEST INTERNATIONAL STANDARDS

MHP strives to achieve best practice corporate responsibility in line with international standards. Corporate responsibility forms an integral part of the Company's long-term corporate vision. The Board views this aspect of MHP's activities as important to the achievement of its ambition of becoming a leader in sustainable development, managing environmental matters responsibly and proactively addressing climate change. MHP also aims to create a healthy, safe and conducive workplace, maintain the highest standards of product quality and safety, conduct its reporting and communications transparently, be a responsible member of its local communities and create a leadership platform for its employees.

## KEY FOCUS AREAS

MHP's approach to responsible business focusses on seven key areas, which are illustrated in this table, highlighting MHP's corporate responsibility framework.

## CORPORATE RESPONSIBILITY FRAMEWORK

The table below illustrates the areas addressed in the Company's policy framework and management systems.

Environment & climate change	Occupational health & safety	Product quality & safety	Animal welfare	Business conduct	People	Local communities
Greenhouse gas and atmospheric emissions	Occupational health	Maintenance of biological safety standards	Antibiotic-free programme	Anti-bribery and corruption	Workplace diversity	Local stakeholder engagement
Biodiversity management	Accident prevention	Product hygiene	Maintenance of appropriate living conditions	Regulatory and legal compliance	Equal opportunities	Effects of business activity
Water use	Provision of healthy workplaces	Product quality	Constant access to balanced food and fresh water	Supplier and customer relationships	Training and development	Local infrastructure investment
Reuse, recycling and waste management	Employee health and well-being	Scientific analysis	Veterinary supervision	Product labelling and pricing	Fair working conditions	Contribution to local economic development
Energy use		Quality of raw materials	High-quality bedding materials	Data protection and information security	Approach to organised labour	Minimise impact on local communities

## POLICY HIGHLIGHTS

Highlights of MHP's policy framework, for each key focus area, are recorded below.

### ENVIRONMENT AND CLIMATE CHANGE COMMITMENTS

- Reduce greenhouse gas emissions intensity with a long-term aim of making the Company's activities carbon neutral;
- Minimise the effects of the Company's activities on the local environment;
- Minimise water use and discharges to water;
- Preserve local biodiversity;
- Minimise use of energy and use of renewable sources where practicable.

### OCCUPATIONAL HEALTH AND SAFETY

- A healthy and safe working environment;
- Commitment to incident prevention in line with industry best practice.

### PRODUCT QUALITY AND SAFETY

- Maintenance of the highest quality and safety standards in line with industry best practice and applicable laws and regulations;
- Constant monitoring of biological safety.

### ANIMAL WELFARE

- Humane treatment of animals in line with industry best practice at all times;
- Antibiotic-free programme.

### BUSINESS CONDUCT

- Zero tolerance approach to bribery and corruption;
- Commitment that all employees will adhere to responsible standards of business behaviour.

## PEOPLE

- Commitment to value each employee and promote equality of opportunity;
- Prohibition of discrimination, forced and child labour;
- Commitment to freedom of association and collective bargaining.

### LOCAL COMMUNITIES

- Commitment to build trusting and mutually beneficial partnerships;
- Promotion of local living standard improvements;
- Commitment to respect human rights and the interests of local stakeholders.

### MANAGEMENT SYSTEMS

MHP's policy framework is supported by comprehensive corporate responsibility management systems which have been developed in line with industry best practice and international standards. All MHP locations employ environmental specialists and people responsible for the maintenance of environmental standards and compliance with relevant laws and regulations.

Occupational health and safety are governed by the Company's Labour Protection Service. As well as compliance and accident prevention, the department is tasked with raising and maintaining employee awareness of health and safety through a variety of training, dialogue and communications mechanisms.

Product safety and quality is of paramount importance to MHP and it is proud of its record in this area. A key aspect of its management systems is its use of internal and external laboratories to ensure this record is maintained. All are certified for compliance with ISO/IEC 17025.

Animal welfare is a natural priority and the Company's systems ensure comfortable living conditions and high standards of biological safety.

Antibiotic use is prohibited at rearing sites and the Company does not use hormones or growth stimulants. Antibiotics are used selectively based on a diagnosis which indicates that their use is desirable and only with permissions from State and local entity Chief Veterinary Officers. MHP has a programme in place to reduce antibiotic use over time.

MHP's anti-corruption and bribery procedures include regular reviews of the Company's risk management systems by the security department and regular employee training.

MHP places significant emphasis on training and development. Procedures include the New Horizons employee development programme that enables high-performing employees to choose areas of the business in which to further their careers and develop their knowledge base and skills.

The Company continues to develop its stakeholder engagement activities and relationships with its local communities. This includes the rollout of the Stakeholder Engagement Plan (details may be found on the Company website at [www.mhp.com.ua](http://www.mhp.com.ua)) and a programme of investment in local infrastructure and facilities.

More information about MHP's stakeholder engagement activities can be found on pages 38 to 39 of this Report.

**1. CASE STUDY – SECOND BIOGAS PLANT**

MHP ADDRESSES CLIMATE CHANGE WITH THE LAUNCH OF THE FIRST PHASE OF THE WORLD'S LARGEST POULTRY INDUSTRY BIOGAS COMPLEX

MHP aims to be a transformational industry leader in applying environmentally-friendly production, green energy generation and innovative technologies to address climate change. An important element of this approach is MHP's aim to produce its own green energy and organic fertiliser from its production facility waste.

In December 2019, MHP launched the first phase of the Ladyzhyn biogas plant as part of its innovative environmental protection and climate change strategy. The first phase has an installed energy capacity of 12 MW and is based in the village of Vasyliivka, near Ladyzhyn in the Tulchynskiy district of the Vinnytsia region. The project is being implemented in two phases with an eventual planned installed energy capacity of 24 MW. This will make the facility the largest biogas complex in the world for processing organic waste from broiler chickens.

The plant is a high-tech facility where organic waste from poultry farming and agriculture is converted into clean, green energy and organic fertilisers. The highest international environmental standards are applied.

**“THE GOAL OF MHP IS TO PROVIDE OUR PRODUCTION FACILITIES WITH THEIR OWN GREEN ENERGY AND MAKE OUR PRODUCTION AS ENVIRONMENTALLY FRIENDLY AS POSSIBLE. WE ARE DETERMINED TO BE INDUSTRY LEADERS IN ADDRESSING THE CHALLENGES PRESENTED BY CLIMATE CHANGE“**

*Yuriy Kosyuk, CEO*

The operation of the first phase of the Ladyzhyn biogas complex will reduce MHP's greenhouse gas emissions by approximately 100,000 tonnes of CO2e (carbon dioxide equivalent) annually. The second phase will increase this annual saving to around 200,000 tonnes of CO2e.

The first phase will provide around 40% of the electricity requirements of the MHP agro-industrial cluster. This includes the Vinnytsia poultry complex, which is the largest in Europe. This comprises a processing complex, rearing sites, feed mill, oil press plant, incubator station and a water filter station.

The project has also been designed to provide other important environmental advances. In particular, it will provide a green solution to restoring soil fertility in Ukraine through soil deoxidisation and the restoration of humus. It will achieve this through the production of organic bio-fertilisers with a high content of nutrients to support the development of organic farming and the growth of crops.



**THE OPERATION OF THE FIRST PHASE OF THE BIOGAS LADYZHYN COMPLEX WILL REDUCE MHP'S GREENHOUSE GAS EMISSIONS BY APPROXIMATELY**

**100,000** }  
**TONNES CO2E ANNUALLY**





## 2. CASE STUDY - ANTIBIOTIC REDUCTION

MHP'S DOMESTIC NASHA RIABA BRAND PREPARES TO EXTEND ITS REPUTATION FOR ANIMAL WELFARE, HIGH QUALITY, HYGIENE AND CONSUMER SAFETY

Nasha Riaba is the leading Ukrainian chilled chicken brand which has, since its launch in 2001, attained the biggest domestic market share<sup>1</sup>.

A key driver in the growth and development of the brand has been its reputation for animal welfare, quality, stringent hygiene standards and consumer safety.

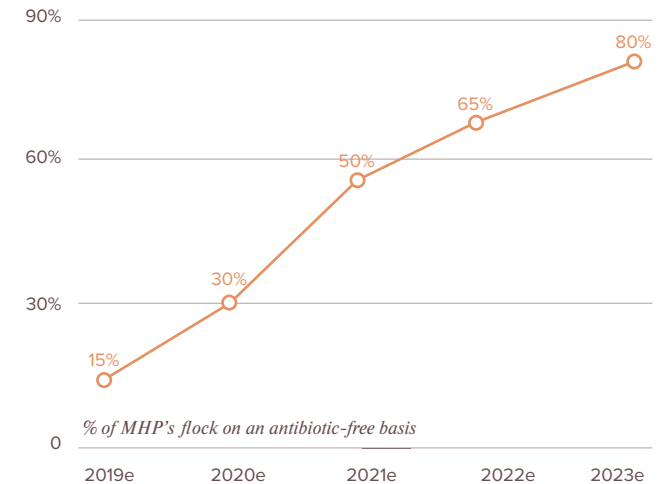
Following the initiative of the programme in 2019, an important planned development of the brand in 2020 underlines MHP's industry-leading commitment to eliminate the use of antibiotics in the chicken meat production process.

Nasha Riaba product labelling will highlight the brand's long-term commitment to the eradication of antibiotic use; this step will further reinforce MHP's commitment to improving human health and healthy eating targets and rigorous and robust testing.

The latter consists of the conduct of over 6,000 different analysis methods which examine feed, raw materials, the achievement of micro-biology and chemical parameters and the maintenance of strict veterinary, biosecurity and hygiene standards at all of MHP's locations.

The chart on the right illustrates past, current and expected future progress in the elimination of antibiotics in MHP's chicken meat production.

**MHP FLOCKS PARTICIPATION IN THE ANTIBIOTIC FREE PROGRAMME**



{ 6,000  
DIFFERENT ANALYSIS METHODS

<sup>1</sup> State Statistics Service of Ukraine



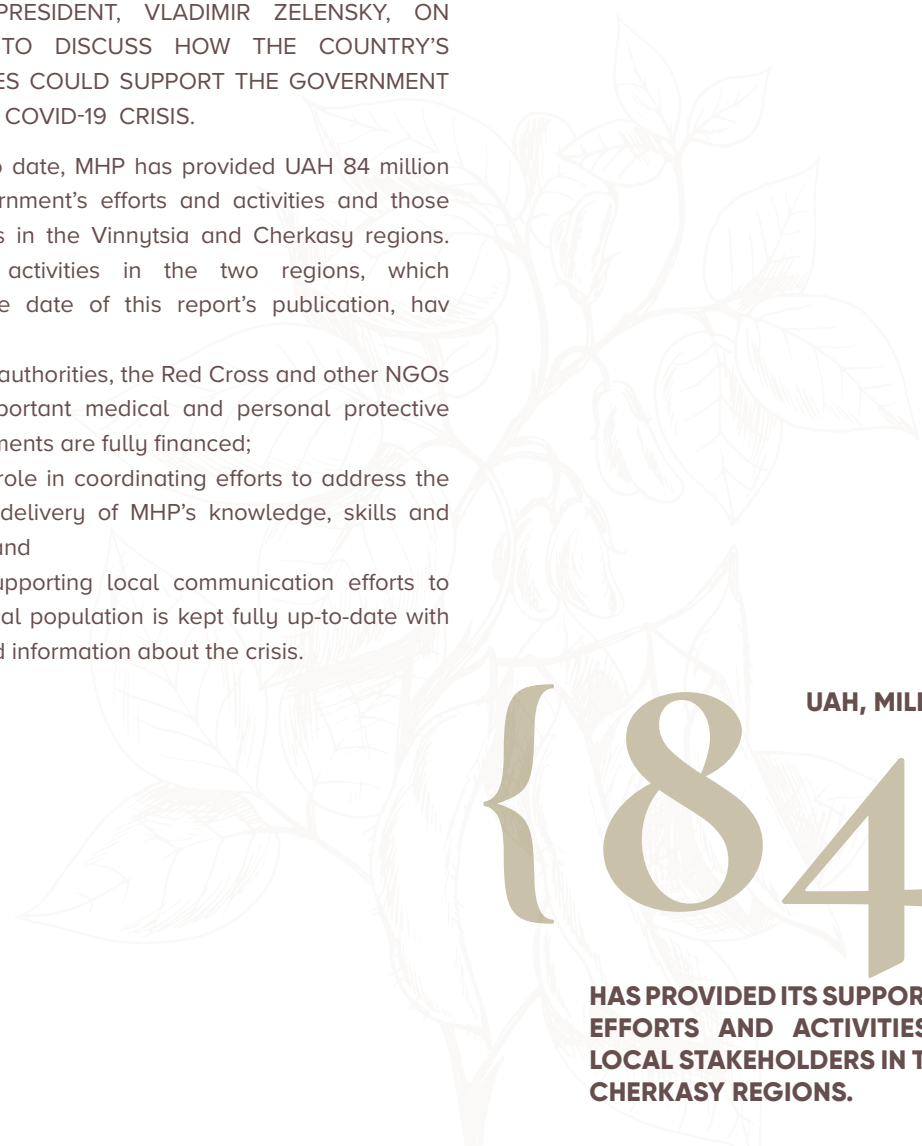
**3. CASE STUDY - MHP SUPPORTS THE UKRAINIAN REGIONS OF VINNYTSIA AND CHERKASY IN ADDRESSING THE COVID-19 PANDEMIC**

MHP'S CEO YURIY KOSYUK WAS ONE OF SEVERAL LEADING UKRAINIAN BUSINESS LEADERS WHO MET THE COUNTRY'S PRESIDENT, VLADIMIR ZELENSKY, ON 16 MARCH 2020 TO DISCUSS HOW THE COUNTRY'S LEADING BUSINESSES COULD SUPPORT THE GOVERNMENT IN ADDRESSING THE COVID-19 CRISIS.

Since March 2020 to date, MHP has provided UAH 84 million to support the government's efforts and activities and those of local stakeholders in the Vinnytsia and Cherkasy regions. MHP's subsequent activities in the two regions, which are ongoing at the date of this report's publication, have included:

- Working with local authorities, the Red Cross and other NGOs to ensure that important medical and personal protective equipment requirements are fully financed;
- Playing a leading role in coordinating efforts to address the crisis through the delivery of MHP's knowledge, skills and human resources; and
- Facilitating and supporting local communication efforts to ensure that the local population is kept fully up-to-date with important news and information about the crisis.

Everyone within MHP's management team and workforce views this activity as an essential part of our role within the Company's local communities and we are proud to be able to support the local population in this way during this difficult time for everyone.



{ 84 UAH, MILLION

**HAS PROVIDED ITS SUPPORT TO GOVERNMENT EFFORTS AND ACTIVITIES AND THOSE OF LOCAL STAKEHOLDERS IN THE VINNYTSIA AND CHERKASY REGIONS.**

# CORPORATE GOVERNANCE REPORT

## MHP IS CONSTITUTED AS A EUROPEAN COMPANY (“SOCIETAS EUROPAEA”)

MHP was established on 30 May 2006. According to the extract issued by the Luxembourg Trade and Companies Register on 8 August 2017, the Company converted from a public limited liability company (“société anonyme”) into a European company (“Societas Europaea”) effective the previous day.

Effective 27 December 2017, the Company’s registered office and central administration was transferred to Cyprus and the Company is currently registered in the Cyprus Registry for SE Companies, under number SE 27.

The Company’s registered office is situated at 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus. In December 2017, the Company also adopted a new Memorandum and Articles of Association to comply with the provisions of Cyprus Companies Law, Cap. 113, Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European company with regard to the involvement of employees, the SE Regulation and the European Public Limited – Liability Company Regulations 2006, as applicable in Cyprus. This new Memorandum and

Articles of Association can be found on the Group website ([www.mhp.com.cy](http://www.mhp.com.cy)). The Company’s corporate governance structures, processes and procedures are outlined in its Code of Corporate Governance which can also be viewed at the corporate website.

The Company upholds and practises the highest standards of corporate governance with its shareholders, the Board of Directors, personnel, business community and other stakeholders including government and regulatory agencies.

### GOVERNANCE STRUCTURE

#### BOARD OF DIRECTORS

Dr John Rich <sup>N</sup>  
Executive Chairman

Yuriy Kosyuk  
Chief Executive Officer

Viktoria Kapelyushnaya  
Chief Financial Officer

John Grant <sup>I A N</sup>  
Senior Independent  
Director

Roger Wills <sup>I A N</sup>  
Non-Executive Director (since 2019)

Christakis Taoushanis <sup>I A</sup>  
Non-Executive Director

Roberto Banfi  
Non-Executive Director

Yuriy Melnyk  
Chief Operating Officer

Philip J Wilkinson OBE <sup>I</sup>  
Non-Executive Director (from March 2020)

#### AUDIT COMMITTEE

#### NOMINATIONS AND REMUNERATION COMMITTEE

#### SENIOR MANAGEMENT

#### Chief Executive Officer

*Independent Director* <sup>I</sup>  
*Member of the Audit Committee* <sup>A</sup>  
*Member of the Nominations  
and Remuneration Committee* <sup>N</sup>

**STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018**

The Company has been steadily developing its corporate governance processes and procedures over the last few years and aspires to the achievement of best practice in line with international standards.

During 2019, it undertook important steps in order to comply as far as practicable with the UK Corporate Governance Code 2018 (available from the Financial Reporting Council at [www.frc.org.uk](http://www.frc.org.uk)). MHP also complies with the requirements of Cypriot law and regards the UK Corporate Governance Code as the appropriate international best

practice benchmark for its approach. It is the opinion of the Board that during 2019 the Company complied with the principles and requirements of the UK Corporate Governance Code except in relation to the matters noted below.

Provision number	Provision requirement	Explanation
9	The Chair should be independent on appointment under the criteria outlined in Provision 10.	On his appointment in 2017, the Chairman had served on the Board as a Non-Executive Director since 2006. At the time of his appointment he was also employed by the International Finance Corporation as a Senior Regional Consulting Agribusiness Industry Specialist. This role has subsequently ended. After considering the Chairman's credentials, experience, expertise and independence of thought, it was the Board's view that the Chairman was independent at the time of his appointment.  In 2018, at the request of the Board, the Chairman agreed to support the Chief Executive Officer with the conduct of certain specific strategic projects where his extensive knowledge and expertise are particularly helpful. Subsequently, in March 2019, his role was designated as Executive Chairman. Consequently, he can no longer be regarded as independent. The Board is satisfied that, in view of his credentials, experience, expertise and independence of thought, these arrangements are in the best interests of the Company, its shareholders and other stakeholders.
10	The Board should identify in the annual report each Non-Executive Director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a Non-Executive Director's independence include whether a Director has served on the Board for more than nine years from the date of their first appointment. A clear explanation should be provided if the Board nonetheless considers the Non-Executive Director to be independent.	John Grant has served as a Non-Executive Director of the Company since 2006 and is the Senior Independent Director. The Board values his business perspective in view of his extensive experience as a Director of a wide range of major public companies in a variety of business sectors and is satisfied that he possesses the necessary independence of thought to be regarded as independent.
11	At least half the Board, excluding the Chair, should be Non-Executive Directors whom the Board considers to be independent.	The Board continues to work towards raising the number of independent Non-Executive Directors to meet this criterion in full. A further Non-Executive Director, Philip J Wilkinson OBE, was appointed in March 2020. The Board is satisfied that the current Board contains sufficient credentials, experience, expertise and independence of thought and that the current arrangements are in the best interests of the Company, its shareholders and other stakeholders.
17	A majority of the members of the Nomination Committee should be independent.	Until March 2019 membership of the Nominations and Remuneration Committee consisted of one independent and one non-independent Board member. This was addressed by the appointment of a further independent Board member in March 2019.
19	The Chair should not remain in post beyond nine years from the date of their first appointment to the Board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the Chair was an existing Non-Executive Director on appointment.	The Chairman became a Non-Executive Director in 2006 and became Chairman in 2017 when the Board was satisfied of his independence of thought and viewed the appointment as in the best interests of the Company, its shareholders and other stakeholders. His subsequent adoption of executive responsibilities was also viewed as being in the best interests of these parties.
24	The Board should establish an Audit Committee of independent Non-Executive Directors. The Chair of the Board should not be a member.	The Chairman was a member of the Audit Committee at the start of the year but stepped down in March 2019, upon taking up the Executive Chairman role. All members of the Audit Committee are now independent.
32 to 41	Remuneration	In common with many listed companies based in Ukraine, the Company does not disclose detailed information about director remuneration and related processes and is not legally required to do so. It is the responsibility of the Nominations and Remuneration Committee to ensure that the Executive Management are compensated sufficiently in order to retain and attract high calibre talent and ensure that they are motivated to perform in the best interests of shareholders and other stakeholders. To date, the Company has compensated the Executive Directors mainly in the form of competitive salaries, supplemented by performance related bonuses. As the Company develops, consideration will be given to adopting other forms of incentive when the Board believes that this approach will be in the best interests of the Company, shareholders and other stakeholders.

**ABOUT THE BOARD**

Biographies of the current Directors are set out on pages 53 to 55.

**The Directors who served during the year were:**

- Mr Roberto Banfi;
- Mr John Grant;
- Ms Viktoria Kapelyushnaya;
- Mr Yuriy Kosyuk;
- Mr Yuriy Melnyk;
- Dr John Rich;
- Mr Christakis Taoushanis;
- Mr Roger Wills.

More information on Board developments and changes during the year can be found in the Chairman's Statement on pages 10 to 12.

At 31 December 2019, the Board had eight directors, three of whom are regarded by the Board as independent. Mr Banfi is not regarded as independent because of his provision of other paid services to the Company. Dr Rich was viewed by the Board as independent on appointment as Chair in 2017 but is now viewed as not independent because of his change in role in 2019 to Executive Chairman. Accordingly, at the Board meeting held on 19 March 2019, he resigned from the Audit Committee and his role was designated as Executive Chairman. The Board considers Mr Grant to be independent notwithstanding his period of service since 2006.

**Changes to the Board of Directors and the Committees during 2019 and the beginning of 2020**

There were several changes to the Board and the Committees, namely:

- March 2019 - Dr John Rich stepped down from the Audit Committee and his role was designated as Executive Chairman;
- March 2019 - Roger Wills joined the Nominations and Remuneration and Audit Committees as a member. Mr Wills was appointed Chairman of the Nominations and Remuneration Committee on 13 April 2020;
- March 2020 - Philip J Wilkinson OBE was appointed to the Board. Please see his biography on page 55. He is an Independent Non-Executive Director and brings the number of independent directors up to four.

**Board meetings**

The Board conducted five meetings during 2019 with a 100% attendance rate. Directors attended meetings in person and occasionally via conference call. The Board of Directors also approved certain decisions through 15 circular resolutions.

At the end of each year, MHP's Non-Executive Directors meet to discuss and evaluate the performance of the executive Directors and the Chairman. The results of the evaluation are usually communicated to executive Directors at the first Board meeting of the following year.

**Directors and officers litigation statement**

No member of the Board of Directors or of MHP's senior Management has, for at least five years:

- Convictions relating to fraudulent offences;
- Been a senior manager or a member of the administrative or supervisory bodies of any company at the time of, or preceding, any bankruptcy, receivership or liquidation; or
- Been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company, or from acting in the management or conduct of the affairs of a company.

**Directors' interests**

The interests of Directors in MHP's GDRs are shown in the table below

<b>Dr John Rich</b>	25,000
<b>John Grant</b>	17,000
<b>Roberto Banfi</b>	15,000



**PRINCIPAL RESPONSIBILITIES OF THE BOARD**

The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant Cyprus laws and regulations and the Articles of Association of the Company. MHP's Articles of Association can be viewed at the corporate website ([www.mhp.com.cy](http://www.mhp.com.cy)).

The Company has a unitary governance structure and the Board is the ultimate decision-making body, except for the powers reserved for the Shareholders' Meeting by law or as specified in the Articles of Association (see also Board Composition on pages 53 to 55).

The Board has a schedule of matters that are assigned to it for discussion, debate and approval in line with the requirements of the UK Corporate Governance Code.

These include:

- MHP's strategy, aims and objectives and review of performance against those goals;
- MHP's mergers and acquisitions strategy;
- MHP's budgets, financial and operational targets;
- MHP's annual, half yearly and quarterly financial results;
- MHP's annual report and accounts;
- MHP's dividend policy;
- Appointments to MHP's Board, removal of Board members and Board remuneration arrangements;
- MHP senior management appointments, removals and remuneration arrangements;
- Membership and Chairman roles of MHP's Board committees;
- Board and senior management succession planning;
- Approval of major capital expenditure projects, acquisitions and divestments;
- Significant variations in MHP's borrowings or borrowing facilities;
- Financial and risk management policies and procedures; and
- Appointment and removal of the Company Secretary.

**Non-Executive Director independence**

The independence of each of the Non-Executive Directors is considered on appointment. Each year, the NRC and the Board consider the facts and circumstances relating to Director independence (and throughout the year, as appropriate). This process includes an assessment of whether each Non-Executive Director is independent of Management and any business or other relationships that could materially interfere with his exercise of objective, unfettered and independent judgement or his ability to act in the best interests of the shareholders. In making its decision, the Board considers relationships with Management, major shareholders, associated companies and other parties with whom the Company conducts business.

At 31 December 2019, the Board had eight directors, three of whom are independent. John Grant has served as a Non-Executive Director of the Company since 2006 and has been Senior Independent Director since 2014. He has therefore served on the Board for more than nine years from the date of his first appointment. Mr Grant has had extensive experience over many years as an independent non-executive director of a wide range of public and private companies covering a variety of business sectors. He has been Senior Independent Director, and has chaired the Audit and/or Remuneration Committees, of several major public companies. The Board values his broad business perspective and experience and continues to be satisfied that he possesses the necessary independence of character and judgement to be regarded as independent. Christakis Taoushanis and Roger Wills, are also viewed as Independent Non-Executive Directors.

Phil J Wilkinson OBE, who has extensive high-level experience in the global poultry industry, was elected an Independent Non-Executive Director of MHP in March 2020. Prior to becoming available to join the MHP Board, he was retained by the Company for several months on

a part-time advisory basis, in part to enhance his knowledge of the business. The NRC and Board are satisfied that this in no way impaired his independence as a director.

Mr Banfi is not regarded as independent due to his provision of other paid services to the Company. Dr Rich was viewed by the Board as independent on appointment as Chairman in 2017 but is now not viewed as independent because of his subsequent performance of certain executive management functions. Accordingly, in March 2019, he resigned from the Audit Committee and his role was designated as Executive Chairman.

**Board effectiveness**

The Board is responsible for regular assessment of its effectiveness. In 2019, the Board conducted an annual effectiveness review in order to evaluate its performance as well as that of its Committees and individual Directors. The evaluation process was initiated by a questionnaire. The conclusions were analysed by the Board on 13 April 2020 to further strengthen its composition and performance.

**Conflicts of interest**

The Board has formal procedures in place to manage conflict of interest matters. Each Director is required to inform the Board of any other directorship, office or responsibility, including executive positions that are taken up outside the Company during the term of office. If, in the opinion of the Board, a conflict of interest exists, the relevant Director does not participate in discussions and will abstain from a Board vote on the affected matter.

The Company's Conflict of Interest Policy covers any transactions involving conflicts of interest (whether actual or potential) of:

- MHP's Management team members, including Directors of subsidiaries and branches ("key management");
- MHP's line managers who have authority to authorise transactions on behalf of MHP ("line managers");
- other MHP employees who are authorised to internally approve any decisions as to significant transactions based on internal policies and instructions ("responsible employees") or who have power to influence such decisions.

**Other Professional Commitments**

Every Director is required to allocate the time and attention required for the proper fulfillment of his duties. This commitment includes limiting the number of other professional commitments to the extent required.

**Confidential information**

All Board Directors are required to keep information received in their capacity as Directors confidential and may not use it for any other purpose than for fulfilling their remit.

**Information and professional development**

The Board ensures that Directors, especially Non-Executive Directors, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. Board Committees

are also provided with sufficient resources to undertake their duties.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. The Company's Executive Management team is obliged to provide such information and Directors to seek clarification or amplification where necessary. The Chairman ensures that Directors continually update their skills, knowledge and familiarity with the Company in order to fulfil their role both on the Board and on Board Committees. The Company provides the necessary means for developing and updating its Directors' knowledge and capabilities.

**Internal control and risk management**

The Board of Directors is ultimately responsible for the Company's governance, risk management, internal control environment and processes and reviews their effectiveness at least annually. Once identified, risks are evaluated to establish financial or non-financial impact and the likelihood of their occurrence. For risks assessed as significant, a mitigation action-plan is determined by the operational business management team.

The summary of key risks is regularly discussed with MHP's Management team and reported at least annually to the Board of Directors through the Audit Committee. The Company has an independent risk and process management department whose activities are overseen by the CFO and reported to the Audit Committee. The Board of Directors, Management and employees follow principles of ethical business that are in line with the Company's approved Conflict of Interest Policy.

A summary of the Company's framework for managing risks, and the Company's key business risks together with the actions taken to mitigate them can be found on pages 27 to 38 of this Report.

**Engagement with shareholders**

The Board recognises the importance of regular, effective and constructive communications with its shareholders and maintains a dedicated investor relations department to facilitate this. The principal opportunity for shareholders to engage with the Board is at the Annual General Meeting.

MHP announces its financial results on a quarterly basis. This information is released to shareholders through the appropriate regulatory news services and recorded on the Company's website. Each results announcement is accompanied by a conference call with MHP's finance and investor relations team during which investors and analysts have the opportunity to discuss and ask questions about MHP's performance. During the year the Board and investors relations team regularly engaged with shareholders and financial analysts to discuss matters relating to MHP's strategy and financial performance. Additionally, MHP held a Capital Markets Day in London in September 2019. At this event MHP's senior management team updated investors and analysts on the Company's strategy, goals and recent acquisition of PP, and answered questions during a designated session.

**Workforce engagement**

MHP works closely with its workforce who play an active role in the management of the business through day-to-day dialogue and engagement with the senior management team. One key element of this process is the Company's new HR Cornerstone Digital management system. This includes the provision of a two-way feedback mechanism allowing employees to participate in the running of the business and how it is managed.

More information about MHP's approach to workforce engagement is included within the People section of the Non-Financial Report.

### Diversity and inclusion

MHP values its distinctive culture and, in particular, its proactive approach to creating senior management and development opportunities for women. MHP believes that diversity and inclusion supports innovation and continuous improvement and increases efficiency.

The Board and the NRC considered diversity and inclusion matters as part of the regular assessment of Board effectiveness and the appointments process. The Board has determined that it will not set specific targets with respect to Board diversity but recognises the benefits that this brings to its effectiveness. It is committed to promoting diversity throughout the business.

### BOARD COMPOSITION AND ROLES

At 31 December 2019 the Board comprised the Chairman, Chief Executive Officer, Chief Operational Officer, Chief Financial Officer and four Non-Executive Directors (three of whom were considered by the Board to be independent throughout 2019). Details of the board's composition are set out on pages 53 to 55 which contain biographical details of the Directors.

### Role of the Chairman

The Board elects the Chairman from amongst members that meet the Board's criteria following the preparation of a job specification by the NRC. The Company's Corporate Governance Charter excludes the CEO from becoming Chairman.

The Chairman of the Board is responsible for the proper and efficient functioning of the Board. The Chairman determines the calendar of the Board and Committee meetings and the agenda of the Board's meetings after consultation with the CEO. Prior to each meeting, the Chairman ensures that Directors receive complete and accurate information and, to the extent appropriate, a copy of any Management presentation to be made at the Board meeting. The Chairman of the Board

will also make sure that there is sufficient time for making decisions.

The Chairman is also responsible for ensuring that new Directors receive a complete and tailored induction to the Company prior to joining the Board and that existing Directors continually update their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board Committees.

The Chairman of the Board represents the Board to shareholders and the public and chairs Shareholders' Meetings. The Chairman serves as the interface between the Board and major shareholders of the Company on matters of corporate governance.

### Relationship between the Chairman and the CEO

A clear division of responsibilities is maintained between the Chairman and the CEO. The CEO may not carry out the duties of the Chairman of the Board and vice versa. The Chairman is required to maintain close relations with the CEO by giving him support and advice while respecting the executive responsibilities of the CEO. The CEO provides the Chairman of the Board with all the information he requires to carry out his role.

### Role of the CEO

The CEO reports directly to the Board of Directors. The CEO is entrusted by the Board with the day-to-day management of the Company within the strategic parameters established by the Board. He oversees the organisation and efficient day-to-day management of subsidiaries, affiliates and joint ventures. The CEO is responsible for the execution and management of the outcome of all Board decisions. The CEO is delegated powers that are not exclusively reserved to the Board or to the Shareholders' Meetings.

The CEO can delegate authority for daily management to subordinate executives but will retain ultimate accountability

to the Board of Directors for the actions which are conducted during the performance of the role and the actions of delegates.

### Role of the Senior Independent Director

John Grant has been designated as the Board's Senior Independent Director since 2011.

The Senior Independent Director acts as an advisor to the Chairman, is responsible for the evaluation of the Chairman and acts as an intermediary for the other Directors and shareholders when required.

He provides an alternative point of contact for shareholders on matters where the usual channels of communication are deemed inappropriate. In 2019, the Senior Independent Director didn't receive any requests from shareholders/stakeholders.

### Role of the Non-Executive Directors

The Non-Executive Directors bring an external perspective in Board discussions. They offer specialist advice, constructive challenge and strategic guidance to the Executive Directors as well as holding them to account.

MHP benefits from the broad range of skills and experience that the Non-Executive Directors provide from different businesses and fields.

### Role of the Company Secretary

The Company Secretary ensures that the Board receives appropriate and timely information and provides advice and support to the Chairman, the Board, Board Committees and senior management on regulatory and governance matters.

All Directors have direct access to the advice and services of the Company Secretary. Directors may also obtain independent advice as required at the Company's expense.

### Appointment and re-appointment of Directors

There is a formal and rigorous procedure for the appointment of new Directors. The Board may appoint an individual as a Director to either fill a vacancy or as an additional member of the Board.

The process for new appointments is led by the Nominations and Remuneration Committee which makes a recommendation to the Board.

The Board may appoint any Director to hold any employment or executive office and may revoke or terminate such appointment. In line with the UK Corporate Governance Code, going forward, all members of the Board are subject to annual re-election by a majority of shareholders at the Annual General Meeting. Directors may be re-elected an unlimited number of times. Shareholders may, by ordinary resolution, also appoint a person as a Director or remove any Director before the expiration of their period in office.

### ANNUAL GENERAL MEETING

The next Annual General Meeting will take place on 18 June 2020 at noon at 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

The 2020 AGM notice can be found within the investor relations section at the Company's website <https://mhp.com.ua/en/investor-relations/calendar>.

## BOARD COMMITTEES

### NOMINATIONS AND REMUNERATION COMMITTEE

Meetings attended	
Dr John C Rich, Chairman up to April 2020	3/3
John Grant	3/3
Roger Wills, Chairman from April 2020	3/3

The Committee's main tasks are disclosed in the updated 2018 Corporate Governance Charter (Annex E):  
<https://www.mhp.com.ua/library/file/corporate-governance.pdf>

During 2019, the Committee held three meetings with attendance as shown above. The Nominations and Remuneration Committee Report is provided in a separate section of the Annual Report on page 60.

### AUDIT COMMITTEE

Meetings attended	
John Grant, Chairman	6/6
John Rich (resigned March 2019)	2/2
Christakis Taoushanis	5/6
Roger Wills (from March 2019)	4/4

The Committee's main tasks are disclosed in the updated 2018 Corporate Governance Charter (Annex C):  
<https://www.mhp.com.ua/library/file/corporate-governance.pdf>

During 2019, the Committee held six meetings with attendance as shown above. The Audit Committee Report is provided in a separate section of the Annual Report on page 56.

## BOARD OF DIRECTORS



### DR JOHN C RICH

#### Executive Chairman

Dr Rich is a highly experienced senior business executive with a strong background in food science.

#### Nationality

Australian

#### Joined the Board

2006

#### Position

Member of the Nominations and Remuneration Committee (Chairman until April 2020)

#### Career and prior experience highlights

- Member of the Australian College of Veterinary Sciences and a registered financial member of the Australian College of Veterinary Surgeons;
- 1990-2003: Executive Director, Austasia Pty Ltd (agri-business conglomerate);
- 1995-2002: Director AN-OSI Pty Ltd (supply chain management for feedlot beef, poultry and dairy operations);
- Agri-business consultant to IFC and IFC-invested clients until 2018.

#### Current roles

- Managing Director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC);
- Financial Board Advisor to ADM Capital and Independent Non-Executive Director at three other poultry-related companies.



### YURIY KOSYUK

#### Chief Executive Officer

Mr Kosyuk has been Chief Executive Officer of MHP since he founded the Company in 1998.

#### Nationality

Ukrainian

#### Joined the Board

1998

#### Career and prior experience highlights

- 1992: graduated as a process engineer in meat and milk production from the Kiev Institute of the Food Industry;
- 1995: founded the Business Centre for the Food Industry in Kiev.



### VIKTORIA KAPELYUSHNAYA

#### Chief Financial Officer<sup>1</sup>

Ms Kapelyushnaya has considerable senior financial and business management experience and has been with MHP since 1998.

#### Nationality

Ukrainian

#### Joined the Board

2006 (joined MHP in 1998)

#### Career and prior experience highlights

- Diplomas in Processing Engineering (1992) and Financial Auditing (1998) from the Kiev Institute of the Food Industry;
- Deputy and Chief Accountant at the Ukraine Business Centre for the Food Industry (BCFI).

<sup>1</sup> Ms Kapelyushnaya is also the Finance Director at PJSC MHP.





## JOHN GRANT

### Senior Independent Director

Mr Grant has considerable senior business management, finance, strategy and operational experience.

#### Nationality

British

#### Joined the Board

2006

#### Position

Chairman of the Audit Committee and member of the Nominations and Remuneration Committee.

#### Career and prior experience highlights

- Chairman, Gas Turbine Efficiency plc, Hasgo Group Limited, Motor Sports Association Limited and Torotrak plc;
- Senior Independent Director, Melrose plc, Pace plc and Wolfson Microelectronics plc;
- Non-Executive Director, National Grid plc, Corac Group plc and the Royal Automobile Club Limited;
- 1992-1996: Finance Director, Lucas Industries plc, LucasVarity plc;
- 1990-1992: Executive Deputy Chairman, Jaguar Cars;
- 1989: Director of Corporate Strategy, Ford Motor Company.

#### Current roles

- Non-Executive Director of Augean plc and Chairman of the British Racing Drivers' Club Limited.



## ROGER WILLS

### Non-Executive Director

Mr Wills is an experienced business executive and investment banker with a focus on Eastern Europe and emerging markets.

#### Nationality

New Zealander

#### Joined the Board

2019

#### Position

Member of the Audit Committee and Chairman of the Nominations and Remuneration Committee (from April 2020).

#### Career and prior experience highlights

- Management consultant, Coopers & Lybrand Russia;
- Investment banking at Brunswick, including CEO at Brunswick Capital;
- 2017-2018: Non-Executive Director, Cherkizovo Group.

#### Current roles

- Managing own family office since 2007 focussing on investment opportunities in private equity, venture capital and public markets with a focus on Eastern Europe and emerging markets;
- 2015-current: Non-Executive Director, T-Plus Group;
- 2019-current: Non-Executive Director, Royal Automobile Club Motor Sports Association Limited (Motorsport UK).



## CHRISTAKIS TAOUSHANIS

### Non-Executive Director

Mr Taoushanis is a highly experienced international financier and senior manager.

#### Nationality

Cypriot

#### Joined the Board

2018

#### Position

Member of the Audit Committee.

#### Career and prior experience highlights

- 30 years of banking experience including 4 years at Continental Illinois Bank of Chicago, 18 years at HSBC Group in Hong Kong and Cyprus, and 8 years as Chief Executive Officer at Cyprus Development Bank.

#### Current roles

- Non-Executive Director of various regulated and listed companies;
- Advisor to a number of companies through the private firm, TTEG & Associates.



## ROBERTO BANFI

### Non-Executive Director

Mr Banfi is an experienced senior business manager with considerable brand management and operational experience working for companies based all over the world.

### Nationality

Italian

### Joined the Board

2018

### Position

Non-Executive Director (previously an advisor to MHP)

### Career and prior experience highlights

- 2014-2016: General Manager for Europe and Eurasia for BRF S.A. and also a Specialised Corporate Consultant to the company;
- 1998-2009: various executive positions at Sadia S.A. including Director of Sales and Marketing for Brazil and Director of Global Sales and General Manager for Russia, Middle East and Africa;
- Director of National Sales, Brazil, for Best Foods (now part of Unilever) after previous brand management experience (Knorr, Hellmann's Mazola and Ades);
- Director, Swift Armor Brazil.

### Other current roles

- Independent Consultant in the Food sector covering several geographic regions and specialising in animal proteins.



## YURIY MELNYK

### Chief Operating Officer

Mr Melnyk is an experienced executive manager and technical agricultural expert.

### Nationality

Ukrainian

### Joined the Board

2010 (when appointed Deputy CEO)

### Career and prior experience highlights

- 1985: graduated from Ukraine Academy of Agriculture and is a Doctor of Agriculture;
- A correspondent member of the National Academy of Sciences of Ukraine since 2002;
- 2004: awarded the State Prize of Ukraine in science and technology;
- Previously Agriculture Minister and Deputy Prime Minister of Ukraine and also served as an advisor to the Prime Minister of Ukraine.



## PHILIP J WILKINSON OBE

### Non-Executive Director

Mr Wilkinson has considerable experience in international poultry industries.

### Nationality

British

### Joined the Board

2020

### Position

Non-Executive Director

### Career and prior experience highlights

- Commercial Director of Arla Foods;
- Poultry industry: engaged in the launch of perceived higher-welfare slower-growing broiler birds pioneered in conjunction with supermarket Marks and Spencer (Oakham brand);
- Dairy industry: awarded an OBE in 2003 for Services to the Dairy Industry; Chairman of the National Dairy Council; and the UK representative to the European Dairy Association in Brussels.

### Current roles

- Vice President of AVEC, the European Poultry Association representing the interests of the broiler industry in Europe;
- Advisor to private equity firm TPG Capital and responsible for assessing potential new opportunities.

# AUDIT COMMITTEE REPORT

I AM PLEASED TO PRESENT THE 2019 REPORT OF THE AUDIT COMMITTEE WHICH DESCRIBES HOW THE COMMITTEE CARRIED OUT ITS RESPONSIBILITIES DURING THE YEAR

THE AUDIT COMMITTEE (THE “COMMITTEE”) IS RESPONSIBLE FOR THE INTEGRITY OF THE GROUP’S FINANCIAL REPORTING AND ITS INTERNAL CONTROL AND RISK MANAGEMENT PROCESSES.

THE COMMITTEE ALSO MAKES RECOMMENDATIONS TO THE BOARD ON THE APPOINTMENT OF EXTERNAL AND INTERNAL AUDITORS AND OVERSEES THEIR ACTIVITIES.

## ROLE AND RESPONSIBILITIES

The Committee’s role and responsibilities are set out in its terms of reference, which can be viewed on the Company’s website in the Corporate Governance Charter (Annex C) at <https://mhp.com.cy/wp-content/uploads/2017/08/Corporate-Governance-Charter-MHP-SE.pdf>. The Committee accepts its responsibility for protecting the interests of shareholders with respect to the integrity of financial information published by the Company and the effectiveness of the audit.

The Committee is specifically responsible for:

- reviewing and monitoring the integrity of the financial statements, including the Annual Report and Interim Report, and any formal announcements relating to financial performance;
- reviewing and reporting to the Board on significant reporting issues and the judgements they contain;
- ensuring compliance with legal and regulatory requirements;
- keeping under review the effectiveness of the Company’s financial reporting, risk management and internal control systems;

- reviewing and assessing annually the independence, objectivity and effectiveness of the external auditors and making recommendations to the Board regarding the appointment, re-appointment and replacement of external auditors and the terms of their engagement;
- reviewing policy and practice regarding the provision of non-audit services by the external auditor;
- considering the requirement for, and monitoring the effectiveness of, internal audit;
- ensuring compliance with accounting standards and consistency of accounting policies;
- reviewing, challenging and reporting to the Board on the going concern assumption and the basis of the longer-term viability assessment;
- reviewing the Annual Report and financial statements to ensure they are fair, balanced and understandable; and
- reviewing and overseeing the arrangements for employees to raise concerns in accordance with the Company’s whistle-blowing policy.

Member	No of meetings
<b>John Grant</b> (Chairman)	6/6
<b>John Rich</b> (resigned March 2019)	2/2
<b>Christakis Taoushanis</b>	5/6
<b>Roger Wills</b> (appointed March 2019)	4/4

**COMPOSITION**

As from March 2019, the Committee comprises a minimum of three non-executive directors, each of whom is deemed by the Board to be independent (previously two were independent). The Chairman of the Committee is John Grant, who has recent and relevant financial experience in a wide range of senior non-executive roles (see biography on page 54). Following the expansion of Dr Rich's role on his appointment as Executive Chairman, he resigned from the Committee in March 2019 and was replaced by Roger Wills (see biography on page 54).

The Committee Chairman invites the Chief Financial Officer, the Head of Internal Audit and senior representatives of the external auditor to attend meetings as appropriate. The Committee has the right to invite any other director or employee to attend meetings as it considers appropriate.

The Committee meets with the external auditors at least once a year in the absence of Management.

**MEETINGS IN THE YEAR**

The Committee meets at least four times a year. The scheduling of meetings is intended to align with the financial reporting timetable, enabling the Committee to review the annual and quarterly financial statements, to agree the audit plan in advance of the full year audit, and to maintain oversight of the Group's internal controls and processes.

In 2019, the Committee met six times; in addition to the four scheduled meetings, exceptional meetings were held to consider financial due diligence findings prior to completion of the acquisition of Perutnina Ptuj and to select new external auditors to replace Deloitte Cyprus with effect from the 2020 financial year. The attendance of members at these meetings is shown in the table on page 56.

**SIGNIFICANT ISSUES RELATING TO THE FINANCIAL STATEMENTS**

The Committee undertook the following recurring activities in relation to the financial statements:

- reviewed and agreed the scope of the audit work to be undertaken by the external auditor;
- considered the external auditor's report on their audit of the full year results and their review of the interim financial report;
- reviewed the Annual Report and annual and quarterly financial statements to ensure they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy, and advised the Board accordingly;
- considered the processes in place for the valuation of assets, including the reasonableness and consistency of assumptions; and
- reviewed the effectiveness of the Company's risk management and internal controls.

**In addition, the Committee considered the following significant issues in relation to the financial statements.**

**Significant issue considered****How the issue was addressed by the Committee****VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

Except for land and other fixed assets that are carried at historical cost less accumulated depreciation, all other groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses.

The Committee reviewed Management's approach to the biennial revaluation of property, plant and equipment, including the use of an independent external valuation expert and applying relevant market indices and other factors. The Committee confirmed with Management the competence and independence of the valuer and verified that the methods and assumptions used were appropriate and consistent with accounting standards and previous practice.

**VALUATION OF LEASES**

Adoption of the IFRS 16 standard caused significant timing difficulties as more than 200,000 land leases had to be re-assessed in accordance with IFRS 16 right-of-use requirements. At the time of the interim results, Deloitte had not been able to complete their review of the underlying data due to identified issues which were still under evaluation by Management. They had also been unable to complete their review of restatement adjustments in respect of land lease commitments under IAS 17 as at 31 December 2018 and 2017 for the same reasons. This resulted in Deloitte issuing a qualified opinion on their interim review.

The Committee recognised the issues underlying Deloitte's qualified review opinion and agreed with Management the actions necessary to ensure the data base would be fit for purpose before year-end. The Committee subsequently monitored progress to ensure full and satisfactory compliance with IFRS 16 requirements as of year-end and that the roll-back to the opening position for the year had been performed on a consistent basis. In reviewing the outcome, the Committee was satisfied that the methodologies used, and the resulting valuations, were appropriate.

**VALUATION OF BIOLOGICAL ASSETS**

Valuation of biological assets requires the use of complex models to arrive at fair values.

The Committee reviewed the assumptions and judgements applied by Management and verified the reasonableness of input data and the accuracy of calculations.

**REVENUE RECOGNITION**

There is a presumed risk of misstatement on revenue recognition due to fraud.

The Committee confirmed that appropriate controls and procedures had been undertaken to address the risk.

**PERUTNINA PTUJ ACQUISITION ACCOUNTING**

The acquisition of Perutnina Ptuj involved complexities in post-acquisition accounting, particularly in relation to identifying cash-generating units, estimating the fair value of assets and liabilities, allocating goodwill and calculation of potential impairments.

The Committee recognised that there was limited experience within the Company to successfully manage these complexities and accepted Management's proposal to contract PwC to provide specialist resource and expertise to help advise on this project.

In reviewing the results, the Committee considered the assumptions and judgements incorporated in the opening balance sheet, focussing in particular on valuations of property, plant and equipment, biological assets, intangible assets and the adequacy of provisions and liabilities.

The Committee concluded that the assumptions used were reasonable and that the fair values of assets and liabilities were appropriate and that no impairments were required.

**COMPLIANCE WITH BOND AND BANK COVENANTS**

Continued compliance with covenants included in bond and bank debt agreements is a prime focus for the Committee.

The Committee verified that appropriate stress tests, taking account of potential changes in the value of the Ukrainian currency and other macro-economic conditions, had been performed and satisfied.

**TAX RISKS**

In view of the ambiguity of tax legislation, certain transactions may be challenged by relevant governmental authorities.

The Committee confirmed that tax and legal experts had been engaged to evaluate the Company's tax position and that they had reviewed the adequacy and accuracy of tax contingency disclosures in the financial statements.

**GOING CONCERN AND VIABILITY**

Assessment of the going concern assumptions and the basis of the viability statement.

The Committee reviewed the assumptions underlying the assessment of the Company's ability to continue as a going concern. Stress tests had been undertaken by Management to assess the potential impact of risks including extended closure of certain export markets, lower prices for chicken and grain and the effect of the Coronavirus on both supply and demand. As the Company enters a period of uncertainty with its debt secured and a strong cash position, the Committee agreed with management's conclusion that the Company is well-positioned to absorb these risks and accepted management's recommendation that the financial statements be prepared on a going concern basis.

**EXTERNAL AUDIT****Auditor rotation**

In accordance with European regulatory requirements and the guidance provided by the Competition and Markets Authority regarding the statutory audit of public-interest entities, the Company conducted a tender process in 2016 to select the provider of the statutory audit with effect from the 2017 financial year.

As reported previously, at the conclusion of a comprehensive selection process, the Committee decided, based on its assessment of which of the four candidate firms had the strongest capabilities, that Deloitte Audit S.a.r.l. should be re-appointed

as statutory auditor. In October 2017, due to the migration of the corporate office from Luxembourg to Cyprus, the Company's shareholders resolved to terminate the mandate of Deloitte S.a.r.l. and to appoint Deloitte Cyprus ("Deloitte") as the auditor of the Company. It was noted that there had been no conflict with Deloitte S.a.r.l.'s audit report.

In the fourth quarter of 2019, following the decision to appoint a Deloitte partner to a senior executive position in MHP, the Committee decided that, to avoid any compromise to the independence of the auditor, Deloitte should be replaced as the provider of the statutory audit with effect from the 2020 financial year. The ex-Deloitte partner concerned had no

involvement in the audit of MHP's 2019 results. As in 2016, the Company conducted a tender process, led by the Audit Committee, between three candidate audit firms (other than Deloitte) considered to have the capability to audit MHP.

At the conclusion of a comprehensive selection process, the Committee agreed that Ernst & Young was best equipped to handle the responsibility and, following completion of the audit of the 2019 accounts by Deloitte, should be appointed as the auditor of the Company with effect from the 2020 financial year, subject to MHP's shareholders' confirmation of the decision at the AGM in June 2020.



**Assessment of external auditor effectiveness**

The Committee assessed the effectiveness of the auditor following completion of the audit of the 2018 accounts. The Committee remained satisfied with the quality, integrity and effectiveness of the work undertaken by Deloitte.

**Non-audit services**

A policy is in place covering engagement of the external auditor for the supply of non-audit services to ensure that its independence and objectivity are not impaired. This requires the Audit Committee Chairman to approve all material non-audit services in advance of the service being provided. Cumulative non-audit fees are reviewed at scheduled Committee meetings. An analysis of fees earned by the external auditor for audit and non-audit services can be found in Note 8 to the financial statements.

EU and Competition Commission rules that became effective in 2016 specify that the cost of non-audit services provided by the external auditor will be limited to 70% of the average audit fee for the previous three years. As no cap applies during the first three years, the first year for which the cap applies will be 2020. The cap is not expected to have a material impact on the Company. It is the Committee's intention to ensure future non-audit services are provided by a number of different firms to ensure both independence of the external audit and best quality and best value provision of non-audit services.

**Auditor objectivity and independence**

The Committee has a policy and procedures in place to ensure that auditor independence and objectivity are not compromised.

These include approval requirements for engagement of the external auditor for non-audit services, periodic review of the cost of non-audit services provided by the external auditor and requirements for rotation of the audit engagement partner every 7 years. Each year, the auditor is required to provide evidence to the Committee of how it believes its independence

and objectivity have been maintained. Based on these requirements and procedures, the Committee remains confident that auditor independence and objectivity have been and will be maintained.

**INTERNAL AUDIT**

The Company has an Internal Audit function whose primary purpose is to provide independent assurance to Management and the Committee, and hence the Board, on the Company's risk management and control environment. Internal Audit coverage includes all of the Company's operations, resources, services and responsibilities to other bodies, with no department or business unit of the Company being exempt from review.

Internal Audit responsibilities include:

- examining and evaluating the adequacy of the Company's system of internal control;
- assessing the reliability and accuracy of information provided to stakeholders;
- assessing compliance with statutory and regulatory requirements;
- assessing compliance with Company policies and procedures;
- ensuring that the Company's assets are properly accounted for and safeguarded;
- assessing the efficiency and effectiveness with which resources are employed;
- liaising with external auditors in audit planning and assisting the external auditors as required; and
- investigating any instances of fraud, irregularity or corruption.

The Internal Audit programme is approved annually by the Committee and the Head of Internal Audit reports findings periodically to the Committee.

At least annually, the Committee considers the role and effectiveness of the Internal Audit function, taking account of

the resources available and required, the experience and expertise of personnel, and the quality of service delivered. Consideration is also given to whether part of the function could more effectively be outsourced. In May 2019, the Committee concluded that, under its new leadership, the effectiveness of Internal Audit had continued to improve and that it was delivering the level of service required.

**RISK MANAGEMENT AND INTERNAL CONTROL**

The Committee monitors the effectiveness of the Company's risk management and control systems through regular updates from Management, reviews of the key findings of the external and internal auditors and an annual review of the risk management process and risk matrix.

Results are reported regularly to the Board, which has overall responsibility for risk management.

The annual review covers key risks that could potentially impact the achievement of MHP's strategic and financial objectives. New risks and changes in existing risks are identified on a continuous basis.

A risk scoring system is used to help quantify both the probability and potential impact of each major risk after the effect of mitigating actions, to assess residual risks against the Company's risk appetite and to prioritise further risk management actions. The Company's approach to the identification and assessment of risks, and the response to risks, is based on best business practices and international COSO Enterprise Risk Management standards.

No incidents of significant control weaknesses or failures were identified at any time during the year.

*John Grant*  
Chairman, Audit Committee  
13 April 2020

# NOMINATIONS AND REMUNERATION COMMITTEE REPORT

## THE NOMINATIONS AND REMUNERATION COMMITTEE (“THE COMMITTEE”) HAS OVERALL RESPONSIBILITY FOR MAKING RECOMMENDATIONS TO THE BOARD ON ALL NEW APPOINTMENTS

The Committee also has responsibility for ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence, diversity and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

### THE PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE ARE TO:

- ensure that the Company has exceptional people who occupy appropriate positions and who have incentives to achieve, and are compensated for, exceptional performance;
- set the overarching principles and parameters of Remuneration Policy across the Company; and
- review the Company’s needs for employees and ensure sufficient depth of management to support expansion and succession.

The Committee is expected to meet not less than twice a year. During 2019, the Committee met three times and the attendance of its members at these Committee meetings is shown in the accompanying table. The Committee’s

terms of reference, which were last revised in May 2018, are available to view on the Company’s website in the Corporate Governance Charter (Annex E) at <https://www.mhp.com.ua/library/file/corporate-governance.pdf>.

Further details regarding the Committee’s composition, areas of focus in 2019 and diversity policy are set out below.

### COMPOSITION

Until March 2019 the Committee had one independent (John Grant) and one non-independent member (John Rich). To address compliance with the UK Corporate Governance Code, Roger Wills, an Independent Non-Executive Director, joined the Committee in March 2019. This gave the Committee a majority of independent members. After serving 12 months as a member, Mr Wills replaced Dr Rich as Chairman of the Committee on 13 April 2020.

During 2019 the Committee was chaired by Dr John Rich. John Grant served on the Committee throughout the year and Roger Wills was a member of the Committee from appointment on 19 March 2019 onwards.

The Company Secretary acts as secretary to the Committee. On occasion, the Committee invites the Chief Executive, the Chief Financial Officer or the Group Human Resources Director to attend discussions where their input is required.

Member	No of meetings
<b>Dr John Rich</b> (Chairman until April 2020)	3/3
<b>John Grant</b>	3/3
<b>Roger Wills</b> (appointed March 2019, Chairman as of April 2020)	3/3

To further comply with the UK Corporate Governance Code and following his the appointment as Executive Chairman in 2019, Dr Rich resigned from the position of Chairman of the Committee in April 2020.

**AREAS OF FOCUS IN 2019**

The principal areas of focus for the Committee during 2019 are set out below.

- The Committee considered the composition and balance of the Board and the timing of future Board changes. The Company continued throughout the year and beyond to look for opportunities to strengthen the Board.
- The Committee also reviewed the succession plans that are currently in place and possible bonus schemes in respect of Executive Directors and Non-Executive Directors in conjunction with the provisions of the UK Corporate Governance Code and best practice.
- The Committee interviewed several candidates for a Non-Executive Director position following which it recommended that Philip J Wilkinson OBE should join the Board in April 2020 (no search consultancy was used in his recruitment). Mr Wilkinson has significant experience in large poultry companies and has a deep understanding of international food and agriculture industries.

- The Committee considered and approved the continuing education programme for Non-Executive Directors for 2019. This includes membership of the Institute of Directors (“IoD”) and attendance at courses run by the IoD’s and Deloitte’s respective academies. In addition, a plan incorporating recommendations to be implemented as part of the continuing education programme has been made for senior management executives, with an emphasis on courses being held at well-known institutions in the UK and the USA.
- The Committee conducted a Remuneration Review of the Board and the senior management team.

**DIVERSITY POLICY**

The Board recognises the importance and value of diversity throughout the workforce, be it geographical, cultural or market-aligned, and encompassing, amongst other factors, ethnicity, gender, experience and age. The Board is committed to equality of opportunity for all employees.

The Committee currently takes into account a variety of factors before recommending any new appointments to the Board including skills relevant to performing the role, experience and knowledge.

The most important priority of the Committee, however, has been and will continue to be to ensure that the best candidate is selected to join the Board and this approach will remain in place going forward.

During 2019, changes to senior management salaries were recommended and implemented.

*Dr John Rich  
Chairman Nominations and Remuneration Committee  
13 April 2020*



# 2

**THE COMMITTEE IS  
EXPECTED TO MEET NOT  
LESS THAN TWICE A YEAR**



# MANAGEMENT REPORT

## THE INFORMATION WITHIN THIS ANNUAL REPORT IS ALIGNED WITH THE REPORTING REQUIREMENTS OF THE UK COMPANIES ACT 2006, THE UK DISCLOSURE AND TRANSPARENCY RULES, THE LISTING RULES OF THE UK AND CYPRIOT REPORTING REQUIREMENTS

### PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

MHP is a leading international agro-industrial company and the largest producer of chicken in Ukraine<sup>1</sup>. The Company operates a vertically-integrated business model, owning and operating each of the key stages of chicken production processes, with the objectives of maximising efficiency in production costs and increasing profitability by consolidating multiple steps in the value-chain.

The business is organised into and operates through four business segments: Poultry and Related Operations; Grain Growing; Meat-processing and Other Agricultural Operations; and European Operating Segment.

Key to the Company's approach to managing waste is MHP's biogas programme, which enables the recycling of waste (including husks and manure). Its #1 Biogas Complex (in the Dnipro region) has a 5 MW capacity, and Phase 1 of #2 Biogas Complex (in the Vinnytsia region) has a 12 MW capacity. Both are in full operation. Phase 2 of #2 Biogas Complex with a 12 MW capacity is currently being planned.

<sup>1</sup> Source: SSSU

### POULTRY AND RELATED OPERATIONS SEGMENT (MHP, EXCLUDING PERUTNINA PTUJ)

The Poultry and Related Operations Segment produces, processes and sells chicken meat (fresh and frozen), vegetable oils (sunflower and soybean) and mixed fodder.

It incorporates three chicken meat complexes and two breeding farms, three sunflower oil plants, one soybean crushing plant and three feed mills.

2019 production figures were as follows:

- The chicken meat complexes produced 728,917 tonnes of chicken meat;
- Breeding farms produced over 528 million hatching eggs (100% of MHP's requirement);
- Sunflower oil plants produced 366,135 tonnes of oil;
- Soybean crushing plant produced 47,743 tonnes of oil; and
- Feed mill plants produced 1,660,690 tonnes of mixed fodder (100% of MHP's requirement).

### ABOUT THE NEWLY-ACQUIRED EUROPEAN OPERATING SEGMENT (PERUTNINA PTUJ)

At the end of February of 2019, MHP acquired Perutnina Ptuj (PP), a leading poultry meat and meat-processing company in the Balkans, headquartered in Slovenia.

PP's total enterprise value was EUR 273 million, including net debt of EUR 34.5 million and working capital. MHP now owns 100% of PP.

PP has production assets in four Balkan countries: Slovenia, Croatia, Serbia, Bosnia and Herzegovina. It owns distribution companies in Austria, North Macedonia and Romania and supplies products to 15 countries in Europe.

Like MHP, PP is a vertically integrated company and its operations encompass all stages of chicken meat production: growing feed; egg production; hatching; breeding; slaughtering; sausage manufacture; and convenience food production. It also has a Biogas Complex with 1 MW capacity.

**GRAIN GROWING SEGMENT**

The Grain Growing Segment grows crops for fodder production and for sale to third-parties.

In 2019 MHP's total landbank constituted 378,293 hectares ("ha") of land of which the majority was used for grain cultivation. The landbank comprises a number of arable farms (enterprises) in Ukraine. MHP harvested 359,476 ha of land yielding 2,407,589 tonnes of grain. Grain storage facilities totaled 1,590,000 m<sup>3</sup> with a capacity of 694,395 tonnes (in plastic bags).

**MEAT-PROCESSING & OTHER AGRICULTURAL OPERATIONS SEGMENT**

The Meat-Processing & Other Agricultural Operations Segment produces and sells sausage and cooked meat, convenience foods and produce from cattle and milk operations. It incorporates two facilities for production of prepared meat products and a number of farms. The meat processing operation is the Segment's core business. It produced 35,260 tonnes of meat-processing products and 19,265 tonnes of convenience foods in 2019.

**EUROPEAN OPERATING SEGMENT (EOS)<sup>1</sup>**

Feed production: PP produced 19,956 tonnes of high-energy feed for cattle and pigs and 123,407 tonnes of feed for poultry breeding. In-house production comprised 84% of the overall requirement.

Life production: PP produced 45.7 million hatching eggs. The quantities of hatching eggs and turkeys covered all of the overall production requirement. In-house parent stock/hatching eggs production comprised 92% of the overall production requirement.

Meat production: PP produced 79,358 tonnes of broilers and 5,111 tonnes of turkeys. PP produced 30,313 tonnes of sausages and ready-made meals.

Agriculture: PP produced 9,444 tonnes of corn and 10,442 tonnes of wheat. The corn production represented 12% of the production requirement and wheat production represents 57% of the production requirement. PP's total grain storage capacity is approximately 90,000 tonnes.

**FUTURE DEVELOPMENTS**

The Executive Management team believes there are ample opportunities for growth both internationally and within Ukraine. In Ukraine, customers tend to buy domestically produced chicken, choosing from the wide range of poultry products – fresh chicken and processed meat products - that MHP develops and offers to its customers.

These products are both more affordable than pork and beef and fresher than imported meat. Exports of chicken meat have increased MHP's total sales and the available markets in recent years. Typically, chicken meat exports have provided higher margins than sales within Ukraine.

MHP's strategy is:

- To increase production efficiency through modernisation and innovation, improvement in cost and quality control, use of up-to-date technology across all business segments, including PP;
- To expand poultry production capacity during the period 2020-2023 at PP and up to 2022 at MHP (Phase 2 of the Vinnytsia poultry complex);
- To explore merger and acquisition opportunities and to potentially acquire further meat-processing and/or poultry production companies internationally;
- To continue export expansion through sales diversification and market targeting;
- To continue to establish international sales and distribution offices and potentially joint ventures;
- To develop and remodel the markets where MHP is present, changing trading channels;
- To maintain its "continuous improvement" approach including

optimising human productivity, high biosecurity standards, environmental standards, health and safety procedures and animal welfare practices (including, but not limited to, the antibiotic-free programme);

- To promote and develop the Company's strong brands through consumer-driven innovation and the introduction of new products;
- To increase the Company's presence in value-added food products such as processed meat, convenience food and the Commercial Kitchen concept;
- To expand alternative energy projects (e.g. biogas); and
- To transform our people and our products, and to launch our programme of industrialisation of our clients.

**DIVIDEND POLICY**

In March 2013 the Board of Directors approved the adoption of a dividend policy that maintains a balance between the need to invest in further development and the right of shareholders to share the net profits of the Company.

Although the Company has over US\$ 300 million of free cash, and we feel well-placed to weather the uncertainties of the months ahead, the Board felt it was prudent to take further actions to conserve cash. As part of these actions, it agreed that the dividend should be reduced from approximately US\$ 80 million in 2019 to approximately US\$ 30 million.

**SIGNIFICANT SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

As of 31 December 2019, the Group had advanced loans to its majority shareholder, WTI Trading Limited ("WTI"), in the aggregate amount of USD 20,400 thousand. The facility was further increased by the Board to USD 80,000 thousand on 21 January 2020. The Board considers that the loans are permitted investments as they were issued at arm's length terms and for fair market value, that they are in the best interests and for the commercial benefit of the Group and do not violate the terms of the Senior Notes.

<sup>1</sup> 10M 2019 - results of PP from 21 February 2019, when the acquisition was completed



## RESEARCH AND DEVELOPMENT

Sustaining significant investment in R&D as well as innovation is fundamental to the Company's long-term growth strategy. Our target is to sustain MHP's position as a world leader in efficient poultry production at the same time as adopting a sustainable and responsible approach to society, our employees, the environment and animal welfare.

## BUSINESS REVIEW AND RISKS

A review of the Group's performance and the key risks and uncertainties which face the business as well as details on likely developments can be found in the Chairman's Statement on page 10 and Risk Management on page 27 of this Report.

## CORPORATE RESPONSIBILITY REPORTING

The Group initiated corporate responsibility reporting in 2015 and issues a separate Corporate Responsibility Report (Non-Financial Report) annually. This Report includes information for MHP's material stakeholders and applies the latest applicable Global Reporting Initiative's ("GRI") reporting framework.

The latest Corporate Responsibility Report (Non-Financial Report) is for 2018 and can be found in the "Sustainable Development" section of the Company's website at: <https://www.mhp.com.ua/en/responsibility/sustainable-development>.

The Company expects the 2019 Report to be available in June 2020. Summary Corporate Responsibility information is also included on pages 41 to 45 within this Annual Report.

## FINANCIAL REPORTING PROCESS

MHP has in place a comprehensive financial review cycle which includes a detailed annual budgeting process. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board of Directors.

Major commercial and financial risks are assessed as part of the business planning process. There is a comprehensive system of financial reporting, with monthly performance reports presented to the Board of Directors.

At a Group level, MHP has in place common accounting policies and procedures on financial reporting and closing. Management monitors the publication of new reporting standards and works closely with the external auditors in evaluating in advance the potential impact of these standards.

## BRANCHES

MHP does not have any branches.

## COMPENSATION OF KEY MANAGEMENT PERSONNEL

Total compensation of the Group's key management personnel amounted to US\$ 18,654 thousand for the year ended 31 December 2019 (2018: US\$ 16,809 thousand). Compensation of key Management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's Non-Executive Directors, which consists of contractual fees, amounted to US\$ 679 thousand in 2018 (2018: US\$ 1,106 thousand).

Key Management personnel totalled 43 and 35 individuals as of 31 December 2019 and 2018, respectively, including 3 and 4 Independent Non-Executive Directors as of 31 December 2019 and 2018, respectively.

## SHARE OPTIONS

At the date of this Annual Report, neither the Company nor PJSC MHP has a share option plan and no share options have been granted to members of the Board of Directors, members of MHP's senior Management or employees.

## AUDITORS' REMUNERATION

Remuneration of the external auditors totalled US\$ 1,831 thousand for the year ended 31 December 2019 (2018: US\$ 1,605 thousand). Such remuneration includes both audit and non-audit services, with the statutory audit fees component comprising US\$ 990 thousand for the year ended 31 December 2019 (2018: US\$ 430 thousand).

Fees for other assurance services totalled US\$ 309 thousand (2018: US\$ 458 thousand); for tax advisory services US\$ 23 thousand (2018: US\$ 20 thousand); and for other non-audit services US\$ 509 thousand (2018: US\$ 697 thousand).

The Company has rules and processes in place to ensure the independence of the auditors, including non-audit fee limitations set by the Board, and annual reviews by the Audit Committee into whether any services provided are incompatible with the independence of the auditors.

## INTERNAL AUDIT

The Company maintains an internal audit function. The Head of Internal Audit has the right of access to the Audit Committee and the Chairman.

The Head of Internal Audit reports to the Audit Committee which is responsible for:

- Monitoring and reviewing the effectiveness of the Company's internal audit function in the context of the Company's overall risk management and internal control systems; and
- Approving the appointment and removal of the Head of Internal Audit.

**GOING CONCERN**

After reviewing the 2020 budget and longer-term plans, the Directors are satisfied that, at the time of the approval of the financial statements, it was appropriate to adopt the going concern basis in preparing the financial statements of the Group.

**POLITICAL DONATIONS**

The Group did not make any political donations or incur any political expenditure during the year.

**EVENTS AFTER THE BALANCE SHEET DATE**

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak, the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life.

Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including in Ukraine, have implemented restrictions on travelling as well as strict quarantine measures.

Industries such as tourism, hospitality and entertainment are expected to be directly disrupted significantly by these measures. Other industries such as manufacturing and financial services are expected to be indirectly affected and their results to also be negatively affected.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome.

Management has considered the unique circumstances and the risk exposures of the Group and has expected that there is no significant impact in the Group's profitability position. The event is not expected to have an immediate material impact on the business operations. Management will continue to monitor the situation closely and will assess the need for additional measures in case the period of disruption becomes more prolonged.

The Board views the event as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

**DISCLOSURE OF INFORMATION TO AUDITORS**

So far as each Director is aware, all information relevant to the audit of the Group's consolidated financial statements has been supplied to the Group's auditors. Each Director has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

**ADDITIONAL DISCLOSURES**

At the date of this Annual Report, no takeover bids have been made for the Company's shares. According to the terms of the Senior Notes, the Company may be required to offer to repurchase the Senior Notes from holders if a change in control occurs as a result of a takeover bid.

There are no agreements between the Company and its Directors or employees providing for compensation on loss of office or employment (whether through resignation, purported redundancy or otherwise) that would occur because of a takeover bid.

Other information that is relevant to the Management Report, and which is incorporated by reference into this Report, can be located as follows:

	<b>Pages</b>
Corporate Governance Report	46
Stakeholder Engagement	39

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Management Report, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in this Management Report. The Strategic Report can be found on pages 3 to 15.

**APPROVAL**

Approved by the Board and signed on its behalf by:

Dr John Rich

Executive Chairman

13 April 2020

# FINANCIAL STATEMENTS

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# STATEMENT OF THE BOARD OF DIRECTORS'

## RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view of the financial position of MHP SE (the "Company") and its subsidiaries (the "Group") as of 31 December 2019 and of the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

### In preparing the consolidated financial statements, the Board of Directors is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in the International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.
- The Board of Directors, within its competencies, is also responsible for:
- designing, implementing and maintaining an effective and sound system of internal controls over financial reporting, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial

position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;

- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group as of and for the year ended 31 December 2019 were authorized for issue by the Board of Directors on 13 April 2020.

### Board of Directors' responsibility statement

In accordance with Article 9 sections (3c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law 190 (I) / 2007 until 2013, we, the members of the Board of Directors responsible for the drafting of the consolidated financial statements of MHP SE for the year ended 31 December 2019, on the basis of our knowledge, declare that:

- a. the consolidated financial statements which are presented on pages 77 to 150:
  - ii. have been prepared in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the provisions of article 9 section (4) of the law, and
  - iii. provide a true and fair view of the assets and liabilities, the financial position and the profit or loss of the Company and its subsidiaries, consolidated financial statements as a whole and

- b. the Management report provides a fair review of the developments and the performance of the business and the financial position of the Group included in the consolidated accounts taken as a whole, together with a description of the main risks and uncertainties they face.

### On behalf of the Board:

Director	<b>Yuriy Kosyuk</b>
Director	<b>John Grant</b>
Director	<b>Viktoria Kapelyushnaya</b>
Director	<b>John Clifford Rich</b>
Director	<b>Yuriy Melnyk</b>
Director	<b>Christakis Taoushianis</b>
Director	<b>Roberto Banfi</b>
Director	<b>Roger Wills</b>
Director	<b>Philip J Wilkinson</b>

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF MHP SE REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### OPINION

We have audited the consolidated financial statements of MHP SE (the "Company"), and its subsidiaries (the "Group"), which are presented in pages 77 to 150 of the consolidated financial statements and comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS INCORPORATING THE MOST SIGNIFICANT RISKS OF MATERIAL MISSTATEMENTS, INCLUDING ASSESSED RISK OF MATERIAL MISSTATEMENTS DUE TO FRAUD

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Why the matter was determined to be a key audit matter

#### VALUATION OF PROPERTY, PLANT AND EQUIPMENT

As described in Note 3 to the consolidated financial statements, all classes of property, plant and equipment ("PPE"), except for the land and other fixed assets, are measured after initial recognition at revalued amounts. The latest revaluation was recognized as of 30 September 2019, on the basis of a valuation carried out by an independent appraiser. As a result, the revaluation reserve was increased by USD 199,437 thousand, less the effect of deferred income taxes of USD 17,053 thousand.

We have considered the valuation of property, plant and equipment to be a key audit matter as it requires applying significant judgement and subjectivity in determining appropriate unobservable inputs and estimates in assessing the fair values using the depreciated replacement cost and market comparable methods such as:

- changes in market prices of assets and construction materials from the date of their acquisition/ construction/ date of previous valuation to the date of this valuation;
- external market prices for vehicles;
- normative and remaining useful lives;
- rates of physical depreciation.

The results of revaluation based on the depreciated replacement cost and market comparable approaches were compared by management to a valuation they performed using the income approach to test for economic obsolescence. This exercise is based on assumptions such as discount rates, terminal growth rates, expected production volumes and operating margins, the determination of which requires the exercise of significant judgement.

Management provided more details in relation to the above in Note 4 "Critical Accounting Estimates and Key Sources of Estimation Uncertainty" and Note 12 "Property, Plant, and Equipment" to the consolidated financial statements.

### How the matter was addressed in the audit

We have performed, amongst others the following audit procedures, in order to address the risks of material misstatement associated with this key audit matter:

- Obtained an understanding of the internal controls surrounding the valuation process for PPE and assessed their design and implementation.
- Assessed the competence, capabilities, experience, professional qualifications and objectivity of the independent appraisal firm. In addition, we discussed the scope of their work with management and reviewed the related terms of engagement to determine that there were no matters that affected their objectivity or imposed scope limitations.
- With the support of our internal valuation specialists, (i) assessed whether the valuation methodology applied is appropriate and in line with international valuation standards as well as industry norms, (ii) challenged the appropriateness of the key parameters and assumptions used by the independent appraiser to estimate the fair values.
- Carried out appropriate audit procedures to test the accuracy and completeness of the data provided by the management to the independent appraisal firm taking into account our assessment of the relevant controls.
- With the support of our internal valuation specialists, we compared the 30th of September 2019 PPE values with those of the previous revaluation as of 31 December 2017, and investigated any unexplained deviations identified and challenged where necessary the underlying data and assumptions.
- In respect of the economic obsolescence exercise, with the support of our internal valuation specialists, (i) challenged the reasonableness of the valuation assumptions in the management's forecasts with reference to past performance and market conditions to determine whether the assumptions used fell within an acceptable range, (ii) assessed the historical forecasting and budgeting accuracy, and (iii) assessed the appropriateness of the discount rates used.
- Checked the mathematical accuracy of the computations made in the valuation workings.
- Assessed completeness and accuracy of all related disclosures in the consolidated financial statements based on the relevant international financial reporting standards, including significant assumptions and methods used in the valuations and sensitivity analysis on the changes of the unobservable inputs.

All the above procedures were completed in a satisfactory manner.

# INDEPENDENT AUDITOR'S REPORT

## Why the matter was determined to be a key audit matter

### ADOPTION OF IFRS 16 "LEASES"

As described in Note 3 to the consolidated financial statements, the Group has adopted IFRS 16 "Leases", using the modified retrospective approach as of 1 January 2019. Upon adoption the Group recognized lease liabilities of USD 177,093 thousand and right-of-use assets of USD 185,442 thousand, including reclassification of liabilities and assets previously recorded under finance leases.

We consider the adoption of IFRS 16 "Leases" to be a key audit matter due to: (a) the degree of complexity of the business process as a result of the large number of agricultural land lease contracts with individuals, and (b) the significant judgement exercised by management to determine the following key parameters used in the measurement of the lease liability such as (i) the value of lease payments for the non-contractual changes of the payments which are made based on customary industry practice, and (ii) the determination of appropriate incremental borrowing rates.

Management provides more details in relation to the above in Note 13 "Right-of-Use Asset" as well as Note 28 "Lease Liabilities" and Note 33 "Fair Value of Financial Instruments" to the consolidated financial statements.

## How the matter was addressed in the audit

We have performed amongst others the following audit procedures in order to address the risks of material misstatement associated with this key audit matter:

- Assessed the appropriateness of the accounting policies adopted by management for the purpose of identification, measurement and accounting of leases in accordance with the requirements of IFRS 16 "Leases".
- Obtained an understanding of the internal controls pertaining to the accuracy and completeness of the lease database and assessed their design and implementation.
- Challenged management's assumptions relating to accounting of non-contractual changes of lease payments in measuring the lease liability by analyzing historical data and market data to determine whether the assumptions used fell within an acceptable range.
- Assessed the accuracy and completeness of the lease database by (i) agreeing for a sample, the amount of the lease used in the measurement of lease liability to the actual payments, and (ii) examining the reconciliation of total lease amount included in the database and used in the measurement of the lease liability to the total actual payments adjusted to prepaid or unpaid lease balances as of 31 December 2019.
- On a sample basis, assessed the accuracy of the lease term contained in the database by reference to the signed contracts and/or subsequent modifications.
- Checked the mathematical accuracy of the calculation determining the lease liability as of 31 December 2019.
- Recalculated the Group's estimation of lease liabilities as of 1 January 2019 which was based on the verified lease database as of 31 December 2019 and changes of non-contractual lease payments during the period which were supported by the Group's budgets and average increase of lease payments per locations.
- Assessed the appropriateness of the incremental borrowing rates used in the calculation of lease liabilities with the support of our internal valuation specialists.
- Assessed completeness and accuracy of all related disclosures provided in the consolidated financial statements with the requirements of international financial reporting standards.

All the above procedures were completed in a satisfactory manner.

# INDEPENDENT AUDITOR'S REPORT

## Why the matter was determined to be a key audit matter

### VALUATION OF BIOLOGICAL ASSETS

Biological assets are measured at fair value less costs to sell in accordance with IAS 41 "Agriculture".

As of 31 December 2019, the carrying amount of biological assets was USD 235,399 thousand, of which USD 205,747 thousand was classified within current assets and USD 29,652 thousand within non-current assets. Current biological assets mainly comprise of breeders held for hatchery egg production, broilers and crops in fields. Non-current biological assets mainly comprise of milk cows.

For determining the fair value of biological assets, the Group uses the discounted cash flows technique as well as the market prices of livestock of similar age, breed and genetic merit.

This valuation is a key audit matter since it requires applying assumptions affected by expected market or economic conditions which can vary over time and complex and judgmental assessment process.

The key assumptions and inputs used in the measurement of the fair values are:

- average meat output for broilers and livestock for meat production;
- average productive life of breeders and cattle held for laying eggs and milk production;
- expected yields;
- estimated market prices for poultry meat, crops, hatchery egg and milk;
- projected production costs and costs to sell; and
- discount rates.

Management provided more details in relation to the above in Note 4 "Critical Accounting Estimates and Key Sources of Estimation Uncertainty" and Note 17 "Biological Assets" to the consolidated financial statements.

## How the matter was addressed in the audit

We have performed amongst others the following audit procedures in order to address the risks of material misstatement associated with this key audit matter:

- Obtained an understanding of the internal controls surrounding the valuation process for biological assets and assessed their design and implementation.
- Assessed whether the valuation methods used are in accordance with IAS 41 and consistent with international valuation standards and industry norms.
- Evaluated the reasonableness and appropriateness of the discount rate with the support of our internal valuation specialists.
- Performed a sensitivity analysis to identify the significant inputs and assumptions, and to assess the accuracy of sensitivity disclosures in the financial statements.
- Performed a recalculation of fair value of biological assets as of the reporting date using actual prices subsequent to year end or observable future prices adjusted by logistic costs, industry rates like meat output for broilers or number of hatchery eggs produced by one breeder, expected yields with a reference to past performance, projected production costs from the approved budgets and the discount rates agreed with our internal valuation specialists.
- Assessed the historical forecasting and budgeting accuracy.
- Assessed completeness and accuracy of all related disclosures provided in the consolidated financial statements.

All the above procedures were completed in a satisfactory manner.

# INDEPENDENT AUDITOR'S REPORT

## Why the matter was determined to be a key audit matter

### **PURCHASE PRICE ALLOCATION ("PPA") ON THE ACQUISITION OF PERUTNINA PTUJ ("PERUTNINA") AND IMPAIRMENT ASSESSMENT OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIFE THAT AROSE ON THE ACQUISITION**

As described in note 2 to the consolidated financial statements, the Group acquired 90,69% of the share capital of Perutnina for USD 250,012 thousand. As part of the purchase price allocation ("PPA"), this amount has been allocated to the fair value of identifiable assets acquired and liabilities assumed by cash generating unit ("CGU") resulting in the recognition of goodwill of USD 61,518 thousand.

The PPA and impairment assessment which was performed by directors with the use of independent specialists is considered as a key audit matter since it is subject to significant judgement and estimation in the following areas:

#### *PPA exercise*

- Identification of CGUs and intangible assets
- Valuation of tangible and intangible assets (including goodwill)

#### *Impairment assessment*

- Selection of the appropriate impairment model to be used
- Assessment and determination of the expected cash flows from the business of each CGU and trademarks
- Setting appropriate growth rates and operating margins by CGU
- Setting appropriate growth rates and royalty rate for trademarks
- Selection of the appropriate discount rate for each CGU and for each trademark identified

Management provided more details in relation to the above in Note 4 "Critical Accounting Estimates and Key Sources of Estimation Uncertainty", Note 14 "Intangible Assets" and Note 15 "Goodwill" to the consolidated financial statements.

## How the matter was addressed in the audit

We have performed amongst others the following audit procedures with the support of our internal valuation specialists, where deemed necessary, in order to address the risks of material misstatement associated with this key audit matter:

- Obtained an understanding of the internal controls surrounding the PPA and goodwill/intangible impairment process and assessed their design and implementation.
- Assessed the competence, capabilities, experience, professional qualifications and objectivity of the independent specialists. In addition, we discussed with the management the scope of their work and reviewed the related terms of engagement to determine that there were no matters that affected their objectivity or imposed scope limitations.
- Assessed the criteria used by management in the identification of the separate CGUs for their businesses.
- For the PPA exercise, assessed whether identifiable assets acquired and liabilities assumed were appropriately valued and allocated to the appropriate CGU.
- Assessed whether valuation techniques and methodology used are appropriate and comply with generally accepted valuation practices and industry norms.
- Assessed the valuation and business assumptions used in the PPA exercise as well as in the impairment models by CGU, by reference to historical data and, where applicable, external benchmarks and data to determine whether the assumptions used fell within an acceptable range.
- Carried out appropriate audit procedures to test the accuracy and completeness of the data provided by the management to the independent appraisal firm taking into account our assessment of relevant controls.
- On a sample basis, checked the mathematical accuracy of the valuation models.
- Assessed completeness and accuracy of all related disclosures provided in the consolidated financial statements with the requirements of international financial reporting standards.

All the above procedures were completed in a satisfactory manner.

# INDEPENDENT AUDITOR'S REPORT

## Why the matter was determined to be a key audit matter

### LOANS TO RELATED PARTIES

As described in Note 30 to the consolidated financial statements, the Group provided loans to related parties. As of 31 December 2019, the balance of "loans and finance aid receivable" from related parties amounted to USD 21,717 thousand and the balance of "loans to key management personnel" amounted to USD 4,945 thousand. As stated in Note 37, subsequent to the balance sheet date, additional loans were provided to related parties.

We considered these transactions with related parties to be a key audit matter due to the following:

- Significant judgment is exercised by the Board of Directors in determining whether transactions are made on an arm's length basis;
- The complexity of judgement involved when determining if transactions with affiliates are subject to certain bonds' covenants' restrictions;
- Accurate and complete disclosures of transactions with related parties are fundamental for the users of financial statements.

Management provided more details in relation to the above in Note 4 "Critical accounting judgments and key sources of estimation uncertainty" as well as Note 30 "Related party balances and transactions" and Note 37 "Subsequent events" to the consolidated financial statements.

## How the matter was addressed in the audit

We have performed amongst others the following audit procedures in order to address the risks of material misstatement associated with this key audit matter:

- Obtained an understanding of the internal controls surrounding the provision of loans to related parties and assessed their design and implementation.
- Obtained from those charged with governance and from management the list of all known related parties.
- Reviewed minutes of board meetings and management meetings to assess completeness of related party disclosures.
- On a sample basis, reconciled the balances of loans to amounts per confirmations received from the related parties.
- Traced individual related party transactions on a sample basis to supporting documentation.
- Reviewed underlying contracts to understand the terms of related party loans and assessed Board of Directors' considerations in the application of arm's length principle.
- With the support of our internal legal specialists, challenged management's assessment regarding impact of related party transactions on compliance with bonds' covenants by assessing the advice received by the Group from their internal and external lawyers.
- Assessed completeness and accuracy of all related disclosures provided in the consolidated financial statements.

All the above procedures were completed in a satisfactory manner.



# INDEPENDENT AUDITOR'S REPORT

## REPORTING ON OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, including the corporate governance statement, but does not include the consolidated financial statements and our auditor's report thereon. The Board of Directors is also required pursuant to article 151 of the Cyprus Companies Law Cap.113 to prepare and publish a Non-Financial Information Report by 30 June 2020. This report has not been issued by the date of this report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the

preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

## APPOINTMENT OF THE AUDITOR AND PERIOD OF ENGAGEMENT

We were first appointed as auditors of the Group on 24 October 2017 by a shareholders' resolution. This is our third period of engagement appointment.

## CONSISTENCY OF THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 13 April 2020 in accordance with Article 11 of the EU Regulation 537/2014.

## PROVISION OF NON-AUDIT SERVICES

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements or the consolidated management report.

## OTHER LEGAL REQUIREMENTS

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been

prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.

- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.
- In our opinion, based on the work undertaken in the course of our audit, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and is consistent with the consolidated financial statements.
- In our opinion, based on the work undertaken in the course of our audit, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. In respect of subparagraphs (ii) and (iii), the corporate governance statement included in the annual report (page 47) sets out the exceptions and the explanations thereon in the application of the UK Corporate Governance Code, which the Group applies, including the provision on the independence of the Audit Committee Chairman.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113. We have nothing to report in this respect.

# INDEPENDENT AUDITOR'S REPORT

## **OTHER MATTER**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditor's report is Costas Georghadjis.

Costas Georghadjis  
Certified Public Accountant and Registered Auditor  
for and on behalf of

**Deloitte Limited**  
**Certified Public Accountants and Registered Auditors**

Limassol, 13 April 2020



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019	2018
<b>Continuing operations</b>			
Revenue	6	2,055,943	1,552,206
Net change in fair value of biological assets and agricultural produce	5	(39,515)	32,094
Cost of sales	7	(1,618,596)	(1,162,727)
<b>Gross profit</b>		<b>397,832</b>	<b>421,573</b>
Selling, general and administrative expenses	8	(179,156)	(99,577)
Other operating income/(expenses), net		3,071	(5,803)
Loss on impairment of property, plant and equipment	12	(6,244)	(3,803)
<b>Operating profit</b>		<b>215,503</b>	<b>312,390</b>
Finance income		8,034	4,457
Finance costs	10	(147,552)	(138,019)
Foreign exchange gain, net	34	185,291	11,638
Other expenses, net		(8,064)	(10,561)
<b>Profit before tax</b>		<b>253,212</b>	<b>179,905</b>
Income tax expense	11	(32,107)	(50,527)
<b>Profit for the year from continuing operations</b>		<b>221,105</b>	<b>129,378</b>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	2	(5,822)	(1,274)
<b>Profit for the year</b>		<b>215,283</b>	<b>128,104</b>

	Notes	2019	2018
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Effect of revaluation of property, plant and equipment	12	199,437	-
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income as result of revaluation	11	(17,053)	-
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income as result of intercompany sales		15,162	49,357
<b>Items that may be reclassified to profit or loss:</b>			
Cumulative translation difference		175,928	14,054
<b>Other comprehensive income</b>		<b>373,474</b>	<b>63,411</b>
<b>Total comprehensive income for the year</b>		<b>588,757</b>	<b>191,515</b>
<b>Profit attributable to:</b>			
Equity holders of the Parent		218,441	124,926
Non-controlling interests	25	(3,158)	3,178
		<b>215,283</b>	<b>128,104</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Parent		585,943	186,828
Non-controlling interests		2,814	4,687
		<b>588,757</b>	<b>191,515</b>
<b>Earnings per share from continuing and discontinued operations</b>			
Basic and diluted earnings per share (USD per share)		2.04	1.17
<b>Earnings per share from continuing operations</b>			
Basic and diluted earnings per share (USD per share)	36	2.10	1.18

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	2,049,298	1,498,530
Right-of-use asset	13	229,244	-
Intangible assets	14	106,522	52,059
Goodwill	15,2	64,843	2,509
Non-current biological assets	17	29,652	23,392
Long-term bank deposits		3,298	3,387
Deferred tax assets	11	2,284	-
Other non-current assets, net	16	23,713	54,110
		<b>2,508,854</b>	<b>1,633,987</b>
<b>Current assets</b>			
Inventories	18	208,389	273,522
Biological assets	17	205,747	179,290
Agricultural produce	19	215,816	224,789
Other current assets	22	52,573	32,858
Taxes recoverable and prepaid	20	30,030	45,146
Trade accounts receivable, net	21	124,474	69,305
Cash and cash equivalents	23	340,735	211,768
Assets classified as held for sale	2	3,877	-
		<b>1,181,641</b>	<b>1,036,678</b>
<b>TOTAL ASSETS</b>		<b>3,690,495</b>	<b>2,670,665</b>

On behalf of the Board:  
Chief Executive Officer Yuriy Kosyuk  
Chief Financial Officer Viktoria Kapelyushnaya

	Notes	31 December 2019	31 December 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	24	284,505	284,505
Treasury shares		(44,593)	(44,593)
Additional paid-in capital		174,022	174,022
Revaluation reserve	12	862,435	642,800
Retained earnings		1,148,113	1,040,327
Translation reserve		(842,188)	(1,015,591)
<b>Equity attributable to equity holders of the Parent</b>		<b>1,582,294</b>	<b>1,081,470</b>
Non-controlling interests	25	13,572	16,536
<b>Total equity</b>		<b>1,595,866</b>	<b>1,098,006</b>
<b>Non-current liabilities</b>			
Bank borrowings	26	75,880	105,783
Bonds issued	27	1,365,669	1,090,935
Lease liabilities	28	151,789	9,087
Deferred revenues	9	49,933	34,578
Deferred tax liabilities	11	55,305	12,953
Other non-current liabilities		5,872	-
		<b>1,704,448</b>	<b>1,253,336</b>
<b>Current liabilities</b>			
Trade accounts payable		147,334	66,398
Other current liabilities	29	131,994	96,383
Bank borrowings	26	24,945	132,715
Accrued interest	26,27	21,789	19,472
Lease liabilities	28	64,074	4,355
Liabilities directly associated with assets classified as held for sale	2	45	-
		<b>390,181</b>	<b>319,323</b>
<b>TOTAL LIABILITIES</b>		<b>2,094,629</b>	<b>1,572,659</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,690,495</b>	<b>2,670,665</b>

The accompanying notes on the pages 82 to 150 form an integral part of these consolidated financial statements



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

ASSETS	Attributable to equity holders of the Parent								
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total	Non-controlling interests	Total equity
<b>Balance at 31 December 2017</b>	<b>284,505</b>	<b>(48,503)</b>	<b>175,291</b>	<b>661,454</b>	<b>925,978</b>	<b>(1,030,159)</b>	<b>968,566</b>	<b>17,141</b>	<b>985,707</b>
Effect of adoption IFRS 9	-	-	-	-	2,904	-	<b>2,904</b>	-	<b>2,904</b>
<b>Balance at 1 January 2018</b>	<b>284,505</b>	<b>(48,503)</b>	<b>175,291</b>	<b>661,454</b>	<b>928,882</b>	<b>(1,030,159)</b>	<b>971,470</b>	<b>17,141</b>	<b>988,611</b>
Profit for the year	-	-	-	-	124,926	-	124,926	3,178	128,104
Other comprehensive income	-	-	-	49,357	-	12,545	61,902	1,509	63,411
Total comprehensive income for the year	-	-	-	49,357	124,926	12,545	186,828	4,687	191,515
Transfer from revaluation reserve to retained earnings	-	-	-	(73,587)	73,587	-	-	-	-
Dividends declared by the Parent	-	-	-	-	(80,000)	-	(80,000)	-	(80,000)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(9,369)	(9,369)
Non-controlling interests acquired	-	3,910	(1,269)	-	997	-	3,638	(3,638)	-
Derecognition of interests in subsidiaries	-	-	-	(1,950)	(539)	2,023	(466)	7,715	7,249
Translation differences on revaluation reserve	-	-	-	7,526	(7,526)	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>284,505</b>	<b>(44,593)</b>	<b>174,022</b>	<b>642,800</b>	<b>1,040,327</b>	<b>(1,015,591)</b>	<b>1,081,470</b>	<b>16,536</b>	<b>1,098,006</b>
Profit/(loss) for the year	-	-	-	-	218,441	-	218,441	(3,158)	215,283
Other comprehensive income	-	-	-	194,099	-	173,403	367,502	5,972	373,474
Total comprehensive income for the year	-	-	-	194,099	218,441	173,403	585,943	2,814	588,757
Transfer from revaluation reserve to retained earnings	-	-	-	(80,271)	80,271	-	-	-	-
Dividends declared by the Parent	-	-	-	-	(80,000)	-	(80,000)	-	(80,000)
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(6,082)	(6,082)
Non-controlling interests acquired	-	-	-	-	-	-	-	15,526	15,526
Increase of Group's effective ownership interest in subsidiaries (Note 2)	-	-	-	-	(5,119)	-	(5,119)	(15,222)	(20,341)
Translation differences on revaluation reserve	-	-	-	105,807	(105,807)	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>284,505</b>	<b>(44,593)</b>	<b>174,022</b>	<b>862,435</b>	<b>1,148,113</b>	<b>(842,188)</b>	<b>1,582,294</b>	<b>13,572</b>	<b>1,595,866</b>

On behalf of the Board:

Chief Executive Officer Yuriy Kosyuk

Chief Financial Officer Viktoria Kapelyushnaya

The accompanying notes on the pages 82 to 150 form an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2019	2018
<b>Operating activities</b>			
<b>Profit before tax</b>		<b>253,212</b>	<b>179,905</b>
<b>Non-cash adjustments to reconcile profit before tax to net cash flows</b>			
Loss before tax from discontinued operations		(5,822)	(1,274)
Depreciation and amortization expense	5	206,195	134,953
Net change in fair value of biological assets and agricultural produce	5	39,515	(32,094)
Change in allowance for unrecoverable amounts and direct write-offs		3,858	3,333
Loss on impairment of property, plant and equipment	12	6,244	3,803
Loss on disposal of property, plant and equipment and other non-current assets		512	1,953
Finance income		(8,034)	(4,457)
Finance costs	10	147,552	138,019
Released deferred revenue		(1,862)	-
Non-operating foreign exchange gain, net		(185,291)	(11,638)
<b>Operating cash flows before movements in working capital</b>		<b>456,079</b>	<b>412,503</b>
<i>Working capital adjustments</i>			
Change in inventories		125,887	(21,032)
Change in biological assets		20,109	(29,338)
Change in agricultural produce		8,474	(12,964)
Change in other current assets		7,806	(6,663)
Change in taxes recoverable and prepaid		21,954	(6,327)
Change in trade accounts receivable		(19,420)	(16,003)
Change in other current liabilities		(9,269)	39,607
Change in trade accounts payable		36,799	7,696
<b>Cash generated operations</b>		<b>648,419</b>	<b>367,479</b>

	Notes	2019	2018
Interest received		7,789	4,288
Interest paid		(142,894)	(97,464)
Income taxes paid		(11,543)	(13,398)
<b>Net cash flows from operating activities</b>		<b>501,771</b>	<b>260,905</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(111,766)	(210,038)
Purchases of other non-current assets		(743)	(42,032)
Payments for renewal of lease agreements		-	(9,404)
Government grants received	9	12,935	35,371
Net cash inflow on disposal of subsidiaries		-	7,249
Additions to right-of-use assets		(8,618)	-
Proceeds from disposals of property, plant and equipment		2,476	2,138
Purchases of non-current biological assets		(284)	(2,747)
Withdrawals of short-term deposits		-	4,452
Investments in short-term deposits		-	(5,673)
Acquisition of subsidiaries, net of cash acquired		(205,724)	-
Loans provided to employees, net		(3,408)	(420)
Loans provided to related parties		(28,004)	(8,091)
Loans repaid by related parties		10,115	5,322
<b>Net cash flows used in investing activities</b>		<b>(333,021)</b>	<b>(223,873)</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

	Notes	2019	2018
<b>Financing activities</b>			
Proceeds from bank borrowings		213,809	255,024
Repayment of bank borrowings		(405,749)	(201,531)
Proceeds from bonds issued	27	350,000	550,000
Repayment of bonds		(79,417)	(416,183)
Transaction costs related to corporate bonds issued		(4,751)	(44,468)
Transaction costs related to bank loans received		(697)	(384)
Repayment of lease liabilities		(15,806)	(4,416)
Dividends paid	32	(80,000)	(80,000)
Dividends paid by subsidiaries to non-controlling shareholders		(5,249)	(9,369)
Acquisition of non-controlling interest		(20,341)	-
Consent payment related to corporate bonds	27	-	(992)
<b>Net cash flows (used in)/from financing activities</b>		<b>(48,201)</b>	<b>47,681</b>
Net increase in cash and cash equivalents		120,549	84,713
Cash and cash equivalents attributable to disposal group classified as held for sale in the year		1	-
Net foreign exchange difference		8,417	1,501
Cash and cash equivalents at 1 January		211,768	125,554
<b>Cash and cash equivalents at 31 December</b>	23	<b>340,735</b>	<b>211,768</b>
<b>Non-cash transactions</b>			
Effect of revaluation of property, plant and equipment	12	193,193	-
Additions of property, plant and equipment under leases		-	5,647
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor		1,318	11,377
Property, plant and equipment purchased for credit		-	6,287
Non-cash repayments of lease liabilities		(10,842)	-



Chief Executive Officer  
Chief Financial Officer

On behalf of the Board:  
Yuriy Kosyuk  
Viktoria Kapelyushnaya

The accompanying notes on the pages 82 to 150 form an integral part of these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

MHP SE (the “Parent” or “MHP SE”), a limited liability company (Societas Europaea) registered under the laws of Cyprus, was formed on 30 May 2006. Hereinafter, MHP SE and its subsidiaries are referred to as the “MHP SE Group” or the “Group”. The registered address of MHP SE is 16-18 Zinas Kanther Street, Agia Triada, 3035 Limassol, Cyprus.

The controlling shareholder of MHP SE is Mr. Yuriy Kosyuk (“Principal Shareholder”), who owns 100% of the shares of WTI Trading Limited (“WTI”), which is the immediate majority

shareholder of MHP SE, which in turn directly owns of 59,7% of the total outstanding share capital of MHP SE. The principal business activities of the Group are poultry and related operations, grain growing, as well as meat processing and other agricultural operations (meat processing and meat products ready for consumption). The Group’s poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age (“grow-out”), processing and marketing of branded chilled products and include the

production and sale of chicken products, vegetable oil, mixed fodder. Grain growing comprises the production and sale of grains. Meat processing and other agricultural operations comprise the production and sale of cooked meat, sausages, convenience food products, milk and feed grains. During the year ended 31 December 2019 the Group employed 31,427 people (2018: 28,575 people).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent's effective ownership interest as of 31 December 2019 and 2018 were as follows:

Name	Country of registration	Year established/ acquired	Principal activities	31 December 2019	31 December 2018
Raftan Holding Limited	Cyprus	2006	Sub-holding Company	100.0%	99.9%
Larontas Limited	Cyprus	2015	Sub-holding Company	100.0%	100.0%
Hemiak Investments Limited	Cyprus	2018	Sub-holding Company	100.0%	100.0%
MHP Lux S.A.	Luxembourg	2018	Finance Company	100.0%	100.0%
Myronivsky Hliboproduct	Ukraine	1998	Management, marketing and sales	99.9%	99.9%
Myronivsky Plant of Manufacturing Feeds and Groats	Ukraine	1998	Fodder and vegetable oil production	88.5%	88.5%
Vinnytska Ptakhofabryka	Ukraine	2011	Chicken farm	99.9%	99.9%
Peremoga Nova	Ukraine	1999	Breeder farm	99.9%	99.9%
Oril-Leader	Ukraine	2003	Chicken farm	99.9%	99.9%
Myronivska Pticefabrika	Ukraine	2004	Chicken farm	99.9%	99.9%
Starynska Ptakhofabryka	Ukraine	2003	Breeder farm	100.0%	100.0%
Ptakhofabryka Snyatyynska Nova	Ukraine	2005	Geese breeder farm	99.9%	99.9%
Zernoproduct MHP	Ukraine	2005	Grain cultivation	99.9%	99.9%
Katerinopilskiy Elevator	Ukraine	2005	Fodder production and grain storage, vegetable oil production	99.9%	99.9%
SPF Urozhay	Ukraine	2006	Grain cultivation	99.9%	99.9%
Agrofort	Ukraine	2006	Grain cultivation	99.9%	99.9%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	99.9%	99.9%
Ukrainian Bacon	Ukraine	2008	Meat processing	79.9%	79.9%
AgroKryazh	Ukraine	2013	Grain cultivation	51.0%	51.0%
Agro-S	Ukraine	2013	Grain cultivation	51.0%	51.0%
Zakhid-Agro MHP	Ukraine	2015	Grain cultivation	100.0%	100.0%
Scylla Capital Limited	British Virgin Islands	2014	Trading in sunflower oil and poultry meat	100.0%	100.0%
Perutnina Ptuj	Slovenia	2019	Poultry production	100.0%	-
MHP Trading FZE	United Arab Emirates	2018	Trading in sunflower oil and poultry meat	100.0%	100.0%
MHP Food Trading	United Arab Emirates	2016	Trading in sunflower oil and poultry meat	100.0%	100.0%

The Group's primary operational facilities are located in different regions of Ukraine as well as in Southeast Europe, including Slovenia, Serbia, Croatia and Bosnia and Herzegovina.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. CHANGES IN THE GROUP STRUCTURE

#### Acquisitions

On 21 February 2019, the Group acquired 90.69% of the issued share capital and thereby obtained control of Perutnina Ptuj, a Slovenian based international meat-processing company, who is a producer of poultry meat and poultry meat products in Southeast Europe. Perutnina Ptuj together with its subsidiaries has production capacity of 55,000 tonnes per annum of poultry meat and more than 35,000 tonnes per annum of value-added meat products. Perutnina Ptuj was acquired in line with MHP's strategy and will provide a platform for further development and opportunities in the EU with further capacity expansion planned over the next 3 to 5 years.

The fair values of identifiable assets acquired and liabilities assumed and any non-controlling interests are as set out in the table below.

The final fair value of the total identifiable assets acquired was increased by USD 10,087 thousand from previously reported provisional amounts mainly as a result of finalizing the necessary valuations of intangible assets (Note 14).

The consideration was paid as follows: USD 23,302 thousand in 2018 as a prepayment and USD 226,710 thousand in 2019. Acquisition-related costs amounted to USD 2,689 thousand.

The final fair value of the trade receivables is USD 36,198 thousand and a gross contractual value of USD 38,474 thousand. The best estimate at acquisition date of the contractual cash flows not to be collected are USD 2,276 thousand.

The goodwill of USD 61,518 thousand arising from the acquisition attributed to the expected synergies and other benefits from combining the assets and activities of Perutnina Ptuj with those of the Group:

- the acquisition was in line with the Group's strategy to extend a presence in EU markets. Perutnina Ptuj has production assets in four Balkan countries: Slovenia, Croatia, Serbia, Bosnia and Herzegovina; owns distribution companies in Austria, North Macedonia and Romania and supplies products to 15 countries in Europe. Perutnina has strong brands and customer base;
- Perutnina Ptuj has the ability to increase production of poultry products using existing production capacities.

As a leading cost-efficient poultry producer, the Group has solid expertise in cost optimization and the management expects to improve the profitability of Perutnina Ptuj;

- Perutnina Ptuj will provide the Group a platform for further production capacity expansion in Europe.

None of the goodwill is expected to be deductible for income tax purposes

	21 February 2019
Inventories	35,371
Biological assets	8,721
Trade accounts receivable, net	36,198
Cash and cash equivalents	20,986
Other current liabilities less other current assets	(8,103)
Property, plant and equipment	179,581
Right-of-use asset	14,564
Identifiable intangible assets	53,448
Trade accounts payable	(34,283)
Deferred tax liabilities net of deferred tax assets	(18,338)
Other non-current liabilities less other non-current assets	(6,073)
Bank borrowings and lease liabilities <sup>1</sup>	(74,960)
Contingent liabilities	(3,092)
<b>Total identifiable assets</b>	<b>204,020</b>
Goodwill	61,518
Non-controlling interest of in 7.61 % of Perutnina Ptuj <sup>2</sup>	(15,526)
<b>Total consideration due and payable</b>	<b>250,012</b>
Cash consideration paid	250,012
Less: amount paid in 2018	(23,302)
Less: cash and cash equivalent balances acquired	(20,986)
<b>Net cash outflow arising on acquisition</b>	<b>205,724</b>

<sup>1</sup> includes USD 16,466 thousand of lease liabilities recognised in accordance with the adoption of IFRS 16 (Note 3).

<sup>2</sup> At the date of acquisition, there were 200,488 treasury shares

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. CHANGES IN THE GROUP STRUCTURE (continued)

The non-controlling interest (7.61% ownership interest Perutnina Ptuj) recognised at the acquisition date was measured as a proportionate share of the acquired entity's net identifiable assets and amounted to USD 15,526 thousand.

Perutnina Ptuj contributed USD 271,297 thousand revenue and USD 20,914 thousand to the Group's profit for the period between the date of acquisition and the reporting date.

If the acquisition of Perutnina Ptuj had been completed on the first day of the financial year, the Group revenues for the year ended 31 December 2019 would have been USD 2,103,867 thousand and the Group profit would have been USD 216,682 thousand.

#### Changes in non-controlling interests in subsidiaries

Since acquisition date and up to 31 of December 2019, the Group has increased its effective ownership interest in Perutnina Ptuj

to 100% through the purchase of a non-controlling interest for the amount USD 20,341 thousand. The difference between the carrying value of the net assets acquired and consideration paid was recognised as an adjustment to the retained earnings in the amount of USD 5,119 thousand.

#### Plan to dispose of the Snyatynska poultry farm

The Board of Directors has authorized the management of the Group to cease production of goose meat and foie gras. At the end of July 2019, by virtue of a Board resolution, management of the Group committed to a plan to dispose of the Snyatynska poultry farm, a wholly owned subsidiary that is located in Ukraine, and was previously presented within Meat processing and other agricultural operations segment. The management believes that the production of foie gras is not consistent with the Group's strategy and policy of being a global leader in Environmental Sustainability and Animal Welfare.

At 31 December 2019 the management of the Group was in negotiation with potential buyers for its Snyatynska poultry farm and expected to complete the sale within 6 months.

No impairment loss was recognised on classification disposal of group as held for sale as the management of the Group expects that the fair value less costs to sell either equals or is higherless than the carrying amount.

#### Analysis of profit for the year from discontinued operations

The combined results of the discontinued operations are set out below. The comparative losses and cash flows from discontinued operations have been represented to include those operations classified as discontinued in the current year.

#### Results from discontinued operations for year ended 31 December

	2019	2018
Revenue	2,310	3,771
Expenses	(8,132)	(5,045)
Loss before tax	(5,822)	(1,274)
Income tax expense	-	-
	(5,822)	(1,274)

#### Cash flows from discontinued operations for year ended 31 December

	2019	2018
Net cash (outflows)/inflows from operating activities	(3,269)	853
Net cash outflows from investing activities	(93)	(357)
Net cash inflows/(outflows) from financing activities	3,357	(501)
<b>Net decrease in cash and cash equivalents</b>	<b>(5)</b>	<b>(5)</b>

#### Earnings per share from discontinued operations

	2019	2018
Basic and diluted earnings per share (USD per share)	(0.06)	(0.01)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. CHANGES IN THE GROUP STRUCTURE (continued)

The major classes of assets and liabilities of the Snyatynska poultry farm at the end of the reporting period are as follows:

	31 December 2019
Property, plant and equipment, net	3,599
Agricultural produce	149
Inventories	128
Cash and cash equivalents	1
<b>Total assets classified as held for sale</b>	<b>3,877</b>
Other current liabilities	(45)
<b>Total liabilities associated with assets classified as held for sale</b>	<b>(45)</b>
Intragroup accounts receivable and payable eliminated on consolidation, net <sup>1</sup>	1,048
<b>Net assets of disposal group</b>	<b>4,880</b>

<sup>1</sup> intragroup balances that are eliminated in the Group's consolidated financial statements have been included herein to illustrate the balances that will be transferred with the disposal group and convert to third party balances

The Snyatynska poultry farm has been classified and accounted for at 31 December 2019 as a disposal group held for sale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit or loss. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation and accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of the Cyprus Companies Law Cap 113. The operating subsidiaries of the Group maintain their accounting records under local accounting standards.

Local principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' local accounting records, reflect adjustments necessary in order for the financial statements to be presented in accordance with IFRS.

#### Basis of preparation

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

The consolidated financial statements of the Group are prepared on the basis of historical cost except for revalued amounts of buildings and structures, grain storage facilities,

production machinery, vehicles and agricultural machinery, biological assets, agricultural produce and certain financial instruments, which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

#### Correction of prior period disclosure errors

Subsequent to the issuance of the consolidated financial statements as of and for the year ended 31 December 2018, the management of the Group identified errors in the disclosure of the operating land lease commitments due to the fact that not all constructive obligations were captured in the calculation and thus included with a disclosure restatement to correct this disclosure error in these financial statements.

The effect of restatement of the disclosure provided in the consolidated financial statements as of and for the year ended 31 December 2018 is summarized below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

Contractual and constructive obligations in respect of agricultural land operating leases as of 31 December 2018:

	As previously reported	Effect of restatement	As restated
Within one year	31,330	17,837	49,167
In the second to the fifth year inclusive	104,346	57,994	162,340
After fifth year	112,078	39,278	151,356
<b>Total commitments on land operating leases</b>	<b>247,754</b>	<b>115,109</b>	<b>362,863</b>

In addition, the Company disclosed in the consolidated financial statements as of and for the year ended 31 December 2018 that the analysis conducted by the Group in relation to the initial application of IFRS 16 indicated a probable recognition of right of use of asset and lease liability in the amount not higher than USD 103,933 thousand. The preliminary assessment was underestimated due to the fact that not all constructive obligations were captured in the calculation.

The corrected amounts for the right of use assets and lease liabilities are disclosed in “IFRS 16 leases” section of Note 3 below and amounted to USD 185,442 thousand and USD 177,093 thousand, respectively.

The restatements had no impact on the consolidated statement of financial position as of 31 December 2018, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and basic and diluted earnings per share for the years then ended.

### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting IFRS 16 Leases.

The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The nature and effect of these changes are disclosed below.

The Group applied the practical expedient to retain the classification of existing contracts as leases under the previous International Accounting Standard 17 “Leases” (“IAS 17”) instead of reassessing whether existing contracts contain a lease at the date of initial application.

Several other amendments and interpretations apply for the first time in 2019, but did not result in any changes to the Group’s accounting policies and the amounts reported in the consolidated financial statements of the Group.

### IFRS 16 Leases

IFRS 16 changes how the Group accounts for leases previously classified as operating lease under IAS 17, which were off-balance-sheet.

The Group’s leases mainly represent rent of land from individuals (Ukrainian citizens) for agricultural purposes.

### Impact on transition

The Group has elected to apply the following other transitional reliefs permitted by the Standard:

- The application of a single discount rate for portfolio of leases with reasonably similar characteristic;
- The exclusion of initial direct costs of obtaining a lease from the measurement of right-of-use assets at the date of initial application.
- Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

#### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

##### IFRS 16 Leases (continued)

The table below shows the amount of adjustment for each financial statement line item affected by the application of IFRS 16:

Impact on assets, liabilities and equity as at 1 January 2019	Opening balance as at 1 January 2019	IFRS 16 adjustments	As presented
Property, plant and equipment	1,498,530	(21,449)	1,477,081
Right-of-use assets, net	-	185,442	185,442
Other non-current assets <sup>1</sup>	54,110	(6,092)	48,018
Other current assets <sup>1</sup>	32,858	(69)	32,789
<b>Net impact on total assets</b>	<b>1,585,498</b>	<b>157,832</b>	<b>1,743,330</b>
Lease liabilities	9,087	114,042	123,129
Current portion of lease liabilities	4,355	49,609	53,964
Other current liabilities <sup>2</sup>	96,383	(5,819)	90,564
<b>Net impact on total liabilities</b>	<b>109,825</b>	<b>157,832</b>	<b>267,657</b>
<b>Retained earnings</b>	<b>1,040,327</b>	<b>-</b>	<b>1,040,327</b>

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of future lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. Future lease payments consist of:

- fixed payments (including in-substance fixed payments);
- variable lease payment that are based on a market index or a rate, initially measured using the index or rate as at the commencement date. Regardless of the lease payments stated in the lease contracts, customary business practices complement the contractual terms in a way that at each particular date the rate is a market rate. Since the entire market operates on the basis of expectations of a periodic revision of rates (based on current market rates), management has concluded that the rates are determined by the market mechanism. In substance, non-contractual changes in lease payments are driven by competitive forces and changes in payments are based on average changes of lease payments in the region.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 20%. Incremental borrowing rate was determined as the rate of interest that the Group would have to pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The majority of the Group's leases are denominated in UAH.

The average maturity of lease agreements is 7 years.

The reconciliation between the operating lease commitments as of 31 December 2018 and the opening balance for the lease liabilities as of 1 January 2019 is as follows:

	Thousand US dollars
Land lease commitments as of 31 December 2018 (as restated)	362,863
Discounted lease commitments as of 1 January 2019	157,832
Add: accrued payable for land lease as of 31 December 2018	5,819
Add: lease liabilities as of 31 December 2018 (Note 28)	13,442
Lease liabilities as of 1 January 2019	177,093

<sup>1</sup> consists of prepayments for land lease

<sup>2</sup> accrued payable for land lease



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

#### IFRS 16 Leases (continued)

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019	1 January 2019
Land	198,711	163,993
Property, plant and equipment	30,533	21,449
<b>Total right-of-use assets</b>	<b>229,244</b>	<b>185,442</b>

Property, plant and equipment held under lease arrangements previously presented within property, plant and equipment is now presented within the line item right-of-use assets. There has been no change in the amount recognised.

Adoption of IFRS 16 has no impact on the Group's land lease rights acquired in a business combination and capitalized costs for renewal of contracts recognised before 1 January 2019.

### STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT EFFECTIVE

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture <sup>1</sup>	Not determined
Amendments to IAS 1– Classification of liabilities as current or non-current	1 January 2022
IFRS 17 Insurance Contracts <sup>2</sup>	1 January 2021
Amendments to IAS 1 and IAS 8: Definition of Material <sup>2</sup>	1 January 2020
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform <sup>2</sup>	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards <sup>2</sup>	1 January 2020

For these Standards and Interpretations, management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

#### Functional and presentation currency

The functional currency of Ukrainian companies of the Group is the Ukrainian Hryvnia (“UAH”); the functional currency of the Cyprus companies and Luxembourg company of the Group is US Dollars (“USD”), the functional currency of the Slovenian companies of the Group is EURO (“EUR”). Transactions in currencies other than the functional currency of the entities concerned are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. All realized and unrealized gains and losses arising on exchange differences are recognised in the consolidated statement of profit or loss and other comprehensive income for the period.

These consolidated financial statements are presented in US Dollars (“USD”), which is the Group's presentation currency.

<sup>1</sup> Early application is allowed

<sup>2</sup> Standards have been already endorsed for use in the European Union

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### Functional and presentation currency (continued)

The results and financial position of the Group are translated into the presentation currency using the following procedures:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate as of the reporting date of that statement of financial position;
- Income and expenses for each consolidated statement of profit or loss are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognised as a separate component of equity;
- All equity items, except for the revaluation reserve, are translated at the historical exchange rate. The revaluation reserve is translated at the closing rate as of the date of the statement of financial position.

For practical reasons, the Group translates items of income and expenses for each period presented in the financial statements using the quarterly average exchange rates, if such translations reasonably approximate the results translated at exchange rates prevailing at the dates of the transactions.

### The relevant exchange rates were:

Currency	Closing rate as of 31 December 2019	Average for 2019	Closing rate as of 31 December 2018	Average for 2018
UAH/USD	23.6862	25.8373	27.6883	27.2016
UAH/EUR	26.4220	28.9406	31.7141	32.1341

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the MHP SE and its subsidiaries.

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year, are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All significant intercompany transactions, balances and unrealized gains or losses on transactions are eliminated on consolidation, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those adopted by the Group.

### Accounting for acquisitions

The acquisitions of subsidiaries from third parties are accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values.

The consideration transferred by the Group is measured at fair value, which is the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquired subsidiary and the equity interests issued by the Group in exchange for control of the subsidiary. Acquisition-related costs are generally recognised in the consolidated statement of profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes assets and liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and is included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which may not exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Accounting for acquisitions *(continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the subsidiary's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests, if any, are measured at fair value or, when applicable, on the basis specified in other IFRS standards.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired subsidiary, and the fair value of the Group's previously held equity interest in the acquired subsidiary (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of non-controlling interests in the subsidiary and the fair value of the Group's previously-held interest in the subsidiary (if any), the excess is recognised in the consolidated statement of profit or loss, as a bargain purchase gain.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount by

which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent.

When an acquisition of a legal entity does not constitute a business, the cost of the group of assets is allocated between the individual identifiable assets in the group based on their relative fair values.

### Accounting for transactions with entities under common control

The assets and liabilities of subsidiaries acquired from entities under common control are recorded in these consolidated financial statements at pre-acquisition carrying values. Any difference between the carrying value of net assets of these subsidiaries, and the consideration paid by the Group is accounted for in these consolidated financial statements as an adjustment to shareholders' equity. The results of the acquired entity are reflected from the date of acquisition.

Any gain or loss on disposals to entities under common control are recognised directly in equity and attributed to owners of the Parent.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Fair value measurement *(continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Borrowing costs

Borrowing costs include interest expense, finance charges on leases and other interest-bearing long-term payables and debt service costs.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

### Contingent liabilities and assets

Contingent liabilities are not recognised in the consolidated financial statements. Rather, they are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognised only when the contingency is resolved.

### Segment information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports provided to the Group's chief operating decision maker ("CODM"). The Group has identified its top management team as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified the following reportable segments:

- Poultry and related operations;
- Grain growing operations;
- Meat processing and other agricultural operations;
- Europe operating segment.

Reportable segments represent the Group's principal business activities. Poultry and related operations segment include sales of chicken meat, sales of by-products such as vegetable oil and related products and other poultry-related products. CODM is considering oil extraction as a part of mixed fodder production rather than a separate line of business as primarily the quality and effectiveness of mixed fodder production prevails over oil output. Grain growing operations include sale of grain other than feed grains and mixed-fodder. The meat processing and other agricultural operations segment primarily includes sales of other than poultry meat and processed meat products, feed grains and milk. The Europe operating segment comprises the operations of Perutnina Ptuj and include sales of meat processing and chicken meat products in Southeast Europe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

The Group does not present information on segment assets and liabilities as the CODM does not review such information for decision-making purposes.

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

### Revenue recognition

The Group generates revenue primarily from the sale of agricultural products to the end customers. Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected

on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Non-monetary exchanges or swaps of goods which are of similar nature and value are not treated as transactions which generate revenue.

The Group recognises revenue from the following major sources:

- chicken meat;
- vegetable oil and related products;
- other poultry related sales (delivery services, sunflower and soybean meals, sunflower husk and other);
- grain;
- meat processing products and other meat;
- other agricultural operations (milk, feed grains and other);

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue at a point in time when it transfers control of a product or service to a customer.

The major part of the Group's sales are generated from the wholesale market. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location or delivered to major Ukrainian sea ports. Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional. Under the Group's standard contract terms, customers have no right of return.

The Group sells its products for export on various terms, some of which include shipping and handling costs in the price of the product. Sales price of products for local market predominantly includes shipping and handling costs in the price of the product. Such services are recognised as a separate performance obligation. The transaction price for shipping and handling services is determined based on the costs of such services. The Group satisfies its performance obligation associated with transferring the promised goods or services to a customer when the customer obtains control of those assets.

### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs, or as an offset against finance costs when received as compensation for the finance costs for agricultural producers. To the extent the conditions attached to the grants are not met at the reporting date, the received funds are recorded in the Group's consolidated financial statements as deferred income, which is recognised in profit or loss on a systematic basis over the useful life of the related assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### **Government grants** *(continued)*

Other government grants are recognised at the moment when the decision to disburse the amounts to the Group is made.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached on them and that the grants will be received.

### **Property, plant and equipment**

All groups of property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses, except for land and other fixed assets that are carried at historical cost less accumulated depreciation.

The historical cost of an item of property, plant and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by the

management of the Group; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, (d) the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period; and (e) for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy.

Subsequently 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 the consolidated statement of profit or loss as incurred.

For all groups of property, plant and equipment carried at revaluation the model revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve.

However, such increase is recognised in the consolidated statement of profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit or loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the consolidated statement of profit or loss.

However, such decrease is debited directly to the revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Depreciation on revalued assets is charged to the consolidated statement of profit or loss. The excess of depreciation charge on the revalued asset over the depreciation that would have been charged based on the historical cost of the asset is transferred from revaluation reserve directly to retained earnings over the assets useful life. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### Property, plant and equipment (continued)

Depreciation of property, plant and equipment is charged so as to write off the depreciable amount over the useful life of an asset and is calculated using a straight line method. Useful lives of the groups of property, plant and equipment are as follows:

Buildings and structures	15 - 55 years
Grain storage facilities	20 - 60 years
Production machinery	10 - 25 years
Auxiliary and other machinery	5 - 25 years
Utilities and infrastructure	20 - 50 years
Vehicles and agricultural machinery	5 - 15 years
Other fixed assets	3 - 10 years

Depreciable amount is the cost of an item of property, plant and equipment, or revalued amount, less its residual value. The residual value is the estimated amount that the Group would currently obtain from disposal of the item of property, plant and equipment, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The residual value, the useful lives and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for prospectively as a change in an accounting estimate.

The gain or loss arising on sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of construction in progress commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management.

### Intangible assets

Intangible assets consist primarily of land lease rights, trademarks and customer relationship which are acquired in a business combination.

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset. The cost of such intangible assets is their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Intangible assets assessed as having an indefinite useful life are not amortised and are examined for impairment annually or more frequently where there is an indication of impairment. Where the carrying amount of an asset is greater than the amount that it is estimated to be recoverable, it is written down to its recoverable amount.

Amortization of intangible assets is recognised on a straight line basis over their estimated useful lives. The period of estimated useful life of intangibles is as follows:

Land lease rights	3 - 15 years
Customer relationship	20 years
Trademarks	not amortised
Other intangible assets	3 - 10 years

The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Right-of-use assets

Right-of-use assets mainly represents rent of land from individuals (Ukrainian citizens) for agricultural purposes. The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position. Right-of-use assets are depreciated over the period of lease term. The depreciation starts at the commencement date of the lease. The Group recognises depreciation of right-of-use assets based on the lease term, presented within cost of goods sold in the consolidated statement of profit or loss.

### Impairment of tangible and intangible assets other than goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible 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 asset is estimated in order to determine the extent of the impairment loss (if any).

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value

in use, the estimated future cash flows are discounted to their present value using 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. An impairment loss is recognised immediately in the consolidated statement of profit or loss 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Impairment of goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated statement of profit or loss. An impairment loss recognised on goodwill is not reversed in subsequent periods.

### Income taxes

Income taxes have been computed in accordance with the laws currently enacted or substantially enacted in jurisdictions where operating entities are located. Income tax is calculated based on the results for the year as adjusted for items that are non-assessable or non-tax deductible. It is calculated using tax rates that have been enacted by the reporting date.

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 consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Income taxes *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is charged or credited to the consolidated statement of profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set off the recognised amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to 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.

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 11).

### Withholding tax

Passive income (dividends, interest, royalties, etc) from Ukrainian sources that is paid to non-resident entities is generally subject to withholding tax (WHT).

The WHT tax rate of 15% (base rate) should be applied unless more favorable rates (reduced rates) are provided by a relevant double taxation treaty (DTT) signed between Ukraine and foreign country. In order to benefit from reduced tax rate in DTT, the non-resident recipient of income must confirm its tax residency and should also be considered the beneficial owner of such income.

Tax residency status should be confirmed by tax residency certificate issued by tax authorities of the recipient's country of residence for tax year in which the income is paid.

According to the Tax Code of Ukraine, agents, nominee holders, and other intermediaries in respect of received income cannot be beneficial owners of income sourced in Ukraine and are not entitled to favorable treaty provisions. The Ukrainian tax authorities use both legal and economic substance approach for the beneficial owner definition considering also economic substance of the transaction and the substance of the recipient of income.

As result, in order to prove the beneficial ownership status of the non-resident recipient, there should be additional documental support to justify the substance of transactions.

No formal requirements exist to the above documents and, in practice, such documents may include evidence that the recipient of income has a real office, employees and that the recipient is fully entitled to manage and dispose the received income without limitations.

Passive income (dividends, interest, royalties, etc) from Slovenian sources that is paid to non-resident entities is subject to WHT at the rate of 5%.

### Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise raw materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present locations and condition.

Cost is calculated using the FIFO (first-in, first-out) method. Net realizable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Agriculture related production process results in production of joint products: main and by-products. A by-product arising from the process is measured at net realizable value and this value is deducted from the cost of the main product.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### Biological assets and agricultural produce

Agricultural activity is defined as a biological transformation of biological assets for sale into agricultural produce or into additional biological assets. The Group classifies hatchery eggs, live poultry and other animals and plantations as biological assets.

The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognised in the consolidated statement of profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each reporting date as a fair value adjustment.

The change in this adjustment from one period to another is recognised as “Net change in fair value of biological assets and agricultural produce” in the consolidated statement of profit or loss.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in the consolidated statement of profit or loss.

Based on the above policy, the principal groups of biological assets and agricultural produce are stated as follows:

### Biological Assets

#### i. Broiler chickens

Broilers comprise poultry held for chicken meat production. The fair value of broilers is determined by reference to the cash flows that will be obtained from the sales of 42-day aged chickens, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

#### ii. Breeders

The fair value of breeders is determined using the discounted cash flow approach based on hatchery eggs' market prices.

#### iii. Cattle and pigs

Cattle and pigs comprise cattle held for regeneration of livestock population and animals raised for milk and beef and pork meat production. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. Cattle, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate.

#### iv. Crops in fields

The fair value of crops in fields is determined by reference to the cash flows that will be obtained from sales of harvested crops, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

#### v. Hatchery eggs

The fair value of hatchery eggs is determined by reference to market prices at the point of harvest.

### Agricultural Produce

#### i. Dressed poultry, beef and pork

The fair value of dressed poultry, beef and pork is determined by reference to market prices at the point of harvest.

#### ii. Grain

The fair value of fodder grain is determined by reference to market prices at the point of harvest.

The Group's biological assets are classified into bearer and consumable biological assets depending upon the function of a particular group of biological assets in the Group's production process. Consumable biological assets are those that are to be harvested as agricultural produce, and include hatchery eggs and live broiler chickens intended for the production of meat, as well as pork and meat cows. Bearer biological assets include poultry held for hatchery eggs production, milk cows and breeding bulls.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, trade accounts receivable, net, bank borrowings, bonds issued, trade accounts payable and other financial liabilities. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

#### *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortised cost (this category is the most relevant to the Group):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at FVTPL.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

#### *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade accounts receivable and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert's reports, financial analysts, governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

### *Low credit risk financial instruments*

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- i. The financial instrument has a low risk of default,
- ii. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- iii. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

### *Default definition*

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### *Credit impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade accounts receivable, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Inputs, assumptions and estimation techniques used by measurement and recognition of expected credit losses are disclosed in respective Notes 14 and 19 to financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Financial liabilities

#### *Initial recognition and measurement*

The Group's financial liabilities include trade and other payables, loans and borrowings, leases and derivative financial instruments.

All financial liabilities are recognised initially at fair value and are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the

recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between:

1. the carrying amount of the liability before the modification; and
2. the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss.

### Trade accounts receivable, net

Trade accounts receivable, net are measured at initial recognition at transaction price, and are subsequently measured at amortised cost using the effective interest rate method. Trade accounts receivable, net which are non-interest bearing, are stated at their nominal value.

### Cash and cash equivalents

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

### Bank borrowings, corporate bonds issued and other long-term payables

Interest-bearing bank borrowings, bonds issued and other long-term payables are initially measured at fair value net of directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognised over the term of the borrowings and recorded as finance costs.

### Derivative financial instruments

The Group enters into derivative financial instruments to purchase sunflower seeds and sales of grains. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

### Trade and other accounts payable

Accounts payable are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(continued)*

### Lease liabilities

The Group assesses whether a contract is or contains a lease, at inception of the contract.

The Group recognises lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments. The Group does not apply the short term and low-value lease exemptions.

The Group measures the lease liability at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment.

The lease liability is presented as a separate line in the consolidated statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group recognises interest on lease liabilities based on incremental borrowing rate, presented within interest expenses in the consolidated statement of profit or loss.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or market rate, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

In the statement of cash flows the Group separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities).

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

### Determination of variable lease payments

As described in Note 3, the Group measures lease liabilities at the present value of future lease payments, discounted using the lessee's incremental borrowing rate. Future lease payments consist of both fixed payments (including in-substance fixed payments) and variable lease payments. Management of the Group make significant judgement in determination of variable lease payments. Regardless of the lease payments stated in the lease contracts, customary business practices complement the contractual terms in a way that at each particular date the rate is a market rate. Since the entire market operates on the basis of expectations of a periodic revision of rates (based on current

market rates), management has concluded that the rates are determined by the market mechanism. In substance non-contractual changes in lease payments are driven by the competitive forces and payments change is based on the average changes of lease payments in the region.

### Revaluation of property, plant and equipment

As described in Note 3, the Group applies the revaluation model to the measurement of all groups of property, plant and equipment, except land and other fixed assets. At each reporting date, the Group carries out a review of the carrying amount of items of property, plant and equipment accounted for using a revaluation model to determine whether the carrying amount differs materially from fair value.

When determining whether to perform a fair value assessment in a given period, the management of the Group considers development of macroeconomic indicators like changes in prices, inflation rates and devaluation of Ukrainian Hryvnia ("UAH") against USD and EUR. Based on the results of this review, the management of the Group concluded that buildings and structures, grain storage facilities, utilities and infrastructure, vehicles and agricultural machinery, auxiliary and other machinery should be revalued as of 30 September 2019.

### Loans to related parties

As described in Note 30, as of 31 December 2019, the Group had advanced loans to its majority shareholder, WTI Trading Limited ("WTI"), in the aggregate amount of USD 20,400 thousand pursuant to a USD 50,000 thousand facility approved by the Board of Directors. The facility was further increased by the Board to USD 80,000 thousand on 21 January 2020. The loans were granted on arm's length basis.

The Board has exercised significant judgement in assessing whether the granted loans were made on terms equivalent with

those prevailing in arm's length conditions and entitle market interest rate. In addition management has exercised judgement in assessing whether the granting of loans affect the compliance of the Group with the various provisions stipulated by the indentures of Senior Notes, including assessment of compliance with criteria related to restricted payments and exemptions, assessment of compliance with limitations on transactions with affiliates, as well as compliance with loans granted with definition of permitted investments.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Impairment of goodwill and intangibles not amortised

As disclosed in Notes 14 and 15, the Group determines at least on an annual basis whether indefinite life intangible assets and goodwill are impaired. This requires an estimate of an asset's recoverable amount which is the higher of an asset's or cash generating unit's (CGU's) fair value less costs of disposal and its value in use and it is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate and growth rates in order to calculate the present value of those cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Key sources of estimation uncertainty

#### Fair value measurement on business combinations and identification of cash generating units

As disclosed in Note 2, the Group acquired Perutnina Ptuj during 2019 and based on IFRS 3 recognised the underlying assets and liabilities and consideration given at fair value. The fair value has been determined by adopting a variety of techniques that are appropriate for the respective assets and liabilities and are normally assessed by market valuation practitioners. The fair value estimates and techniques used as well as the identification of cash generating units, requires significant judgement to be exercised by management.

#### Revaluation of property, plant and equipment

During the year ended 31 December 2019, the management of the Group appointed an independent appraiser to perform a revaluation of buildings and structures, grain storage facilities, utilities and infrastructure, vehicles and agricultural machinery, auxiliary and other machinery as of 30 September 2019.

The independent appraiser has performed the valuation in accordance with International Valuation Standards applying the following techniques:

- depreciated replacement cost for grain storage facilities, utilities and infrastructure;
- market comparable approach for vehicles and agricultural machinery; and
- depreciated replacement cost and market comparable approach, if applicable, for buildings and structures, auxiliary and other machinery.

Key assumptions used by the independent appraiser in assessing the fair value of property, plant and equipment using the depreciated replacement cost and market comparable methods were as follows:

- changes in market prices of assets and construction materials from the date of their acquisition/construction/date of previous valuation to the date of this valuation;
- external prices for vehicles;
- normative and remaining useful lives; and
- rates of physical depreciation.

The results of revaluation based on the depreciated replacement cost and market comparable approaches were compared with a revaluation performed using the income approach to check for impairment indicators of revalued assets, if any. For all CGUs in Ukraine the Group used discount factor 12.0% and terminal growth rate 4.7% for projected cash flows beyond five-year projected period for revaluation performed using the income approach. For CGUs in Poultry and related operations segment, Grain growing operations segment and Meat processing and other agricultural operations segment the revenue growth rates within five-year period are 7.0%, 5.1% and 7.0%, respectively. Assumptions used in the impairment testing of the assets related to Perutnina Group are disclosed in Note 15.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The following unobservable inputs were used to measure Buildings and structures, Utilities and infrastructure, Grain storage facilities, Vehicles and agricultural machinery, Auxiliary and other machinery and Production machinery:

Description	Fair value as at 31 December 2019	Fair value as at 31 December 2018	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs 2019 (average)	Range of unobservable inputs 2018 (average)	Relationship of unobservable inputs to fair value
Buildings and structures	1,029,998	N/A <sup>1</sup>	Depreciated replacement cost method	Index of physical depreciation	0 - 70% (28.42%)	N/A <sup>1</sup>	The higher the index of physical depreciation, the lower the fair value
				Cumulative index of inflation of construction works	1.00 - 11.23 (1.09)	N/A <sup>1</sup>	The higher the index, the higher the fair value
Utilities and infrastructure	152,629	N/A <sup>1</sup>	Depreciated replacement cost method	Index of physical depreciation	0 - 70% (30.47%)	N/A <sup>1</sup>	The higher the index of physical depreciation, the lower the fair value
				Cumulative index of inflation of construction works	1.00 - 11.23 (1.08)	N/A <sup>1</sup>	The higher the index, the higher the fair value
Grain storage facilities	105,569	N/A <sup>1</sup>	Depreciated replacement cost method	Index of physical depreciation	0 - 70% (44.67%)	N/A <sup>1</sup>	The higher the index of physical depreciation, the lower the fair value
				Cumulative index of inflation of construction works	1.00 - 9.57 (1.07)	N/A <sup>1</sup>	The higher the index, the higher the fair value
Vehicles and agricultural machinery	183,258	N/A <sup>1</sup>	Market comparable approach	Index of physical depreciation	0 - 90% (17.17%)	N/A <sup>1</sup>	The higher the index of physical depreciation, the lower the fair value
Auxiliary and other machinery	61,717	N/A <sup>1</sup>	Market comparable approach	Index of physical depreciation	0 - 90% (35.49%)	N/A <sup>1</sup>	The higher the index of physical depreciation, the lower the fair value

<sup>1</sup> Due to the absence of revaluation during the year ended 31 December 2018



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

#### Revaluation of property, plant and equipment

If the above unobservable inputs to the valuation model were 5 percentage points higher/lower while all other variables were held constant, the carrying amount of the property, plant and equipment under revaluation would decrease/increase by USD 35,386 thousand and USD 33,466 thousand, respectively.

#### Determination of incremental borrowing rate

As described in Note 3, the Group uses incremental borrowing rate as discounting factor for the purpose of calculation of lease liability, if the rate implicit in the lease is not readily determinable. Incremental borrowing rate is determined as available rate for the Group adjusted for specifics of particular lease contracts.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 20%. If the above rate was 5 percentage points higher/lower, the carrying amount of lease liabilities recognized as of 1 January 2019 would decrease/increase by USD 21,399 thousand and USD 28,315 thousand, respectively.

#### Fair value less costs to sell of biological assets and agricultural produce

Biological assets are recorded at fair values less costs to sell. The Group estimates the fair values of biological assets based on the following key assumptions:

- Average meat output for broilers and livestock for meat production;
- Average productive life of breeders and cattle held for regeneration and milk production;
- Expected crops output;
- Estimated changes in future sales prices;
- Projected production costs and costs to sell; and
- Discount rate.

During the year ended 31 December 2019, the fair value of biological assets was estimated using discount factors of 12.0% and 12.0% for non-current and current assets, respectively (31 December 2018: 15.7% and 18.0%).

Although some of these assumptions are obtained from published market data, the majority of these assumptions are estimated based on the Group's historical and projected results (Note 17).

#### Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management estimates based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

#### Deferred tax assets

Deferred tax assets, including those arising from unused tax losses are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Based on management's assessment, the Group determined it was appropriate to recognize deferred tax assets on unused tax losses, which will be utilized in future against existing deferred tax liabilities and available future tax profits.

The estimation uncertainty therefore pertains to the level of deferred tax assets to be recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. SEGMENT INFORMATION

In 2019, following the acquisition of operations in Europe (Perutnina Ptuj), the Group's chief operating decision maker ("CODM") reviews the results and operations of the Europe operating segment separately from the other segments of the group. This is a new operating segment and therefore this change has not impacted the composition of the other operating segments. As this is a new segment for 2019, there is no need for prior year segment information to be presented.

The Group's business is managed on a worldwide basis, but operates manufacturing facilities and sales offices primarily in Ukraine and Europe.

Reportable segments are presented in a manner consistent with the internal reporting to the CODM.

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 are as follows:

Poultry and related operations segment:

- sales of chicken meat;
- sales of vegetable oil and related products;
- other poultry related sales.

Grain growing operations segment:

- sales of grain.

Meat processing and other agricultural operations segment:

- sales of meat processing products and other meat;
- other agricultural operations (milk, feed grains and other).

Europe operating segment:

- sales of meat processing and chicken meat products in Southeast Europe.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Sales between segments are carried out at market prices. The segment result represents operating profit under IFRS before unallocated corporate expenses and loss on impairment of property, plant and equipment. Unallocated corporate expenses include management remuneration, representative expenses, and expenses incurred in respect of the maintenance of office premises. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Europe operating segment primarily includes sales of chicken meat and meat processing products, produced in the facilities of Perutnina Ptuj. However, the CODM manages this as a single segment, on the basis that each of research, development, manufacture, distribution and selling of chicken meat and meat processing products requires single marketing strategies, centralised budgeting process and centralised management of production operations.

The Group does not disclose geographical revenue information as it is not available and the cost to develop it would be excessive.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. SEGMENT INFORMATION (continued)

As of 31 December and for the year then ended the Group's segmental information from continuing operations was as follows:

Year ended 31 December 2019	Poultry and related operations	Grain growing operations	Meat processing and other agricultural operations	Europe operating segment	Total reportable segments	Eliminations	Consolidated
External sales	1,367,554	268,419	148,673	271,297	2,055,943	-	2,055,943
Sales between business segments	49,633	246,477	949	-	297,059	(297,059)	-
<b>Total revenue</b>	<b>1,417,187</b>	<b>514,896</b>	<b>149,622</b>	<b>271,297</b>	<b>2,353,002</b>	<b>(297,059)</b>	<b>2,055,943</b>
<b>Segment result</b>	<b>182,778</b>	<b>28,972</b>	<b>12,820</b>	<b>25,196</b>	<b>249,766</b>	<b>-</b>	<b>249,766</b>
Unallocated corporate expenses							(28,019)
Loss on impairment of property, plant and equipment <sup>4</sup>	(2,653)	(3,004)	(163)	-	(5,820)	-	(6,244)
Other income, net <sup>1</sup>							37,709
<b>Profit before tax from continuing operations</b>							<b>253,212</b>
<b>OTHER INFORMATION:</b>							
Additions to property, plant and equipment <sup>2</sup>	92,836	4,116	2,985	10,547	110,484	-	110,484
Depreciation and amortization expense <sup>3</sup>	98,526	80,115	7,544	18,523	204,708	-	204,708
Net change in fair value of biological assets and agricultural produce	8,732	(49,875)	1,577	51	(39,515)	-	(39,515)

<sup>1</sup> Include finance income, finance costs, foreign exchange gain, net and other expenses, net.

<sup>2</sup> Additions to property, plant and equipment in 2019 do not include unallocated additions in the amount of USD 9,744 thousand and additions due to acquisitions of subsidiaries in the amount of USD 179,581 thousand.

<sup>3</sup> Depreciation and amortization for the year ended 31 December 2019 does not include unallocated depreciation and amortization in the amount of USD 983 thousand.

<sup>4</sup> Loss on impairment of property, plant and equipment for the year ended 31 December 2019 includes unallocated loss in amount of USD 424 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. SEGMENT INFORMATION *(continued)*

As of 31 December and for the year then ended the Group's segmental information from continuing operations was as follows:

Year ended 31 December 2018	Poultry and related operations	Grain growing operations	Meat processing and other agricultural operations	Europe operating segment	Total reportable segments	Eliminations	Consolidated
External sales	1,241,181	180,976	130,049	-	1,552,206	-	1,552,206
Sales between business segments	50,181	244,151	324	-	294,656	(294,656)	-
<b>Total revenue</b>	<b>1,291,362</b>	<b>425,127</b>	<b>130,373</b>	<b>-</b>	<b>1,846,862</b>	<b>(294,656)</b>	<b>1,552,206</b>
<b>Segment result</b>	<b>229,293</b>	<b>106,401</b>	<b>9,270</b>	<b>-</b>	<b>344,964</b>	<b>-</b>	<b>344,964</b>
Unallocated corporate expenses							(28,771)
Loss on impairment of property, plant and equipment							(3,803)
Other income, net <sup>1</sup>							(132,485)
<b>Profit before tax from continuing operations</b>							<b>179,905</b>
<b>OTHER INFORMATION:</b>							
Additions to property, plant and equipment <sup>2</sup>	189,677	30,747	12,496	-	232,920	-	232,920
Depreciation and amortization expense <sup>3</sup>	82,093	44,503	6,668	-	133,264	-	133,264
Net change in fair value of biological assets and agricultural produce	(934)	33,028	-	-	32,094	-	32,094

<sup>1</sup> Include finance income, finance costs, foreign exchange gain, net and other expenses, net.

<sup>2</sup> Additions to property, plant and equipment in 2018 do not include unallocated additions in the amount of USD 5,948 thousand.

<sup>3</sup> Depreciation and amortization for the year ended 31 December 2018 does not include unallocated depreciation and amortization in the amount of USD 802 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. SEGMENT INFORMATION (continued)

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2019 and 2018:

	2019	2018
Chicken meat and related products	588,903	471,177
Vegetable oil and related products	302,600	274,313
Grain	251,836	156,511
Other agricultural segment products	42,362	21,703
	<b>1,185,701</b>	<b>923,704</b>

Export sales includes revenue from shipping and handling services in the amount of USD 68,543 thousand as of 31 December 2019 (2018: USD 33,325 thousand).

Export sales of vegetable oil and related products and export sales of grains are primarily made to global trading companies. The major markets for the Group's export sales of chicken meat are MENA and EU countries.

Non-current assets based on the geographic location of the manufacturing facilities were as follows as of 31 December 2019 and 31 December 2018:

	2019	2018
Ukraine	2,251,447	1,613,243
Europe	234,209	-
	<b>2,485,656</b>	<b>1,613,243</b>

Non-current assets excluding deferred tax assets and non-current financial assets.

As of 31 December 2019 and for the year then ended, the Group's manufacturing facilities were located mainly within Ukraine. There is not a single customer who contributed more than 10% amount to the Group's revenue in either 2019 or 2018.



## 6. REVENUE

Revenue for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
<b>Poultry and related operations segment</b>		
Chicken meat	977,576	870,851
Vegetable oil and related products	296,999	271,122
Shipping and handling services	56,199	43,586
Other poultry related sales	36,780	55,622
	<b>1,367,554</b>	<b>1,241,181</b>
<b>Grain growing operations segment</b>		
Grain	235,095	168,118
Shipping and handling services	33,324	12,858
	<b>268,419</b>	<b>180,976</b>
<b>Meat processing and other agricultural operations segment</b>		
Other meat	112,586	97,190
Shipping and handling services	5,583	5,313
Other agricultural sales	30,504	27,546
	<b>148,673</b>	<b>130,049</b>
<b>Europe operating segment</b>		
Chicken meat	150,456	-
Other meat	91,679	-
Other agricultural sales	26,472	-
Shipping and handling services	2,690	-
	<b>271,297</b>	-
	<b>2,055,943</b>	<b>1,552,206</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. COST OF SALES

Cost of sales for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Poultry and related operations	1,050,849	891,065
Grain growing operations	241,917	154,053
Meat processing and other agricultural operations segment	131,723	117,609
Europe operating segment	194,107	-
	<b>1,618,596</b>	<b>1,162,727</b>

For the years ended 31 December 2019 and 2018 cost of sales comprised the following:

	2019	2018
Costs of raw materials and other inventory used	1,041,184	751,747
Payroll and related expenses	236,788	161,708
Depreciation and amortization expense	186,777	124,106
Other costs	153,847	125,166
	<b>1,618,596</b>	<b>1,162,727</b>

Social security contributions, included in Payroll and related expenses above, amounted to USD 38,645 thousand for the year ended 31 December 2019 (2018: USD 25,519 thousand).

## 8. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Payroll and related expenses	72,986	43,653
Services	45,868	21,957
Depreciation expense	18,914	9,960
Representative costs and business trips	14,392	9,830
Advertising expense	13,957	7,779
Fuel and other materials used	5,638	2,715
Insurance expense	1,381	492
Bank services and conversion fees	1,290	431
Other	4,730	2,760
	<b>179,156</b>	<b>99,577</b>

Payroll and related expenses includes social security contributions amounted to USD 7,773 thousand for the year ended 31 December 2019 (2018: USD 3,624 thousand).

Remuneration to the auditors, included in Services above, amounted to USD 1,831 thousand for the year ended 31 December 2019 (2018: USD 1,605 thousand). Such remuneration includes both audit and non-audit services, with the statutory audit fees component amounted to USD 990 thousand (2018: USD 430 thousand) for the year ended 31 December 2019 and fees for other assurance services component approximating USD 309 thousand (2018: USD 458 thousand), for tax advisory services component approximating USD 23 thousand (2018: USD 20 thousand) and for other non-audit services component approximating USD 509 thousand (2018: USD 697 thousand) for the year ended 31 December 2019.

## 9. DEFERRED REVENUE

The Ukrainian Government supports domestic agricultural producers and attracts investments into the agricultural sector. According to the Law "On the State Budget for 2019", UAH 5,709 million were allocated to support the agricultural sector in 2019 via a compensation program, including UAH 3,500 million to support the livestock sector and up to UAH 900 million to purchase agricultural machinery produced in Ukraine.

Also during the year ended 31 December 2019, the Group received government compensations in accordance with EU farming subsidies policy and other compensations in accordance with the EU national programs of employment, assigned contributions for employees, and refunds of excise duties.

For the years ended 31 December 2019 and 2018 following government grants were received:

	2019	2018
Compensation of construction and reconstruction of livestock farms	7,554	34,371
Compensation received in EU	4,063	-
Compensation of the cost of machinery and equipment	395	-
Other compensations	923	1,000
	<b>12,935</b>	<b>35,371</b>

Government grants for compensation of construction and reconstruction of livestock farms and compensation of cost of machinery and equipment are presented in the statement of the financial position as deferred revenues, which is recognised in profit or loss on a systematic basis over the useful life of the related assets. All other compensations received were recognised in consolidated statement of profit or loss and other comprehensive income in full.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. FINANCE COSTS

Finance costs for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Interest on corporate bonds	94,970	93,200
Interest on obligations under leases	37,784	1,154
Interest on bank borrowings	12,951	11,852
Bank commissions and other charges	6,827	4,417
Costs related to corporate bonds (Note 27)	2,164	32,915
<b>Total finance costs</b>	<b>154,696</b>	<b>143,538</b>
<b>LESS:</b>		
Finance costs included in the cost of qualifying assets	(7,144)	(5,519)
	<b>147,552</b>	<b>138,019</b>

For qualifying assets, the weighted average capitalization rate on funds borrowed during the year ended 31 December 2019 was 8.10% (2018: 8.60%).

Interest on corporate bonds for the years ended 31 December 2019 and 2018 includes the amortization of premium and debt issue costs on bonds issued in the amounts of USD 6,885 thousand and USD 6,196 thousand, respectively.

### 11. INCOME TAX

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2019 and 2018.

During the year ended 31 December 2019, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax. The Tax Code of Ukraine introduced an 18% income tax rate effective from 1 January 2014. The deferred income tax assets and liabilities as of 31 December 2019 and 2018 are measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. The tax rates for agricultural producers is calculated as a percentage of the target-ratio based monetary valuation per hectare of agricultural land resulting in substantially lower tax charges compared to CIT. Agricultural manufacturers are eligible to apply for a single tax if they meet both the following two requirements:

- The share of the entity's revenue from agricultural production (i.e. sale of the entity's cultivated and processed products) to the total share of its income equals or exceeds 75 per cent; and
- These agriproducts were cultivated on land that such agricultural manufacturers own or lease, and the ownership title and leases have been duly registered.

The components of income tax expense/(benefit) were as follows for the years ended 31 December 2019 and 2018:

	2019	2018
Current income tax expense	5,171	2,169
Withholding tax	7,073	10,927
Deferred tax expense	19,863	37,431
<b>Income tax charge</b>	<b>32,107</b>	<b>50,527</b>

The reconciliation between profit before tax from continuing operations multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2019 and 2018 was as follows:

	2019	2018
Profit before income tax	253,212	179,905
Income tax expense calculated at rates effective during the year ended in respective jurisdictions	45,954	36,360
<b>TAX EFFECT OF:</b>		
Income generated by FAT payers and other exempt from income tax	(13,461)	(33,400)
Derecognition and utilisation of previously recognised tax losses/assets	(17,734)	30,802
Withholding tax	7,073	10,927
Non-deductible expenses	3,915	1,894
Expenses not deducted for tax purposes	-	2,129
Translation loss	6,360	1,815
<b>Income tax charge</b>	<b>32,107</b>	<b>50,527</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. INCOME TAX (continued)

Derecognition of previously recognised tax losses results from the reversal of deferred tax liabilities related to property revaluation that were the source of taxable income relied on previously to support recognition.

As of 31 December 2019 and 2018 deferred tax assets and liabilities recognised the following:

	2019	2018
<b>DEFERRED TAX ASSETS ARISING FROM:</b>		
Other current liabilities	3,244	1,235
Inventories	432	354
Tax losses	26,423	60,048
<b>Total deferred tax assets</b>	<b>30,099</b>	<b>61,637</b>
<b>DEFERRED TAX LIABILITIES ARISING FROM:</b>		
Property, plant and equipment	(78,906)	(61,908)
Inventories	(159)	(493)
<b>Total deferred tax liabilities</b>	<b>(79,065)</b>	<b>(62,401)</b>
<b>Net deferred tax liabilities</b>	<b>(48,966)</b>	<b>(764)</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as of 31 December 2019 and 2018:

	2019	2018
Deferred tax assets	6,640	12,189
Deferred tax liabilities	(55,305)	(12,953)
Deferred tax assets not recognised	(4,356)	(12,189)
	<b>(53,021)</b>	<b>(12,953)</b>

During the years ended 31 December 2019 and 2018, the Group did not recognize tax losses in the amount of USD 23,086 (USD 4,356 thousand of deferred tax assets), USD 67,717 thousand (USD 12,189 thousand of deferred tax asset), respectively, as the Group did not intend to deduct the relevant expenses for tax purposes in subsequent periods, as there are uncertainties on whether sufficient taxable profits will be generated by particular companies of the Group in the future. There is no expiration date of accounting tax losses according to the Tax Code of Ukraine.

Deferred tax liabilities have not been recognised in respect of unremitted earnings of Ukrainian subsidiaries as the earnings can be remitted free from taxation currently and in future years, based on current legislation.

The movements in net deferred tax liabilities for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
<b>Net deferred tax liabilities as of beginning of the year</b>	<b>(12,953)</b>	<b>(23,609)</b>
Deferred tax expense	(19,866)	(37,431)
Deferred tax liabilities acquired from the acquisition of subsidiaries	(18,338)	-
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income as result of revaluation	(17,053)	-
Deferred tax on revaluation of property, plant and equipment charged directly to other comprehensive income as result of intercompany sales	15,162	49,357
Translation difference	27	(1,270)
<b>Net deferred tax liabilities as of end of the year</b>	<b>(53,021)</b>	<b>(12,953)</b>

Deferred tax benefit on revaluation of property, plant and equipment is related to the intercompany sale of fixed assets from CIT-payers entity to FAT-payers (tax-exempt) entity, which has led to reversal of the respective part of the deferred tax liability.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT

The following table represents movements in property, plant and equipment for the year ended 31 December 2019:

	Land	Buildings and structures	Grain storage facilities	Production machinery	Auxiliary and other machinery	Utilities and infrastructure	Vehicles and agricultural machinery	Other fixed assets <sup>1</sup>	Construction in progress <sup>2</sup>	Total
<b>Cost or fair value:</b>										
<b>At 31 December 2018</b>	<b>4,363</b>	<b>670,095</b>	<b>78,376</b>	<b>332,493</b>	<b>51,387</b>	<b>105,540</b>	<b>235,845</b>	<b>9,803</b>	<b>146,494</b>	<b>1,634,396</b>
Adoption of IFRS 16	-	-	-	-	-	-	(23,857)	-	-	<b>(23,857)</b>
<b>At 1 January 2019</b>	<b>4,363</b>	<b>670,095</b>	<b>78,376</b>	<b>332,493</b>	<b>51,387</b>	<b>105,540</b>	<b>211,988</b>	<b>9,803</b>	<b>146,494</b>	<b>1,610,539</b>
Additions	1,044	19,841	5,954	9,057	7,694	6,092	6,541	596	63,409	120,228
Acquisitions of subsidiaries (Note 2)	29,689	114,757	1,193	26,794	1,388	632	405	3,051	1,672	179,581
Transfers	3,551	63,934	-	37,065	-	13,542	2,779	513	(121,384)	-
Disposals	(2)	(758)	(3)	(957)	(142)	(34)	(2,973)	(255)	(18)	(5,142)
Reclassified as held for sale	-	(320)	-	(1,854)	(113)	(388)	(1,110)	(33)	(18)	(3,836)
Revaluations	-	60,099	11,886	(6,476)	(3,368)	9,882	(50,483)	-	-	21,540
Translation difference	530	119,078	10,716	63,116	8,465	19,763	36,801	1,666	18,663	278,798
<b>At 31 December 2019</b>	<b>39,175</b>	<b>1,046,726</b>	<b>108,122</b>	<b>459,238</b>	<b>65,311</b>	<b>155,029</b>	<b>203,948</b>	<b>15,341</b>	<b>108,818</b>	<b>2,201,708</b>
<b>Accumulated depreciation:</b>										
<b>At 31 December 2018</b>	<b>-</b>	<b>23,915</b>	<b>5,498</b>	<b>34,704</b>	<b>6,696</b>	<b>5,851</b>	<b>52,144</b>	<b>7,058</b>	<b>-</b>	<b>135,866</b>
Adoption of IFRS 16	-	-	-	-	-	-	(2,408)	-	-	(2,408)
<b>At 1 January 2019</b>	<b>-</b>	<b>23,915</b>	<b>5,498</b>	<b>34,704</b>	<b>6,696</b>	<b>5,851</b>	<b>49,736</b>	<b>7,058</b>	<b>-</b>	<b>133,458</b>
Depreciation charge for the year	-	31,750	6,447	50,811	7,450	6,940	53,147	3,466	-	160,011
Elimination upon disposal	-	(356)	(2)	(235)	(28)	(4)	(1,395)	(134)	-	(2,154)
Reclassified as held for sale	-	296	-	(183)	(54)	(32)	(238)	(26)	-	(237)
Elimination on revaluation	-	(45,216)	(11,038)	(2)	(13,615)	(11,462)	(96,564)	-	-	(177,897)
Impairment loss	-	949	323	2	1,496	70	3,404	-	-	6,244
Translation difference	-	5,390	1,325	9,567	1,649	1,037	12,600	1,417	-	32,985
<b>At 31 December 2019</b>	<b>-</b>	<b>16,728</b>	<b>2,553</b>	<b>94,664</b>	<b>3,594</b>	<b>2,400</b>	<b>20,690</b>	<b>11,781</b>	<b>-</b>	<b>152,410</b>
<b>Net book value</b>										
<b>At 31 December 2018</b>	<b>4,363</b>	<b>646,180</b>	<b>72,878</b>	<b>297,789</b>	<b>44,691</b>	<b>99,689</b>	<b>183,701</b>	<b>2,745</b>	<b>146,494</b>	<b>1,498,530</b>
<b>At 31 December 2019</b>	<b>39,175</b>	<b>1,029,998</b>	<b>105,569</b>	<b>364,574</b>	<b>61,717</b>	<b>152,629</b>	<b>183,258</b>	<b>3,560</b>	<b>108,818</b>	<b>2,049,298</b>

<sup>1</sup> Other fixed assets include bearer plants, office furniture and equipment

<sup>2</sup> Construction in progress include advances for property plant and equipment, machinery and equipment not in use, construction materials and spare parts, projects in progress.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT (continued)

The following table represents movements in property, plant and equipment for the year ended 31 December 2018:

	Land	Buildings and structures	Grain storage facilities	Production machinery	Auxiliary and other machinery	Utilities and infrastructure	Vehicles and agricultural machinery	Other fixed assets <sup>1</sup>	Construction in progress <sup>2</sup>	Total
<b>Cost or fair value:</b>										
<b>At 1 January 2018</b>	<b>2,816</b>	<b>586,297</b>	<b>76,837</b>	<b>269,093</b>	<b>43,494</b>	<b>90,111</b>	<b>198,903</b>	<b>8,697</b>	<b>113,351</b>	<b>1,389,599</b>
Additions	1,515	47,748	497	41,730	5,535	10,477	38,887	1,242	91,237	238,868
Disposals	-	(573)	(1)	(1,652)	(137)	(24)	(2,524)	(286)	(149)	(5,346)
Transfers	21	29,955	-	20,707	2,031	3,996	166	49	(56,925)	-
Impairment loss	-	-	-	-	-	-	(1,697)	-	(2,106)	(3,803)
Translation difference	11	6,668	1,043	2,615	464	980	2,110	101	1,086	15,078
<b>At 31 December 2018</b>	<b>4,363</b>	<b>670,095</b>	<b>78,376</b>	<b>332,493</b>	<b>51,387</b>	<b>105,540</b>	<b>235,845</b>	<b>9,803</b>	<b>146,494</b>	<b>1,634,396</b>
<b>Accumulated depreciation:</b>										
<b>At 1 January 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,497</b>	<b>-</b>	<b>6,497</b>
Depreciation charge for the year	-	24,090	5,596	35,511	6,838	5,960	53,720	1,134	-	132,849
Elimination upon disposal	-	(154)	-	(186)	(22)	(5)	(643)	(245)	-	(1,255)
Transfers	-	-	-	-	-	-	-	-	-	-
Translation difference	-	(21)	(98)	(621)	(120)	(104)	(933)	(328)	-	(2,225)
<b>At 31 December 2018</b>	<b>-</b>	<b>23,915</b>	<b>5,498</b>	<b>34,704</b>	<b>6,696</b>	<b>5,851</b>	<b>52,144</b>	<b>7,058</b>	<b>-</b>	<b>135,866</b>
<b>Net book value</b>										
<b>At 1 January 2018</b>	<b>2,816</b>	<b>586,297</b>	<b>76,837</b>	<b>269,093</b>	<b>43,494</b>	<b>90,111</b>	<b>198,903</b>	<b>2,200</b>	<b>113,351</b>	<b>1,383,102</b>
<b>At 31 December 2018</b>	<b>4,363</b>	<b>646,180</b>	<b>72,878</b>	<b>297,789</b>	<b>44,691</b>	<b>99,689</b>	<b>183,701</b>	<b>2,745</b>	<b>146,494</b>	<b>1,498,530</b>

<sup>1</sup> Other fixed assets include bearer plants, office furniture and equipment

<sup>2</sup> Construction in progress include advances for property plant and equipment, machinery and equipment not in use, construction materials and spare parts, projects in progress.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

As of 31 December 2019, included within construction in progress were prepayments for property, plant and equipment in the amount of USD 12,083 thousand (2018: USD 13,117 thousand).

As of 31 December 2019, included within property, plant and equipment were fully depreciated assets with the original cost of USD 11,096 thousand (2018: USD 7,040 thousand).

As of 31 December 2019, certain of the Group's property, plant and equipment with the carrying amount of USD 99,878 thousand (2018: USD nil thousand) were pledged as collateral to secure its bank borrowings.

#### Impairment assessment

The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, there were no indicators of impairment as of 31 December 2019 and 2018, except for the impairment of certain assets in the amount of USD 6,244 thousand and USD 3,803 thousand as of 31 December 2019 and 2018, respectively.

#### Revaluation of vehicles and agricultural machinery

During the year ended 31 December 2019, the Group engaged independent appraisers to revalue its vehicles and agricultural machinery. The effective date of revaluation was 30 September 2019. The valuation, which conformed to the International Valuation Standards, was determined using market comparable approach adjusted based on age and condition of the machinery. During the year ended and as of 31 December 2018, the Group evaluated whether the fair value of vehicles and agricultural machinery was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of producer's prices, the index of physical depreciation and

the functional currency depreciation, Management assessed the fair value of vehicles and agricultural machinery not to be materially different from the reported book values.

#### Revaluation of production machinery

During years ended and as of 31 December 2018 and 31 December 2019, the Group evaluated if the fair value of production machinery was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of producer's prices, the index of physical depreciation and the functional currency depreciation, Management assessed the fair value of such production machinery not to be materially different from the reported book values.

#### Revaluation of buildings and structures

During the year ended 31 December 2019, the Group engaged independent appraisers to revalue its buildings and structures. The effective date of revaluation was 30 September 2019. The valuation, which conformed to the International Valuation Standards, was determined using depreciated replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the buildings and structures. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of buildings and structures was materially different from the reported book values. Based on analysis of the fluctuations of the cumulative index of inflation of construction works and index of physical depreciation, Management assessed the fair value of such buildings and structures not to be materially different from the reported book values.

#### Revaluation of Grain storage facilities

During the year ended 31 December 2019, the Group engaged independent appraisers to revalue its grain storage facilities as of 30 September 2019. The valuation, which conformed to the International Valuation Standards, was determined using depreciated replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of grain storage facilities was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and the index of physical depreciation, Management assessed the fair value of grain storage facilities not to be materially different from the reported book values.

#### Revaluation of Auxiliary and other machinery

During the year ended 31 December 2019, the Group engaged an independent appraiser to determine the fair value of its Auxiliary and other machinery as of 30 September 2019. The valuation, which conformed to the International Valuation Standards, was determined using the market comparable approach adjusted based on age and condition of the machinery or for items of specialized nature depreciated replacement cost method. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of Auxiliary and other machinery was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and the index of physical depreciation, Management assessed the fair value of Auxiliary and other machinery not to be materially different from the reported book values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

#### Revaluation of Utilities and infrastructure

During the year ended 31 December 2019, the Group engaged independent appraisers to revalue its utilities and infrastructure as of 30 September 2019. The valuation, which conformed to the International Valuation Standards, was determined using depreciated replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities. During the year ended and as of 31 December 2018, the Group evaluated if the fair value of utilities and infrastructure was materially different from the reported book values. Based on analysis of fluctuations of the cumulative index of inflation of construction works and the index of physical depreciation, Management assessed the fair value of utilities and infrastructure not to be materially different from the reported book values.

Had the Group's property plant and equipment been measured on a historical cost basis, their carrying amount would have been as follows:

	Fair value hierarchy	Fair value		Net book value if carried at cost	
		2019	2018	2019	2018
Buildings and structures	Level 3	1,029,998	646,180	451,618	266,075
Production machinery	Level 2, 3	364,574	297,789	260,606	171,600
Vehicles and agricultural machinery	Level 2	183,258	183,701	90,043	93,489
Utilities and infrastructure	Level 3	152,629	99,689	70,669	51,771
Grain storage facilities	Level 3	105,569	72,878	40,554	31,189
Auxiliary and other machinery	Level 2, 3	61,717	44,691	35,842	27,195

There are no restrictions on the distribution of the revaluation surplus to the shareholders.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. RIGHT-OF-USE ASSETS

The following table represents movements in right-of-use assets for the years ended 31 December 2019 and 31 December 2018:

	Land	Vehicles	Total
<b>Cost:</b>			
<b>As of 31 December 2018</b>	-	-	-
Effect of adoption of IFRS 16	163,993	23,857	187,850
<b>As of 1 January 2019</b>	<b>163,993</b>	23,857	187,850
Additions	18,693	914	19,607
Disposals	(756)	(756)	(1,512)
Change in terms	12,273	-	12,273
Acquisitions of subsidiaries (Note 2)	5,677	8,887	14,564
Translation difference	30,554	3,892	34,446
<b>As of 31 December 2019</b>	<b>230,434</b>	<b>36,794</b>	<b>267,228</b>
<b>Accumulated amortization:</b>			
<b>As of 31 December 2018</b>	-	-	-
Effect of adoption of IFRS 16	-	2,408	2,408
<b>As of 31 December 2018</b>	-	<b>2,408</b>	<b>2,408</b>
Amortization charge for the year	29,885	3,365	33,250
Disposals	(756)	(105)	(861)
Translation difference	2,594	593	3,187
<b>At 31 December 2018</b>	<b>31,723</b>	<b>6,261</b>	<b>37,984</b>
<b>Net book value:</b>			
<b>As of 1 January 2019</b>	<b>163,993</b>	<b>21,449</b>	<b>185,442</b>
<b>As of 31 December 2019</b>	<b>198,711</b>	<b>30,533</b>	<b>229,244</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INTANGIBLE ASSETS

The following table represents movements in intangible assets for the year ended 31 December 2019:

	Land lease rights	Trademarks	Customer relations	Other intangible assets	Total
<b>Cost:</b>					
<b>As of 1 January 2019</b>	<b>70,704</b>	-	-	<b>6,125</b>	<b>76,829</b>
Additions	-	-	-	3,701	3,701
Disposals	-	-	-	(53)	(53)
Acquisitions of subsidiaries (Note 2)	-	31,975	19,907	1,566	53,448
Translation difference	12,079	(648)	(404)	1,327	12,354
<b>As of 31 December 2019</b>	<b>82,783</b>	<b>31,327</b>	<b>19,503</b>	<b>12,666</b>	<b>146,279</b>
<b>Accumulated amortization:</b>					
<b>As of 1 January 2019</b>	<b>21,895</b>	-	-	<b>2,875</b>	<b>24,770</b>
Amortization charge for the year	6,977	-	815	2,263	10,055
Disposals	-	-	-	(27)	(27)
Translation difference	4,334	-	(3)	628	4,959
<b>As of 31 December 2019</b>	<b>33,206</b>	-	<b>812</b>	<b>5,739</b>	<b>39,757</b>
<b>Net book value:</b>					
<b>As of 1 January 2019</b>	<b>48,809</b>	-	-	<b>3,250</b>	<b>52,059</b>
<b>As of 31 December 2019</b>	<b>49,577</b>	<b>31,327</b>	<b>18,691</b>	<b>6,927</b>	<b>106,522</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INTANGIBLE ASSETS (continued)

The following table represents movements in intangible assets for the year ended 31 December 2018:

	Land lease rights	Trademarks	Customer relations	Other intangible assets	Total
<b>Cost:</b>					
<b>As of 1 January 2018</b>	<b>60,697</b>	-	-	<b>3,665</b>	<b>64,362</b>
Additions	9,340	-	-	2,607	11,947
Disposals	-	-	-	(154)	(154)
Translation difference	667	-	-	7	674
<b>As of 31 December 2018</b>	<b>70,704</b>	-	-	<b>6,125</b>	<b>76,829</b>
<b>Accumulated amortization:</b>					
<b>As of 1 January 2018</b>	<b>15,287</b>	-	-	<b>1,728</b>	<b>17,015</b>
Amortization charge for the year	6,513	-	-	1,144	7,657
Translation difference	95	-	-	3	98
<b>As of 31 December 2018</b>	<b>21,895</b>	-	-	<b>2,875</b>	<b>24,770</b>
<b>Net book value:</b>					
<b>As of 1 January 2018</b>	<b>45,410</b>	-	-	<b>1,937</b>	<b>47,347</b>
<b>As of 31 December 2018</b>	<b>48,809</b>	-	-	<b>3,250</b>	<b>52,059</b>

Through the acquisition of subsidiaries (Note 2), the Group has recognised certain trademarks and customer relationships as a part of intangible assets. Customer relationships were identified among customers of the core products portfolio of acquired subsidiaries. The remaining useful life of customer relationships was estimated at 20 years.

The trademarks acquired by the Group mainly consist of poultry meat brands – PP and Topiko and meat processing products brand – Poli. T. The Group believes that, since these trademarks are well-positioned and recognizable within a stable and mature industry, there are no technical barriers that would limit their lifetime, and as a result of further promotion of the trademarks, the Group will obtain economic benefits from them for an indefinite period of time. Accordingly, the trademarks that belong to the Group are considered to have an indefinite useful life and thus are not amortized but tested for impairment by comparing their recoverable amount with their carrying amount annually.

The Group allocates trademarks to individual entities as to separate cash-generating units (CGU). A summary of allocation to separate CGUs is presented below:

Segment	Cash-generating unit	Trademarks carrying value	
		2019	2018
Europe operating	Slovenia	17,892	-
	Serbia	2,261	-
	Bosnia and Herzegovina	5,764	-
	Croatia	5,410	-
		<b>31,327</b>	<b>-</b>

The impairment testing of the value of trademarks was performed by an independent appraiser. The recoverable amount of trademarks of all cash-generating units is determined based on value in use method which uses cash flow projections covering a seven-year period, and a weighted average discount rate of 14.2%. The revenue within a seven-year period was extrapolated using a weighted average 3.8% sales growth rate and 1.5% terminal growth rate for revenue beyond this period. Weighted average royalty rate used in calculation of cash flows was set at a level of 2.4%. The initial five-year period of projection was extended to gradually decrease the revenue growth rates towards the terminal growth rate. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

As of 31 December 2019, no impairment of trademarks was identified.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. GOODWILL

The following table represents movements in goodwill for the years ended 31 December:

	2019	2018
<b>Cost:</b>		
<b>As of 1 January</b>	<b>2,509</b>	<b>2,442</b>
Acquisitions of subsidiaries	61,518	-
Translation difference	816	67
<b>As of 31 December</b>	<b>64,843</b>	<b>2,509</b>
<b>Net book value:</b>		
<b>As of 1 January</b>	<b>2,509</b>	<b>2,442</b>
<b>As of 31 December</b>	<b>64,843</b>	<b>2,509</b>

The recoverable amount of cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors.

The growth rates used for cash flows extrapolations are supported by industry trends such as consumer prosperity and dietary trends. The growth rates were estimated by the directors of the Group based on past performance of the cash-generating unit and their expectations of market development. The initial five-year period of projection was extended by three years, to gradually decrease the revenue growth rates towards the terminal growth rate. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the related CGUs.

As of 31 December 2019 and 2018, no impairment of goodwill was identified.

The Group allocates goodwill to individual entities as to separate cash-generating units (CGU). A summary of goodwill allocation to separate CGUs is presented below:

Segment	Cash-Generating Unit	Goodwill carrying value		Methodology assumptions and methods used for goodwill
		2019	2018	
Grain growing operations (Ukraine)	Grain growing	2,933	2,509	Average sales growth: 5.1%
				Terminal sales growth: 4.7 %
				Discount rate: 12.0%
				Projection period: 5 years
	Slovenia	38,818	-	Average sales growth: 3.4%
				Terminal sales growth: 1.5%
				Discount rate: 7.1%
				Projection period: 8 years
	Serbia	4,024	-	Average sales growth: 3.3%
				Terminal sales growth: 1.5%
				Discount rate: 9.8%
				Projection period: 8 years
Europe operating	BiH	11,206	-	Average sales growth: 3.4%
				Terminal sales growth: 1.5%
				Discount rate: 12.1%
				Projection period: 8 years
	Croatia	7,862	-	Average sales growth: 3.3%
				Terminal sales growth: 1.5%
				Discount rate: 7.8%
				Projection period: 8 years
		<b>64,843</b>	<b>2,509</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. OTHER NON-CURRENT ASSETS, NET

The balances of other non-current assets, net were as follows as of 31 December 2019 and 2018:

	2019	2018
<b>Financial assets at amortised cost</b>		
Loan receivables	15,345	15,980
Other financial assets	2,271	1,377
<b>Non-financial instruments</b>		
Prepayment for business acquisition (Note 2)	-	23,771
Other non-financial instruments	6,097	12,982
	<b>23,713</b>	<b>54,110</b>

Loan receivables are represented by loans with fixed interest at 2.5% with maturity as of 31 January 2022 and 31 January 2023. Total gross amortised cost of loans granted as of 31 December 2019 and 2018 is USD 19,161 thousand and USD 18,766 thousand respectively.

The Group determines the lifetime expected credit loss of other non-current loan receivables and other financial assets based on different scenarios of probability of default and expected loss applicable to each of the material underlying balances. The movement in loss allowance for loan receivables classified at amortised cost is detailed below:

	2019
<b>1 January 2019</b>	(2,786)
Charged during the year	(1,030)
<b>31 December 2019</b>	<b>(3,816)</b>

### 17. BIOLOGICAL ASSETS

The balances of non-current biological assets were as follows as of 31 December 2019 and 2018:

	Thousand units	Carrying amount	Thousand units	Carrying amount
	2019		2018	
Milk cows, units	15.9	25,725	18.1	19,953
Boars and sows, units	0.3	242	0.1	88
Other non-current bearer biological assets		8		539
<b>Total bearer non-current biological assets</b>		<b>25,975</b>		<b>20,580</b>
<b>Non-current cattle and pigs, units</b>	<b>1.9</b>	<b>3,677</b>	<b>1.9</b>	<b>2,812</b>
<b>Total consumable non-current biological assets</b>		<b>3,677</b>		<b>2,812</b>
<b>Total non-current biological assets</b>		<b>29,652</b>		<b>23,392</b>

The balances of current biological assets were as follows as of 31 December 2019 and 2018:

	Thousand units	Carrying amount	Thousand units	Carrying amount
	2019		2018	
Breeders held for hatchery eggs production, units	4,891	78,063	3,954	66,509
<b>Total bearer current biological assets</b>		<b>78,063</b>		<b>66,509</b>
Broiler chickens, units	51,343	79,382	44,199	64,519
Hatchery eggs, units	57,747	10,328	33,063	8,253
Crops in fields, hectare	74	35,036	92	37,416
Cattle and pigs, units	6	1,273	6	2,132
Other current consumable biological assets		1,665		461
<b>Total consumable current biological assets</b>		<b>127,684</b>		<b>112,781</b>
<b>Total current biological assets</b>		<b>205,747</b>		<b>179,290</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. BIOLOGICAL ASSETS (continued)

The balances of non-current biological assets were as follows as of 31 December 2019 and 2018:

	Milk cows, boars, sows	Breeders held for hatchery eggs production	Broiler chickens	Crops in fields
<b>As of 31 December 2017</b>	<b>18,040</b>	<b>55,716</b>	<b>54,207</b>	<b>20,623</b>
Costs incurred	2,553	129,737	585,798	295,960
Gains arising from change in fair value of biological assets less costs to sell	17,889	6,071	243,746	120,541
Transfer to consumable biological assets	-	(110,376)	110,376	-
Transfer to bearing non-current biological assets	1,395	-	-	-
Decrease due to sale	(143)	-	-	-
Decrease due to harvest	(19,918)	(15,222)	(930,190)	(399,998)
Translation difference	225	583	582	290
<b>As of 31 December 2018</b>	<b>20,041</b>	<b>66,509</b>	<b>64,519</b>	<b>37,416</b>
Costs incurred	11,209	161,345	720,366	318,535
Business acquisition (Note 2)	510	2,966	3,689	-
Gains arising from change in fair value of biological assets less costs to sell	8,339	(19,919)	374,537	17,154
Transfer to consumable biological assets	-	(123,100)	123,100	-
Transfer to bearing non-current biological assets	6,063	-	-	-
Decrease due to sale	(818)	-	-	-
Decrease due to harvest	(22,925)	(20,601)	(1,218,042)	(343,345)
Translation difference	3,548	10,863	11,213	5,276
<b>As of 31 December 2019</b>	<b>25,967</b>	<b>78,063</b>	<b>79,382</b>	<b>35,036</b>

Information on movements in hatchery eggs and cattle, pigs groups have been considered immaterial for disclosure.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. BIOLOGICAL ASSETS (continued)

Biological assets of the Group are measured at fair value within Level 3 of the fair value hierarchy, except for cattle and pigs that can be measured based on market prices of livestock of a similar age, breed and genetic merit, and which are therefore measured at fair value within Level 2 of the fair value hierarchy. There were no transfers between any levels during the year.

The following unobservable inputs were used to measure biological assets:

Description	Fair value as of 31 December 2019	Fair value as of 31 December 2018	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (average) 2019	Range of unobservable inputs (average) 2018	Relationship of unobservable inputs to fair value
Crops in fields	35,036	37,416	Discounted cash flows	Crops yield - tonnes per hectare	3.3 – 6.3 (4.5)	3.5 – 6.1 (4.9)	The higher the crops yield, the higher the fair value
				Crops price – per tonne	USD 134 - 405 (235)	USD 160 - 380 (253)	The higher the market price, the higher the fair value
				Discount rate	12.0%	18.0%	The higher the discount rate, the lower the fair value
Breeders held for hatchery eggs production	78,063	66,509	Discounted cash flows	Number of hatchery eggs produced by one breeder	165	165	The higher the number, the higher the fair value
				Hatchery egg price – per egg	USD 0.25	USD 0.25	The higher the market price, the higher the fair value
				Discount rate	12.0%	15.7%	The higher the discount rate, the lower the fair value
Broiler chickens	79,382	64,519	Cash flows	Average weight of one broiler - kg	2.45	2.33	The higher the weight, the higher the fair value
				Poultry meat price – per kg	UAH 26.38 2.92 EUR <sup>1</sup>	UAH 30.36	The higher the market price, the higher the fair value
Milk cows	25,725	19,953	Discounted cash flows	Daily milk yield - litre per cow	12.25 - 17.89 (15.81)	15.89 - 19.76 (18.55)	The higher the milk yield, the higher the fair value
				Weight of the cow - kg per cow	545 - 571 (557)	523 - 567 (548)	The higher the weight, the higher the fair value
				Milk price – per litre	UAH 8.70 – 9.31 (8.93)	UAH 7.62 – 8.68 (7.93)	The higher the market price, the higher the fair value
				Meat price – per kg	UAH 18.91 - 26.46 (23.08)	UAH 18.69 – 24.22 (22.81)	The higher the market price, the higher the fair value
				Discount rate	12.0%	15.7%	The higher the discount rate, the lower the fair value

<sup>1</sup> data of Europe operating segment

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. BIOLOGICAL ASSETS (continued)

If the above unobservable inputs to the valuation model were 5% higher/lower while all the other variables were held constant, the carrying amount of the current and non-current biological assets would increase /decrease by USD 35,967 thousand (2018: USD 33,958 thousand) and USD 34,157 thousand (2018: USD 32,336 thousand), respectively.

In 2019 management has revised the unobservable inputs to the valuation model for biological assets to 5% on the basis that, in the context of the 2019 consolidated financial statements as a whole, this amount would trigger a material change in the fair value of the biological assets. Management has updated the 2018 sensitivity to align with this revision.

### 18. INVENTORIES

The balances of inventories were as follows as of 31 December 2019 and 2018:

	2019	2018
Components for mixed fodder production	70,481	157,203
Work in progress	43,205	33,155
Other raw materials	42,105	37,471
Spare parts	20,079	16,010
Mixed fodder	7,398	3,016
Sunflower oil	7,365	22,140
Meat processing products	6,774	-
Packaging materials	6,679	3,455
Other inventories	4,303	1,072
	<b>208,389</b>	<b>273,522</b>

As of 31 December 2019 and 2018, work in progress in the amount of USD 43,205 thousand and USD 33,155 thousand was comprised mainly of expenses incurred in cultivating fields to be planted in the years 2020 and 2019, respectively.

### 19. AGRICULTURAL PRODUCE

The balances of agricultural produce were as follows as of 31 December 2019 and 2018:

	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
	2019		2018	
Grain	714	118,879	1,105	168,044
Chicken meat	62.5	86,208	29.7	40,651
Other crops	N/A <sup>1</sup>	9,438	N/A <sup>1</sup>	13,947
Other meat	N/A <sup>1</sup>	1,291	N/A <sup>1</sup>	2,147
		<b>215,816</b>		<b>224,789</b>

The fair value of Agricultural produce was estimated based on market price as of date of harvest and is within Level 2 of the fair value hierarchy.

As of 31 December 2019, agricultural produce was not pledged as collateral to secure bank borrowings (2018: USD 23,750).

<sup>1</sup> Due to the diverse composition of noted produce unit of measurement is not applicable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. TAXES RECOVERABLE AND PREPAID

Taxes recoverable and prepaid were as follows as of 31 December 2019 and 2018:

	2019	2018
VAT recoverable	24,527	39,834
Miscellaneous taxes prepaid	5,503	5,312
	<b>30,030</b>	<b>45,146</b>

### 21. TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable were as follows as of 31 December 2019 and 2018:

	2019	2018
Chicken meat	95,824	57,834
Meat processing and convenience food	19,109	12,761
Grain	9,056	3,748
Sunflower oil sales	1,482	508
Due from related parties (Note 30)	197	111
Other agriculture operations	12,278	6,724
<b>Less:</b> allowance for unrecoverable amounts	(13,472)	(12,381)
	<b>124,474</b>	<b>69,305</b>

The average credit period on sales of poultry is 30 days and on sales of agricultural goods is 60 days. No interest is charged on outstanding trade accounts receivable. The Group always measures the loss allowance for trade accounts receivable at an amount equal to lifetime expected credit losses (ECL). The ECL on trade accounts receivable are estimated on a collective basis using a provision matrix and on individual basis using different scenarios of probability of default.

The provision matrix is used by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

An individual assessment is used for the individually significant debtors with credit risk characteristics that are not aligned with others.

The Group has recognised a loss allowance of 100% against all trade accounts receivable over 270 days past due, which are assessed on a collective basis, because historical experience has indicated that these trade accounts receivable are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period. The Group writes off a trade accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade accounts receivable are over 3 years past due, whichever occurs earlier. None of the trade accounts receivable that have been written off are subject to enforcement activities.

The following table details the risk profile of trade accounts receivable based on the Group's provision matrix. It discloses chicken meat Ukraine, chicken meat export and agricultural Ukraine, agricultural export sales and Europe operating segment as separate classes of financial instruments and applies the simplified approach to its trade accounts receivable so that the loss allowance is always measured at an amount equal to lifetime expected credit losses. There have been no changes in the estimation techniques or significant assumptions made during the current reporting period.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. TRADE ACCOUNTS RECEIVABLE, NET *(continued)*

The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach as at 31 December 2019:

31 December 2019	Trade accounts receivable – days past due					Total
	Not past due	< 30	31-90	91-270	>270	
<b>Portfolio assessment:</b>						
<b>Individual assessment:</b>						
ECL rate, %	100%	100%	100%	100%	100%	
Estimated total gross carrying amount at default	-	-	385	277	9,797	10,459
Lifetime ECL	-	-	(385)	(277)	(9,797)	(10,459)
<b>Estimated total gross carrying amount at default</b>						<b>137,946</b>
<b>Total lifetime ECL</b>						<b>(13,472)</b>





## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. TRADE ACCOUNTS RECEIVABLE, NET (continued)

The following table illustrates the use of a provision matrix as a risk profile disclosure under the simplified approach as at 31 December 2018:

31 December 2019	Trade accounts receivable – days past due					Total
	Not past due	< 30	31-90	91-270	>270	
<b>Portfolio assessment:</b>						
<b>Individual assessment:</b>						
ECL rate, %	0.00%	0.00%	0.00%	0.00%	100%	
Estimated total gross carrying amount at default	-	-	-	-	9,989	9,989
Lifetime ECL	-	-	-	-	(9,989)	(9,989)
<b>Estimated total gross carrying amount at default</b>						<b>81,686</b>
<b>Total lifetime ECL</b>						<b>(12,381)</b>

The following table shows the movement in lifetime ECL that has been recognised for trade and other accounts receivable in accordance with the simplified approach set out in IFRS 9.

	Collectively assessed	Individually assessed
<b>1 January 2019</b>	<b>2,392</b>	<b>9,989</b>
Charged during the year	621	470
<b>31 December 2019</b>	<b>3,013</b>	<b>10,459</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. OTHER CURRENT ASSETS

The balances of other current assets, net were as follows as of 31 December 2019 and 2018:

	2019	2018
<b>Financial assets at amortised cost</b>		
Loans and finance aid receivable from related parties (Note 30)	21,717	5,950
Other financial assets	7,620	1,409
<b>Non-financial instruments</b>		
Prepayments to suppliers	14,495	19,106
Other non-financial instruments	8,741	6,393
	<b>52,573</b>	<b>32,858</b>

The Group determines the lifetime expected credit loss of loans and finance aid receivable from related parties and other financial assets based on different scenarios on probability of default and expected loss applicable to each of the material underlying balances.

The movement in loss is detailed below:

	2019
<b>1 January 2019</b>	-
Charge for the year (Note 30)	(3,128)
<b>31 December 2019</b>	<b>(3,128)</b>

### 23. CASH AND CASH EQUIVALENTS

The balances of other current assets, net were as follows as of 31 December 2019 and 2018:

	2019		2018	
	Deposit rates	USD' 000	Deposit rates	USD' 000
<b>Cash and cash equivalents at banks and on hand in</b>				
Ukrainian Hryvnia		17,269		32,301
Euro		37,304		20,938
US Dollars		125,348		83,246
Other currencies		1,328		1,448
<b>Short-term deposits with an original maturity of less than 92 days:</b>				
Ukrainian Hryvnia	11.75-16.50%	61,006	5.00-18.9%	9,835
US Dollars	1.56-3.50%	98,480	1.17-2.33%	64,000
<b>Total cash and equivalents</b>		<b>340,735</b>		<b>211,768</b>

In accordance with the international rating agency of Moody's, credit ratings of the banks with which the Group had the accounts opened as of 31 December were as follows:

	2019	2018
International banks with Aa3 rating	200,972	158,784
Ukrainian subsidiaries of international banks without international ratings	101,596	37,008
Ukrainian state owned bank with Caa1	36,571	9,296
Foreign banks without ratings	1,596	6,680
	<b>340,735</b>	<b>211,768</b>

### 24. SHAREHOLDERS' EQUITY

#### Share capital

As of 31 December 2019 and 2018 the authorized, issued and fully paid share capital of MHP SE comprised the following number of shares:

	2019	2018
Number of shares issued and fully paid	110,770,000	110,770,000
Number of shares outstanding	107,038,208	107,038,208

The authorized share capital as of 31 December 2019 and 2018 was EUR 221,540 thousand represented by 110,770,000 shares with par value of EUR 2 each.

All shares have equal voting rights and rights to receive dividends, which are payable at the discretion of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by on-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2019	2018	2019	2018	2019	2018
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv	11.5%	11.5%	(524)	(900)	5,234	3,816
AgroKryazh	49.0%	49.0%	(348)	-	4,587	5,016
Agro-S	49.0%	49.0%	(2,444)	2,806	2,761	6,544
Other subsidiaries with immaterial non-controlling interests	n/a	n/a	158	1,272	990	1,160
	<b>n/a</b>	<b>n/a</b>	<b>(3,158)</b>	<b>3,178</b>	<b>13,572</b>	<b>16,536</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. NON-CONTROLLING INTERESTS (continued)

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Myronivsky Zavod po Vygotovlennyyu Krup i Kombikormiv		AgroKryazh		Agro-S	
	2019	2018	2019	2018	2019	2018
Current assets	91,051	171,327	44,482	20,748	55,476	25,202
Non-current assets	121,956	112,646	18,441	12,013	30,044	16,234
Current liabilities	134,610	167,829	50,250	19,837	69,032	27,830
Non-current liabilities	43,544	84,971	3,505	-	4,531	-
Equity attributable to owners of the Group	29,619	27,357	4,581	7,908	9,196	7,062
<b>Revenue</b>	<b>118,186</b>	<b>317,802</b>	<b>22,569</b>	<b>19,518</b>	<b>35,658</b>	<b>17,759</b>
Expenses	(122,743)	(325,631)	(23,279)	(15,952)	(40,646)	(12,033)
<b>Profit (loss) for the year</b>	<b>(4,557)</b>	<b>(7,829)</b>	<b>(710)</b>	<b>3,566</b>	<b>(4,988)</b>	<b>5,726</b>
Profit (loss) attributable to owners of the Group	(4,033)	(6,929)	(362)	3,566	(2,544)	2,920
Profit (loss) attributable to the non-controlling interests	(524)	(900)	(348)	-	(2,444)	2,806
<b>Profit (loss) for the year</b>	<b>(4,557)</b>	<b>(7,829)</b>	<b>(710)</b>	<b>3,566</b>	<b>(4,988)</b>	<b>5,726</b>
Other comprehensive income attributable to owners of the Company	14,944	4,149	1,539	23	1,889	85
Other comprehensive income attributable to the non-controlling interests	1,942	539	1,478	22	1,815	82
<b>Other comprehensive income for the year</b>	<b>16,886</b>	<b>4,688</b>	<b>3,017</b>	<b>45</b>	<b>3,704</b>	<b>167</b>
Total comprehensive (loss)/income attributable to owners of the Company	10,911	(2,780)	1,177	3,589	(655)	3,005
Total comprehensive (loss)/income attributable to the non-controlling interests	1,418	(361)	1,130	22	(629)	2,888
<b>Total comprehensive (loss)/income for the year</b>	<b>12,329</b>	<b>(3,141)</b>	<b>2,307</b>	<b>3,611</b>	<b>(1,284)</b>	<b>5,893</b>
<b>Dividends paid to non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>(1,559)</b>	<b>(3,130)</b>	<b>(3,154)</b>	<b>(5,236)</b>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>485</b>	<b>10,666</b>	<b>8,017</b>	<b>4,202</b>	<b>(1,889)</b>	<b>(1,794)</b>
<b>Net cash outflow from investing activities</b>	<b>(855)</b>	<b>(10,318)</b>	<b>(440)</b>	<b>(977)</b>	<b>(587)</b>	<b>(558)</b>
<b>Net cash outflow from financing activities</b>	<b>-</b>	<b>-</b>	<b>(7,568)</b>	<b>(3,216)</b>	<b>(5,500)</b>	<b>(5,225)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. BANK BORROWINGS

The following table summarizes bank borrowings and credit lines outstanding as of 31 December 2019 and 2018:

	Currency	2019		2018	
		WAIR <sup>1</sup>	USD <sup>2</sup> 000	WAIR <sup>1</sup>	USD <sup>2</sup> 000
<b>Non-current</b>					
Foreign banks	USD	-	-	7.99%	56,718
Foreign banks	EUR	3.64%	75,880	4.72%	49,065
			<b>75,880</b>		<b>105,783</b>
<b>Current</b>					
Ukrainian banks	EUR	-	-	3.76%	12,943
Ukrainian banks	USD	-	-	4.50%	48,000
Foreign banks	EUR	2.72%	4,406	-	-
Current portion of long-term bank borrowings	EUR		20,539		<b>71,772</b>
			<b>24,945</b>		<b>132,715</b>
<b>Total bank borrowings</b>			<b>100,825</b>		<b>238,498</b>

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. The interest on the borrowings drawn with the Ukrainian banks is payable on a monthly basis. Interest on borrowings drawn with foreign banks is payable semi-annually.

As of 31 December 2019 and 31 December 2018, all of the Group's bank term loans and credit lines bear floating and fixed interest rates.

Term loans and credit line facilities were as follows as of 31 December 2019 and 2018:

	2019	2018
Credit lines	3,348	60,943
Term loans	97,477	177,555
	<b>100,825</b>	<b>238,498</b>

Bank borrowings and credit lines outstanding as of 31 December 2019 and 2018 were repayable as follows:

	2019	2018
Within one year	24,945	132,715
In the second year	17,484	56,719
In the third to fifth year inclusive	27,837	42,271
After five years	30,559	6,793
	<b>100,825</b>	<b>238,498</b>

<sup>1</sup> WAIR represents the weighted average interest rate on outstanding borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. BANK BORROWINGS (continued)

As of 31 December 2019, the Group had available undrawn facilities of USD 224,683 thousand (2018: USD 316,429 thousand). These undrawn facilities expire during the period from June 2020 until March 2023.

The Group, as well as particular subsidiaries of the Group have to comply with certain covenants imposed by the banks providing the loans. The Group shall ensure the ongoing compliance with the following maintenance covenants: EBITDA to interest expenses ratio, current ratio and liabilities to equity ratio. Separately, there are negative covenants in respect of restricted payments, including dividends, capital expenditures, additional indebtedness and restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates in case of excess of Net Debt to EBITDA ratio. The Group subsidiaries are also required to obtain approval from lenders regarding property, plant and equipment to be used as collateral. During the years ended 31 December 2019 and 2018 the Group has complied with all covenants imposed by banks providing the borrowings.

As at 31 December 2019 the Net Debt to EBITDA ratio of the Group exceeded the limit imposed by the banks providing the loans, however it does not constitute the breach of the covenant. This will lead to introduction of additional control measures by

the Group described above. Thus, since the moment of publication of these audited consolidated financial statements as of and for the year ended 31 December 2019, the aforementioned restrictions will be binding on the Group.

The Group's bank borrowings are jointly and severally guaranteed by Myronivsky Hliboprodukt, Myronivsky Plant of Manufacturing Feeds and Groats, Oril-Leader, Peremoga Nova, Starynska Ptakhofabryka, Zernoproduct MHP, Katerinopilskiy Elevator, Agrofort, SPF Urozhay, MHP SE, Scylla Capital Limited, Myronivska Pticefabrika, Ptakhofabryka Snyatynska Nova, Vinnytska Ptakhofabryka, Zakhid-Agro MHP, Urozhayna Krayina, Raftan Holding Limited and Merique Holding Limited.

As of 31 December 2019, the deposit with carrying amount of USD 3,298 thousand (31 December 2018: USD 3,387 thousand) was restricted as collateral to secure bank borrowings.

As of 31 December 2019, the Group had borrowings of USD 49,731 thousand that were secured by property, plant and equipment with a carrying amount of USD 99,878 thousand (31 December 2018: nil). As of 31 December 2018, the Group had borrowings of USD 19,000 thousand that were secured by agricultural produce with a carrying amount of USD 23,750 thousand.

As of 31 December 2019 and 31 December 2018, accrued interest on bank borrowings was USD 1,033 thousand and USD 3,150 thousand, respectively.

### 27. BONDS ISSUED

Bonds issued and outstanding as of 31 December 2019 and 2018 were as follows:

	2019	2018
8.25% Senior Notes due in 2020	-	79,417
7.75% Senior Notes due in 2024	500,000	500,000
6.95% Senior Notes due in 2026	550,000	550,000
6.25% Senior Notes due in 2029	350,000	-
Unamortised debt issuance cost	(34,331)	(38,482)
<b>Total long-term portion of bonds issued</b>	<b>1,365,669</b>	<b>1,090,935</b>

As of 31 December 2019 and 2018, accrued interest on bonds issued was USD 20,756 thousand and USD 16,322 thousand, respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. BONDS ISSUED (continued)

### 6.25% Senior Notes

On 19 September 2019, MHP Lux S.A., a public company with limited liability (société anonyme) incorporated in 2018 under the laws of the Grand Duchy of Luxembourg, issued USD 350,000 thousand 6.25% Senior Notes due in 2029 at par value. Received funds were used to satisfy and discharge 8.25% Senior Notes due in April 2020, debt refinancing and general corporate purposes.

All expenses associated with placement of 6,25% Senior Notes amounted to USD 2,888 thousand were capitalized.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP SE, Raftan Holding Limited, PrJSC “Oril – Leader”, PrJSC “Myronivska Pticefabrika”, “SPF “Urozhay” LLC, “Starynska Ptakhofabryka” ALLC, “Vinnytska Ptakhofabryka” LLC, “Peremoga Nova” SE, “Katerinopolskiy Elevator” LLC, PrJSC “Myronivsky Hliboprodukt”, PrJSC “Zernoprodukt MHP” and PrJSC “Agrofort”.

Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to EBITDA ratio as defined by the indenture, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. If a change of control occurs, the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash

in an amount equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

### 6.95% Senior Notes

On 3 April 2018, MHP Lux S.A., a public company with limited liability (société anonyme) incorporated in 2018 under the laws of the Grand Duchy of Luxembourg, issued USD 550,000 thousand 6.95% Senior Notes due in 2026 at par value. Out of the total issue amount USD 416,183 thousand were designated for redemption and exchange of existing 8.25% Senior Notes due in 2020.

Early redemption of 8.25% Senior Notes due in 2020 out of issue of 6.95% Senior Notes due in 2026, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10%, was accounted as an exchange and thus, all the related expenses, including part of consent fees, were capitalized and will be amortised over the maturity period of the 6.95% Senior Notes due in 2026.

The part of expenses, connected with placement of 6,95% Senior Notes amounted to USD 11,564 thousand were capitalized, including USD 10,413 thousands related to the exchange. All other related expenses in the amount of USD 32,915 thousand were expensed as incurred.

As a result of a non-substantial modification, the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate was recognised as a gain in the amount of USD 4,733 thousand at the date of modification in the consolidated statement of profit or loss.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP SE, PrJSC “Myronivsky Hliboprodukt”, PJSC “Myronivsky Plant of Manufacturing Feeds and Groats”, PrJSC “Zernoprodukt MHP”, PrJSC “Agrofort”, PrJSC “Oril-Leader”, PrJSC “Myronivska Pticefabrika”, “SPF “Urozhay” LLC, “Starynska Ptakhofabryka” ALLC, “Vinnytska Ptakhofabryka” LLC, “Peremoga Nova” SE, “Katerinopolskiy Elevator” LLC, Scylla Capital Limited and Raftan Holding Limited.

Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to EBITDA ratio as defined by the indenture, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. If a change of control occurs, the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. BONDS ISSUED (continued)

### 7.75% Senior Notes

On 10 May 2017, MHP SE issued USD 500,000 thousand 7.75% Senior Notes due in 2024 at par value. Out of the total issue amount USD 245,200 thousand were designated for redemption and exchange of existing 8.25% Senior Notes due in 2020.

Early redemption of 8.25% Senior Notes due in 2020 out of issue of 7.75% Senior Notes due in 2024, which were placed with the same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange and thus, all the related expenses, including part of consent fees, were capitalized and will be amortised over the maturity period of the 7.75% Senior Notes due in 2024.

The part of expenses, connected with placement of 7.75% Senior Notes amounted to USD 9,830 thousand were capitalized, including USD 7,318 thousands related to the exchange. All other related expenses, including part of consent fees, in the amount of USD 4,599 thousand were expensed as incurred.

The carrying amount of the Senior Notes was adjusted on transition to IFRS 9. Under IFRS 9, as a result of a non-substantial modification, the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate should be recognised as a gain at the date of modification. The difference between the carrying amount of the Senior Notes under IAS 39 and IFRS 9 was recognised in opening retained earnings in the amount of USD 7,566 thousand.

The Senior Notes are jointly and severally guaranteed on a senior basis by PrJSC “Myronivsky Hliboprodukt”, PJSC

“Myronivsky Plant of Manufacturing Feeds and Groats”, PrJSC “Zernoprodukt MHP”, PrJSC “Agrofort”, PrJSC “Oril-Leader”, PrJSC “Myronivska Pticefabrika”, “SPF “Urozhay” LLC, “Starynska Ptakhofabryka” ALLC, Vinnytska Ptakhofabryka LLC, SE “Peremoga Nova”, “Katerinopolskiy Elevator” LLC, Scylla Capital Limited and Raftan Holding Limited.

Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to EBITDA ratio as defined by the indenture, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. If a change of control occurs, the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

### 8.25% Senior Notes

On 8 April 2013, MHP SE issued USD 750,000 thousand 8.25% Senior Notes due in 2020 at an issue price of 100% of the principal amount. USD 350,000 thousand out of issued USD 750,000 thousand 8.25% Senior Notes were used to early redemption and exchange of its existed 10.25% Senior Notes due in 2015.

Early redemption of 10.25% Senior Notes due in 2015 out of issue of 8.25% Senior Notes due in 2020, which were placed with the

same holders and where the change in the net present value of the future cash flows discounted using the original effective interest rate was less than 10% was accounted as an exchange and thus all the related expenses, including consent fees, were capitalized and will be amortised over the maturity period of the 8.25% Senior Notes due in 2020.

The part of expenses, connected with placement of 8.25% Senior Notes amounted to USD 28,293 thousand were capitalized, including USD 22,813 thousands related to the exchange. All other related expenses, including part of consent fees, in the amount of USD 16,515 thousand were expensed as incurred.

The carrying amount of the Senior Notes was adjusted on transition to IFRS 9. Under IFRS 9, as a result of a non-substantial modification, the difference between the present value of the cash flows under the original and modified terms discounted at the original effective interest rate should be recognised as a gain at the date of modification. The difference between the carrying amount of the Senior Notes under IAS 39 and IFRS 9 was recognised in opening retained earnings in the amount of USD 3,260 thousand.

The Senior Notes are jointly and severally guaranteed on a senior basis by PrJSC “Myronivsky Hliboprodukt”, SE “Peremoga Nova”, PrJSC “Oril-Leader”, PJSC “Myronivsky Plant of Manufacturing Feeds and Groats”, PrJSC “Zernoprodukt MHP”, PrJSC “Myronivska Pticefabrika”, “Starynska Ptakhofabryka” ALLC, Snyatynska Ptakhofabryka, “Katerinopolskiy Elevator” LLC, PrJSC “Agrofort”, “SPF “Urozhay” LLC, Vinnytska Ptakhofabryka LLC, Scylla Capital Limited, Raftan Holding Limited and Merique Holding Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. BONDS ISSUED (continued)

### 8.25% Senior Notes (continued)

Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to EBITDA ratio as defined by the indebtedness agreement, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. If the Group fails to comply with the covenants imposed, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may, upon written notice to the Group, declare all outstanding Senior Notes to be due and payable immediately. If a change of control occurs the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

On 21 October 2019 the Group redeemed all USD 79,471 thousand of the aggregate principal amount outstanding of its 8.25% Senior Notes due in 2020 in accordance with the terms of the indenture. The redemption price amounted to USD 81,917 thousand. Difference between redemption price and principal outstanding in the amount of USD 2,164 thousand was recognised in the consolidated statement of profit or loss as incurred.

### Consent solicitation

On 12 October 2018, the Group received consent from the Holders of the outstanding USD 79,417 thousand 8.25% Senior Notes for certain proposed amendments to the Indenture and the Notes. The Amendments were implemented by way of execution

of the Supplemental Indenture on 15 October 2018, and became effective from the Consent Settlement Date (17 October 2018).

In relation to the Notes, the Company has, on the Consent Settlement Date, paid to those Holders from whom valid Consents were delivered and not revoked on or prior to the Consent Expiration Date and which Consents were accepted by the Company the Consent Payment of USD 10.00 for each USD 1 thousand in principal amount of the Notes that were subject of the relevant Electronic Instructions.

### Covenants

Certain restrictions under the indebtedness agreements (e.g. incurrence of additional indebtedness, restricted payments, dividends payment) are dependent on the leverage ratio. Once the leverage ratio exceeds 3.0 to 1, it is not permitted for the Group to make certain restricted payments, declare dividends exceeding USD 30 million in any financial year, incur additional debt except that is defined as Permitted Debt. According to the indebtedness agreement, the consolidated leverage ratio is tested on the date of incurrence of additional indebtedness or restricted payment and after giving pro forma effect to such incurrence or restricted payment as if it had been incurred or done at the beginning of the most recent four consecutive fiscal quarters for which financial statements are publicly available (or are made available). The Group has tested all the transactions occurred prior to publication of these financial statements and has complied with all the covenants defined by indebtedness agreement during the reporting periods ended 31 December 2019 and 31 December 2018.

As at 31 December 2019 the leverage ratio of the Group is 3.01 to 1, higher than the defined limit of 3.0 to 1. Thus, since the moment of publication of these audited consolidated financial statements as of and for the year ended 31 December 2019, the aforementioned restrictions will be binding on the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 28. LEASE LIABILITIES

Long-term lease obligations represent amounts due under agreements for the leasing of agricultural land, trucks, agricultural machinery and equipment. As of 31 December 2019, the weighted average interest rates on lease obligations were 4.97%, 6.5% and 20.2% for lease obligations denominated in EUR, USD and UAH respectively (2018: 6.40% and 8.61% and n/a).

The amount of interest expense on lease liabilities for the year ended 31 December 2019 was USD 37,784 thousand. The total cash outflow for leases for the year ended 31 December 2019 was USD 53,590 thousand.

The amount of depreciation charge for right-of-use assets and additions to right-of-use assets for the year ended 31 December 2019 was USD 33,250 thousand and USD 19,607 respectively.

The carrying amount of lease liabilities as at 31 December 2019 includes USD 199,233 thousand of land lease liabilities.

The following is the maturity analysis of lease payments under the lease agreements as of 31 December 2019 and 2018:

	2019	2018
Payable within one year	64,074	5,409
Payable in the second to fifth years	205,137	10,424
Payable after five years	176,219	-
	<b>445,430</b>	<b>15,833</b>
<b>LESS:</b>		
Future finance charges	(229,567)	(2,391)
<b>Present value of lease obligations</b>	<b>215,863</b>	<b>13,442</b>
<b>LESS:</b>		
Current portion	(64,074)	(4,355)
<b>Lease obligations, long-term portion</b>	<b>151,789</b>	<b>9,087</b>

### 29. OTHER CURRENT LIABILITIES

Other current liabilities were as follows as of 31 December 2019 and 2018:

	2019	2018
<b>Financial liabilities at amortised cost</b>		
Accrued payroll	42,344	37,698
Amounts payable for property, plant and equipment	14,478	16,146
Other financial liabilities	3,230	6,327
<b>Non-financial instruments</b>		
Advances from third parties	61,293	30,388
Payroll related taxes	4,807	3,138
Other non-financial instruments	5,842	2,686
	<b>131,994</b>	<b>96,383</b>

Advances from third parties as of 31 December 2018 in the amount of USD 30,388 were recognized as revenue during the year ended 31 December 2019.

### 30. RELATED PARTY BALANCES AND TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related if one party controls, is controlled by, or is under common control with the other party, or exercises significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms and conditions as transactions between unrelated parties.

#### Transactions with related parties under common control

The Group enters into transactions with related parties that are the companies under common control of the Principal Shareholder of the Group (Note 1) in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements.

Terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. The terms of the payables and receivables related to trading activities of the Group do not vary significantly from the terms of similar transactions with third parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30. RELATED PARTY BALANCES AND TRANSACTIONS

(continued)

The transactions with the related parties during the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Loans provided to key management personnel	4,895	768
Sales of goods	10	-
Purchases from related parties	10	44
Loans provided	35,204	8,091
Loans repaid	17,315	5,322
Interest charged on loans and finance aid provided	854	50
Loss allowance against loans and finance aid provided	3,128	-

The balances owed to and due from related parties were as follows as of 31 December 2019 and 2018:

	2019	2018
Loans and finance aid receivable	24,845	5,950
Less: allowance for unrecoverable amounts	(3,128)	-
	<b>21,717</b>	<b>5,950</b>
Loans to key management personnel	4,945	971
Trade accounts receivable (Note 21)	197	111
Payables due to related parties	19	19

### Loans and finance aid receivable

On 11 February 2019, the Board approved a loan facility of USD 20,000 thousand to its principal shareholder, WTI Trading Limited ("WTI") to meet WTI's general liquidity requirements and other corporate purposes for a maximum of three years. The facility was increased to USD 50,000 thousand on 4 December 2019. The facility was further increased by the Board to USD 80,000 thousand on 21 January 2020.

As of 31 December 2019, the Group had advanced loans to WTI in the aggregate amount of USD 20,400 thousand. The loans, with a maturity in July 2020, bear interest at a rate of 8.25% and are unsecured.

Subsequent to 31 December 2019, the total amount of loans advanced was increased to USD 55,400 thousand, including USD 20,000 thousand to be repaid in September 2020. The Group's Directors believe that the loans were issued at arm's length terms and for fair market value, and that they were in the best interests and for the commercial benefit of the Group and does not violate the terms of the Senior Notes (Note 27).

During the year, the Group advanced to other affiliated companies under the common control of WTI, short term unsecured loans which were fully repaid within the year and carried interest at rates between 2.5% - 8.25%.

### Compensation of key management personnel

Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of profit and loss and other comprehensive income amounted to USD 18,654 thousand and USD 16,809 thousand for the years ended 31 December 2019 and 2018, respectively.

Compensation of key management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's independent non-executive directors, which consists of contractual salary, amounted to USD 679 thousand and USD 1,106 thousand in 2019 and 2018, respectively.

Key management personnel totalled 43 and 35 individuals as of 31 December 2019 and 2018, respectively, including 3 and 4 independent non-executive directors as of 31 December 2019 and 2018, respectively.

### Loans to key management personnel

The Group has provided several of its key management personnel with short-term unsecured loans at interest-free rates. The loans to key management personnel include the loans provided by the Ukrainian subsidiaries to the Group's directors amounted to USD 4,253 thousand and USD 562 thousand in 2019 and 2018, respectively.

### Other transactions with related parties

In December 2018 the Group increased its effective ownership interest in Agrofort to 100% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 256,414 treasury shares held by the Group. The difference between fair value of shares transferred and their carrying value in the amount of USD 1,269 thousand was recognised as an adjustment to additional paid-in capital. The difference between fair value of shares transferred and the carrying value of non-controlling interest was recognised as an adjustment to retained earnings in the amount of USD 997 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

### Operating Environment

Since 2016, the Ukrainian economy has demonstrated signs of stabilization after years of political and economic tension. In 2019, the Ukrainian economy continued its recovery and achieved real GDP growth of around 3.6% (2018: 3.3%), modest annual inflation of 4.1% (2018: 9.8%), and stabilization of the national currency (appreciation of the national currency by around 5% to USD and 11% to EUR comparing to previous year averages).

Ukraine continues to limit its political and economic ties with Russia, given annexation of Crimea, an autonomous republic of Ukraine, and an armed conflict with separatists continued in certain parts of Luhanska and Donetska regions. As a result of this, the Ukrainian economy is refocusing on the European Union (the "EU") market by realizing potentials of established Deep and Comprehensive Free Trade Area with the EU.

To further facilitate business activities in Ukraine, the National Bank of Ukraine (the "NBU") from 20 June 2019 has lifted the surrender requirement for foreign currency proceeds, cancelled all limits on repatriation of dividends since July 2019 and gradually decreased its discount rate for the first time in two years, from 18.0% in April 2019 to 11.0% in January 2020.

The degree of macroeconomic uncertainty for Ukraine in 2019 still remains high due to a significant amount of public debt scheduled for repayment in 2019-2020, which requires mobilizing substantial domestic and external financing in an increasingly challenging financing environment for emerging markets.

At the same time, Ukraine has passed through the period of presidential and parliamentary elections. All newly elected authorities have demonstrated their commitment to introduce reforms in order to boost economic growth, while maintaining macro-fiscal stability and liberalizing economic environment. These changes have resulted in, inter alia, improved Fitch's rating of Ukraine's Long-Term Foreign and Local-Currency Issuer Default Ratings from 'B-' to 'B', with a positive outlook.

Further economic growth depends, to a large extent, upon success of the Ukrainian government in realization of planned structural reforms and effective cooperation with the International Monetary Fund (the "IMF").

In addition, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Ukrainian economy.

### Taxation and legal issues

Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. The local and national 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 fines. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and fines, and these amounts could be material. While the Group believes it has complied with local tax legislation, there are new significant changes to the tax legislation that may be introduced in the near future.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. CONTINGENCIES AND CONTRACTUAL COMMITMENTS

*(continued)*

### Taxation and legal issues *(continued)*

Management believes that the Group has been in compliance with all requirements of effective tax legislation.

The Group exports vegetable oil, chicken meat and related products, and performs intercompany transactions, which may potentially be in the scope of the Ukrainian transfer pricing ("TP") regulations. The Group has submitted the controlled transaction report for the year ended 31 December 2018 within the required deadline, and is in the process of preparation of all necessary documentation on controlled transactions for the years ended 31 December 2019 as required by legislation and plans to submit reports by 1st October 2020.

As of 31 December 2019, the Group's management assessed its possible exposure to tax risks for a total amount of USD 6,516 thousand related to corporate income tax (31 December 2018: USD 4,452 thousand). No provision was recognised relating to such possible tax exposure.

As of 31 December 2019, companies of the Group were engaged in ongoing litigation with tax authorities for the amount of USD 23,201 thousand (2018: USD 2,831 thousand), including USD 11,016 thousand (2018: USD 2,108 thousand) of litigations with

the tax authorities related to disallowance of certain amounts of VAT refunds and deductible expenses claimed by the Group. Of this amount, USD 1,241 thousand as of 31 December 2019 (2018: USD 1,228 thousand) relates to cases where court hearings have taken place and where the court in either the first or second instance has already ruled in favour of the Group.

Management believes that based on the past history of court resolutions of similar lawsuits by the Group, it is unlikely that a significant settlement will arise out of such lawsuits and, therefore, no respective provision is required in the Group's financial statements as of the reporting date.

### Contractual commitments on purchase of property, plant and equipment

During the years ended 31 December 2019 and 2018, the companies of the Group entered into a number of contracts with foreign suppliers for the purchase of property, plant and equipment for development of agricultural operations. As of 31 December 2019, purchase commitments amounted to USD 10,340 thousand (2018: USD 16,826 thousand).

## 32. DIVIDENDS

On 21 March 2019, the Board of Directors of MHP SE approved a payment of the interim dividends of USD 0.7474 per share, equivalent to USD 80,000 thousand, which were paid to shareholders during the year ended 31 December 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosure” and IFRS 13 “Fair value 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.

The fair value is estimated to be the same as the carrying value for cash and cash equivalents, short-term bank deposits, trade accounts receivables, other current assets and trade accounts payable due to the short-term nature of the financial instruments.

Fair value of other non-current assets and liabilities does not differ materially from it carrying amount and are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Set out below is the comparison by category of carrying amounts and fair values of all the Group’s financial instruments, excluding those discussed above, that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
	2019	2018	2019	2018
<b>Financial liabilities</b>				
Bank borrowings (Note 26)	101,858	241,648	99,417	233,898
Senior Notes due in 2020, 2024, 2026, 2029 (Note 27)	1,386,425	1,107,257	1,468,144	1,027,226
Lease obligations (Note 28)	215,863	13,442	243,352	13,726

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value of bank borrowings and lease obligations was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings 5.4% (31 December 2018: 8.0%) and for lease obligations 18.0% (31 December 2018: 8.2%), and is within Level 2 of the fair value hierarchy. The market rate applied to the land lease obligations is 15.6%.

The fair value of Senior Notes was estimated based on market quotations and is within Level 1 of the fair value hierarchy.

#### Reconciliation of liabilities arising from financing activities

The tables below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

In 2019 management has revised the format of table on changes in liabilities arising from financing activities on the basis that, in the context of the 2019 consolidated financial statements as a whole, this form would be more appropriate for disclosure. Management has updated the 2018 information to align with this revision.

	Bank borrowings	Bonds issued	Lease obligations	Accrued interest	Total
<b>As of 31 December 2018</b>	<b>238,498</b>	<b>1,090,935</b>	<b>13,442</b>	<b>19,472</b>	<b>1,362,347</b>
Effect of adoption IFRS 16	-	-	163,651	-	163,651
<b>As at 1 January 2019</b>	<b>238,498</b>	<b>1,090,935</b>	<b>177,093</b>	<b>19,472</b>	<b>1,525,998</b>
Cash flow from proceeds / (repayments)	(191,940)	270,583	(53,590)	(101,510)	(76,457)
Transaction costs payments	(697)	(4,751)	-	-	(5,448)
<b>Non-cash movements</b>					
Foreign exchange movements	(45,419)	(303)	(1,945)	(3,014)	(50,681)
Acquisition of subsidiaries	58,514	-	16,446	256	75,216
Non-cash additions and change in terms	1,318	-	23,278	-	24,596
Non-cash repayments of lease liabilities	-	-	(10,842)	-	(10,842)
Interest charged	-	-	37,784	100,836	138,620
Amortisation and write-off of transaction costs	1,839	9,205	-	-	11,044
Translation difference	38,712	-	27,639	5,749	72,100
<b>As of 31 December 2019</b>	<b>100,825</b>	<b>1,365,669</b>	<b>215,863</b>	<b>21,789</b>	<b>1,704,146</b>
<b>As at 1 January 2018</b>	<b>175,734</b>	<b>959,262</b>	<b>11,450</b>	<b>17,955</b>	<b>1,164,401</b>
Cash flow from proceeds / (repayments)	53,493	133,817	(5,569)	(92,959)	88,782
Transaction costs payments	(384)	(45,460)	-	-	(45,844)
<b>Non-cash movements</b>					
Foreign exchange movements	(6,554)	-	(401)	(335)	(7,290)
Acquisition of subsidiaries	11,377	-	6,774	-	18,151
Interest charged	-	-	1,154	94,773	95,927
Non-cash additions and change in terms	1,232	43,336	-	-	44,568
Translation difference	3,600	(20)	34	38	3,652
<b>As of 31 December 2018</b>	<b>238,498</b>	<b>1,090,935</b>	<b>13,442</b>	<b>19,472</b>	<b>1,362,247</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 34. RISK MANAGEMENT POLICIES

During the years ended 31 December 2019 and 2018, there were no material changes to the objectives, policies and process for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

#### Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through maintaining a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through new share issues and through the issue of new debt or the redemption of existing debt.

The Group's target is to achieve a gearing ratio of not higher than 2.5. The Group defines its gearing ratio as the proportion of total liabilities to total equity.

As of 31 December 2019 and 2018 the gearing ratio was as follows:

	2019	2018
Total Liabilities	2,094,629	1,572,659
Total Equity	1,595,866	1,098,006
Total liabilities to Equity	1.31	1.43

#### Major categories of financial instruments

	2019	2018
<b>Financial assets:</b>		
Cash and cash equivalents (Note 23)	340,735	211,768
Trade accounts receivable, net (Note 21)	124,474	69,305
Other current assets (Note 22)	29,337	7,359
Other non-current assets, net (Note 16 )	17,616	17,357
Long-term bank deposits	3,298	3,387
	<b>515,460</b>	<b>309,176</b>
<b>Financial liabilities:</b>		
Bonds issued (Note 27)	1,365,669	1,090,935
Lease obligations (Note 28)	215,863	13,442
Trade accounts payable	147,334	66,398
Bank borrowings (Note 26)	100,825	238,498
Accrued payroll (Note 29)	42,344	37,698
Accrued interest (Note 26,27)	21,789	19,472
Amounts payable for property, plant and equipment (Note 29)	14,478	16,146
Other payables (Note 29)	3,230	6,327
	<b>1,911,532</b>	<b>1,488,916</b>

The main risks inherent to the Group's operations are those related to credit risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk, and commodity price and procurement risk.

#### 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 does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. The carrying amount of financial assets disclosed in the table "Major categories of financial instruments" represent the maximum credit exposure.

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 group of customers. The approved credit period for major groups of customers, which include franchisees, distributors and supermarkets, is set at 10-30 days.

Limits on the level of credit risk by customer are approved and monitored on a regular basis by the management of the Group. The Group's management assesses amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. As of 31 December 2019 around 19% (2018: 26%) of trade accounts receivable comprise amounts due from 12 large supermarket chains, which have the shortest contractual receivable settlement period among customers.

As of 31 December 2019 about 49% (2018: 72%) of cash and cash equivalents comprise amounts on the accounts with 2 banks. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 34. RISK MANAGEMENT POLICIES (continued)

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2019 and 2018. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

All other financial liabilities (excluding those disclosed above) are repayable within one year.

The Group's target is to maintain its current ratio, defined as the proportion of current assets to current liabilities, at the level of not less than 1.2. As of 31 December 2019 and 2018, the current ratio was as follows:

	2019	2018
Current assets	1,181,641	1,036,678
Current liabilities	390,181	319,323
<b>Current ratio</b>	<b>3.03</b>	<b>3.25</b>

	Carrying amount	Contractual Amounts	Less than 1 year	From 2nd to 5th year	After 5th year
<b>Year ended 31 December 2019</b>					
Bank borrowings	101,858	108,128	27,698	80,430	-
Bonds issued	1,386,425	2,041,588	98,850	876,025	1,066,713
Lease obligations	215,863	445,430	64,074	205,137	176,219
<b>Total</b>	<b>1,704,146</b>	<b>2,595,146</b>	<b>190,622</b>	<b>1,161,592</b>	<b>1,242,932</b>
<b>Year ended 31 December 2018</b>					
Bank borrowings	241,648	257,354	142,301	107,944	7,109
Bonds issued	1,107,257	1,639,058	83,527	390,593	1,164,938
Lease obligations	13,442	15,833	5,409	10,424	-
<b>Total</b>	<b>1,362,347</b>	<b>1,912,245</b>	<b>231,237</b>	<b>508,961</b>	<b>1,172,047</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 34. RISK MANAGEMENT POLICIES (continued)

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, but the management of the Group sets limits on the level of exposure to foreign currency fluctuations in order to manage currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December were as follows:

	2019		2018	
	USD	EUR	USD	EUR
<b>ASSETS</b>				
Long-term bank deposits	-	3,298	-	3,387
Other non-current assets, net	16,381	-	15,980	-
Trade accounts receivable, net	23,635	9,431	26,072	5,434
Other current assets, net	15,998	-	3,601	-
Cash and cash equivalents	106,658	1,461	151,535	17,088
	<b>162,672</b>	<b>14,190</b>	<b>197,188</b>	<b>25,909</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade accounts payable	2,101	7,211	2,536	2,543
Other current liabilities	5	2,327	31	6,916
Accrued interest	20,758	720	18,877	595
Short-term bank borrowings	-	16,683	110,771	21,944
Short-term lease obligations	74	4,238	2,290	2,066
	<b>22,938</b>	<b>31,179</b>	<b>134,505</b>	<b>34,064</b>
<b>Non-current liabilities</b>				
Long-term bank borrowings	57	34,224	56,702	49,081
Bonds issued <sup>1</sup>	1,365,669	-	1,090,935	-
Long-term lease obligations	-	5,565	3,072	6,014
	<b>1,365,726</b>	<b>39,789</b>	<b>1,150,709</b>	<b>55,095</b>
	<b>1,388,664</b>	<b>70,968</b>	<b>1,285,214</b>	<b>89,159</b>

<sup>1</sup> Bonds were issued by MHP Lux S.A. and MHP SE, which functional currency is USD. Proceeds from bonds issue were transferred in the form of USD denominated intragroup loans to Ukrainian subsidiaries of the Group, which uses UAH at its functional currency, is UAH therefore the Group treats bonds issued balance as foreign currency denominated balance. Foreign exchange gain/loss on such intragroup loans is recognized in the consolidated statement of profit or loss, while loan balances themselves are eliminated on consolidation.

The table below illustrates the Group's sensitivity to a change in the exchange rate of the Ukrainian Hryvnia against the US Dollar and EUR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for possible change in foreign currency rates.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 34. RISK MANAGEMENT POLICIES (continued)

#### Currency risk

	Change in foreign currency exchange rates	Effect on profit before tax, gain/(loss)
<b>2019</b>		
Increase in USD exchange rate	10%	(122,599)
Increase in EUR exchange rate	10%	(5,678)
Decrease in USD exchange rate	5%	61,300
Decrease in EUR exchange rate	5%	2,839
<b>2018</b>		
Increase in USD exchange rate	10%	(108,803)
Increase in EUR exchange rate	10%	(6,325)
Decrease in USD exchange rate	5%	54,401
Decrease in EUR exchange rate	5%	3,164

During the year ended 31 December 2019, the Ukrainian Hryvnia appreciated against the EUR and USD by 20.03% and 16.90% respectively (2018: appreciated against the EUR by 5.62% and 1.37% against the USD). As a result, during the year ended 31 December 2019 the Group recognised net foreign exchange gain in the amount of USD 185,291 thousand (2018: foreign exchange gain in the amount of USD 11,638 thousand) in the consolidated statement of profit or loss and other comprehensive income.

The currency risk is mitigated by the existence of USD-denominated proceeds from sales of sunflower oil, grain and chicken meat, which are sufficient for servicing the Group's foreign currency denominated liabilities and were as follows during the years, ended 31 December 2019 and 2018:

	2019	2018
Chicken meat and related products	588,903	471,177
Vegetable oil and related products	302,600	274,313
Grain	251,836	156,511
Other agricultural segment products	42,362	21,703
	<b>1,185,701</b>	<b>923,704</b>

#### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect primarily borrowings by changing either their fair value (fixed rate debt) or future cash flows (variable rate debt). For variable rate borrowings, interest is linked to LIBOR or EURIBOR.

The below table illustrates the Group's sensitivity to increases or decreases of interest rates by 5% (2018: 5%). The analysis was applied to interest bearing liabilities (bank borrowings, lease obligations and accounts payable under grain purchase financing arrangements) based on the assumption that the amount of liability outstanding as of the reporting date was outstanding for the whole year.

The effect of interest rate sensitivity on shareholders' equity is equal to that on the consolidated statement of profit or loss.

	Increase/(decrease) of floating rate	Effect on profit before tax, gain/(loss)
<b>2019</b>		
LIBOR	5%	(7)
LIBOR	-5%	7
EURIBOR	5%	(3,036)
EURIBOR	-5%	3,036
<b>2018</b>		
LIBOR	5%	(8,642)
LIBOR	-5%	8,642
EURIBOR	5%	(3,955)
EURIBOR	-5%	3,955

#### Livestock disease risk

The Group's agro-industrial business is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of diseases, which are highly contagious and destructive to susceptible livestock, such as avian influenza or bird flu for its poultry operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to minimize and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. RISK MANAGEMENT POLICIES (continued)

### Commodity price and procurement risk

Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To mitigate this risk the Group continues expansion of its grain growing segment, as part of vertical integration strategy, and also accumulates sufficient commodity stock to meet its production needs.

## 35. PENSIONS AND RETIREMENT PLANS

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 31 December 2019 was USD 48,702 thousand, out of which USD 100 thousand correspond to directors, and is recorded in the consolidated statement of profit or loss and other comprehensive income on an accrual basis (2018: USD 33,097 thousand), out of which USD 74 thousand correspond to directors).

The employees of the Group receive pension benefits from the government. In accordance with the legislative regulations, collective contract, and internal rules, the companies of the Europe operating segment are committed to the payment of loyalty bonuses to employees and the severance payments upon their retirement for which long-term provisions are made. Provisions are recognized in other operating expenses in the consolidated statement of profit or loss and other comprehensive income and in other non-current liabilities in the statement of financial position.

## 36. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in calculation of earnings per share are as follows:

From continued operations	2019	2018
Profit for the year attributable to equity holders of the Parent	224,263	126,200
<b>Earnings used in calculation of earnings per share</b>	<b>224,263</b>	<b>126,200</b>
Weighted average number of shares outstanding	107,036,256	106,804,274
<b>Basic and diluted earnings per share (USD per share)</b>	<b>2.10</b>	<b>1.18</b>

The Group has neither potentially dilutive ordinary shares nor other dilutive instruments; therefore, the diluted earnings per share equal basic earnings per share. The denominators used are the same as those detailed above for both basic and diluted earnings per share from discontinued operations presented in Note 2.

## 37. SUBSEQUENT EVENTS

### Implications of the coronavirus outbreak on the business operations

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life.

Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the Ukraine and Slovenia, have implemented restrictions on travelling as well as strict quarantine measures.

Industries such as tourism, hospitality and entertainment are expected to be directly disrupted significantly by these measures. Other industries such as manufacturing and financial services are expected to be indirectly affected and their results to also be negatively affected.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37. SUBSEQUENT EVENTS *(continued)*

Management has considered all available information about the future, which was obtained after 31 December 2019, including the impact of the COVID-19 outbreak on customers, suppliers and staff, as well as actual and projected foreseeable impact from various factors, such as the following:

- whether the entity can continue to operate if staff were not able to physically be present;
- the duration that the entity could survive given the availability of cash resources and the flexibility of its cost base;
- whether there has been a significant decline in revenue;
- whether there has been a significant erosion of profits due to higher costs or incurrence of unforeseen expenses;
- whether there is a likelihood of potential breach of debt covenants as a result of the adverse impact on its financials;
- whether there have been any concerns on the continuation of receipt of goods/services from suppliers.

Management has concluded that there is no significant impact in the Group's profitability position. The event is not expected to have an immediate material impact on the business operations. Management will continue to monitor the situation closely and will assess the need for addition measures in case the period of disruption becomes prolonged.

Despite COVID-19 outbreak, the Group continues to fulfill its liabilities. The Group made coupon payments in an amount of USD 10,938 thousand on 18 March 2020 in respect of the 6.25% Senior Notes and USD 19,113 thousand on 2 April 2020 in respect of the 6,95% Senior Notes.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

### Loans and finance aid receivable

Subsequently to 31 December 2019, the limit of the facility to parent company WTI was increased by resolution of the Board of Directors to USD 80,000 thousand and the total amount of loans advanced totalled USD 55,400 thousand, including USD 20,000 thousand to be repaid in September 2020 (Note 30). The Group's Directors believe that the loans were issued at arm's length terms and for fair market value, and that they were in the best interests and for the commercial benefit of the Group.

### Dividends

On 13 April 2020, the Board of Directors approved payment of an interim dividend of USD 0.2803 per share, equivalent to USD 30,000 thousand, to be paid to shareholders by the end of April 2020.

## 38. AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Directors of MHP SE on 13 April 2020.

# SHAREHOLDER INFORMATION

## FINANCIAL CALENDAR

MHP's financial calendar can be found here:

<http://www.mhp.com.ua/en/investor-relations/calendar>.

The calendar is updated to show relevant events and dates.

## KEY CONTACTS & ADVISORS

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### Director of Investor Relations

Anastasiya Sobotyuk

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## Website

Shareholders are encouraged to visit our websites:

[www.mhp.com.ua](http://www.mhp.com.ua) and [www.mhp.com.cy](http://www.mhp.com.cy), to obtain information on the Company including its history, reports, news and press information.

## Auditor

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Cyprus

## Registrar

Citigroup Global Markets Deutschland AG

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60323 Frankfurt Germany



<b>AC</b>	Audit Committee	<b>IFI</b>	International financial institution
<b>AGM</b>	Annual general meeting	<b>IFRS</b>	International Financial Reporting Standards
<b>AI</b>	Artificial Intelligence	<b>IR</b>	Investor relations
<b>Broiler</b>	A young chicken raised for meat	<b>JV</b>	Joint venture
<b>CAPEX</b>	Capital expenditure	<b>Kg</b>	Kilograms
<b>CEO</b>	Chief Executive Officer	<b>KPIs</b>	Key performance indicators
<b>CFO</b>	Chief Financial Officer	<b>KSA</b>	Kingdom of Saudi Arabia
<b>CIS</b>	Commonwealth of Independent States	<b>LHS</b>	Left Hand Scale
<b>Company</b>	MHP SE	<b>LTM</b>	Last twelve months
<b>COSO</b>	Committee of Sponsoring Organisations	<b>M&amp;A</b>	Mergers and acquisitions
<b>CO2</b>	Carbon Dioxide	<b>MENA</b>	Middle East and North Africa region
<b>CO2e</b>	Carbon Dioxide Equivalent	<b>MW</b>	Megawatt
<b>CSR</b>	Corporate Social Responsibility	<b>NBU</b>	National Bank of Ukraine
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation	<b>NED</b>	Non-executive director
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>NGO</b>	Non-governmental organisation
<b>EGM</b>	Extraordinary general meeting	<b>NBC</b>	Nominations and Remuneration Committee
<b>EOS</b>	European Operating Segment	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ESG</b>	Environmental, Social and Governance	<b>PP</b>	Perutnina Ptuj, acquired during 2019
<b>EU</b>	European Union	<b>pps</b>	Percentage Points
<b>Fodder</b>	Food for livestock	<b>R&amp;D</b>	Research and development
<b>FX</b>	Foreign Exchange	<b>RHS</b>	Right Hand Scale
<b>GCC</b>	Gulf Cooperation Council	<b>SE</b>	Societas Europaea
<b>GDP</b>	Gross Domestic Product	<b>SKU</b>	Stock keeping unit, or distinct type of item for sale
<b>GDR</b>	Global depositary receipt	<b>SPOT</b>	A contract for immediate settlement on the spot date
<b>GMO</b>	Genetically Modified Organisms	<b>UAE</b>	United Arab Emirates
<b>Greenfield</b>	Relating to previously undeveloped sites	<b>UAH</b>	Ukrainian Hryvnia
<b>GRI</b>	Global Reporting Initiative	<b>UK</b>	United Kingdom
<b>Group</b>	MHP SE and its subsidiaries	<b>UNIC</b>	Ukrainian Network of Integrity and Compliance
<b>Grow-out</b>	The period during which the broilers are raised	<b>US</b>	United States
<b>Ha</b>	Hectares	<b>US\$ /USD</b>	United States Dollar
<b>HR</b>	Human resources	<b>y/y</b>	Year-on-year
<b>IAS</b>	International Accounting Standards	<b>VAT</b>	Value-added tax
<b>IFC</b>	International Finance Corporation		





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