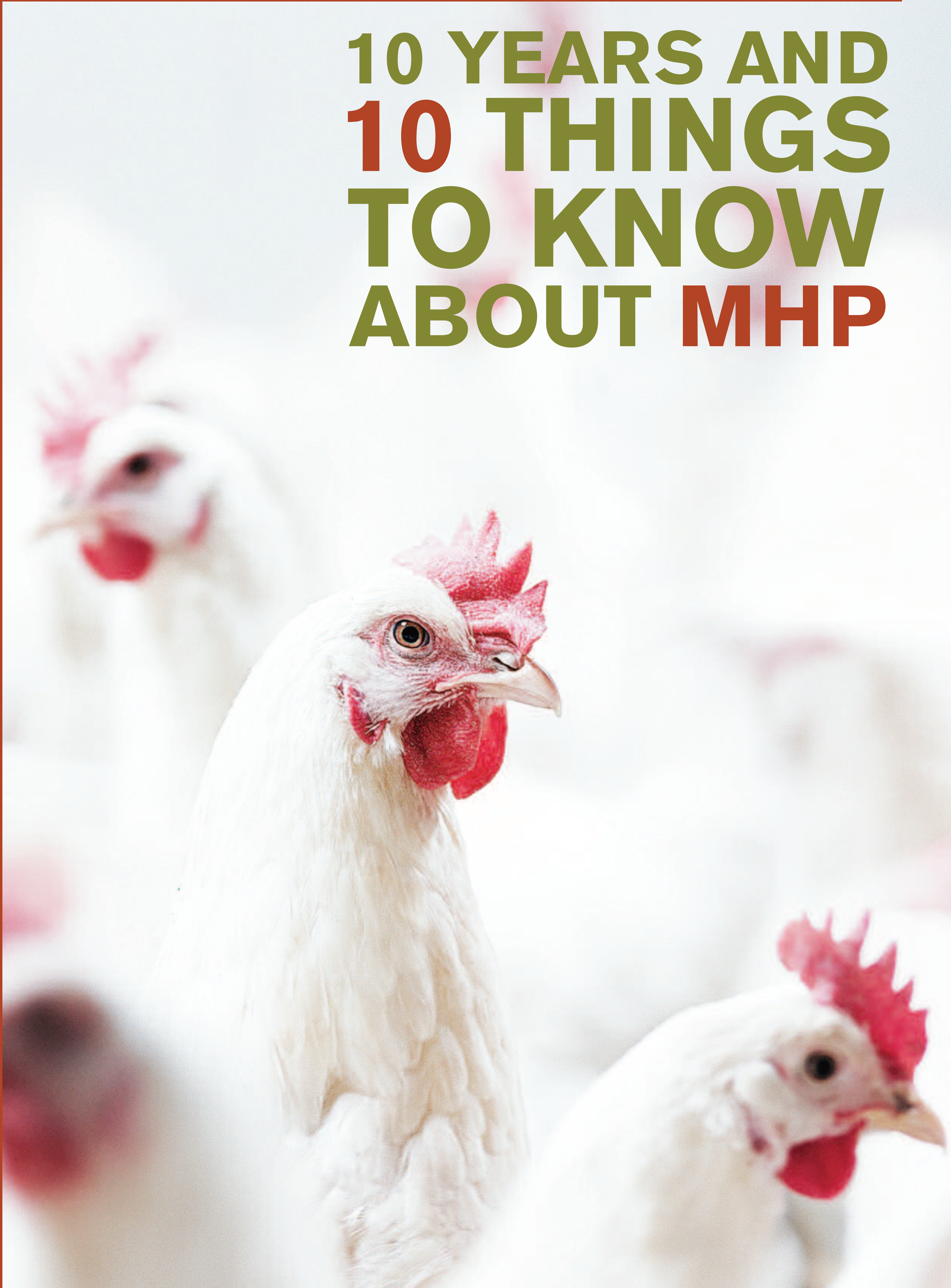
10 YEARS AND 10 THINGS TO KNOW ABOUT MHP



WHO WE ARE

MHP (Myronivsky Hliboproduct) is one of Ukraine's leading agro-industrial companies. Founded in 1998, the group primarily focuses on rearing chickens, and on producing and selling high-quality chicken products – principally under the "Nasha Ryaba" brand.
MHP is a truly vertically-integrated company: in its determination to become self-sufficient, it grows crops for fodder, and owns grain storage facilities and feed mills.

The group's newest facility, the Myronivka chicken farm, will become fully operational during 2009. Expected to be Europe's largest chicken production facility by volume, Myronivka will ensure that MHP – which employs more than 19,000 people – will continue to be at the forefront of Ukraine's domestic food production industry.

OVERVIEW

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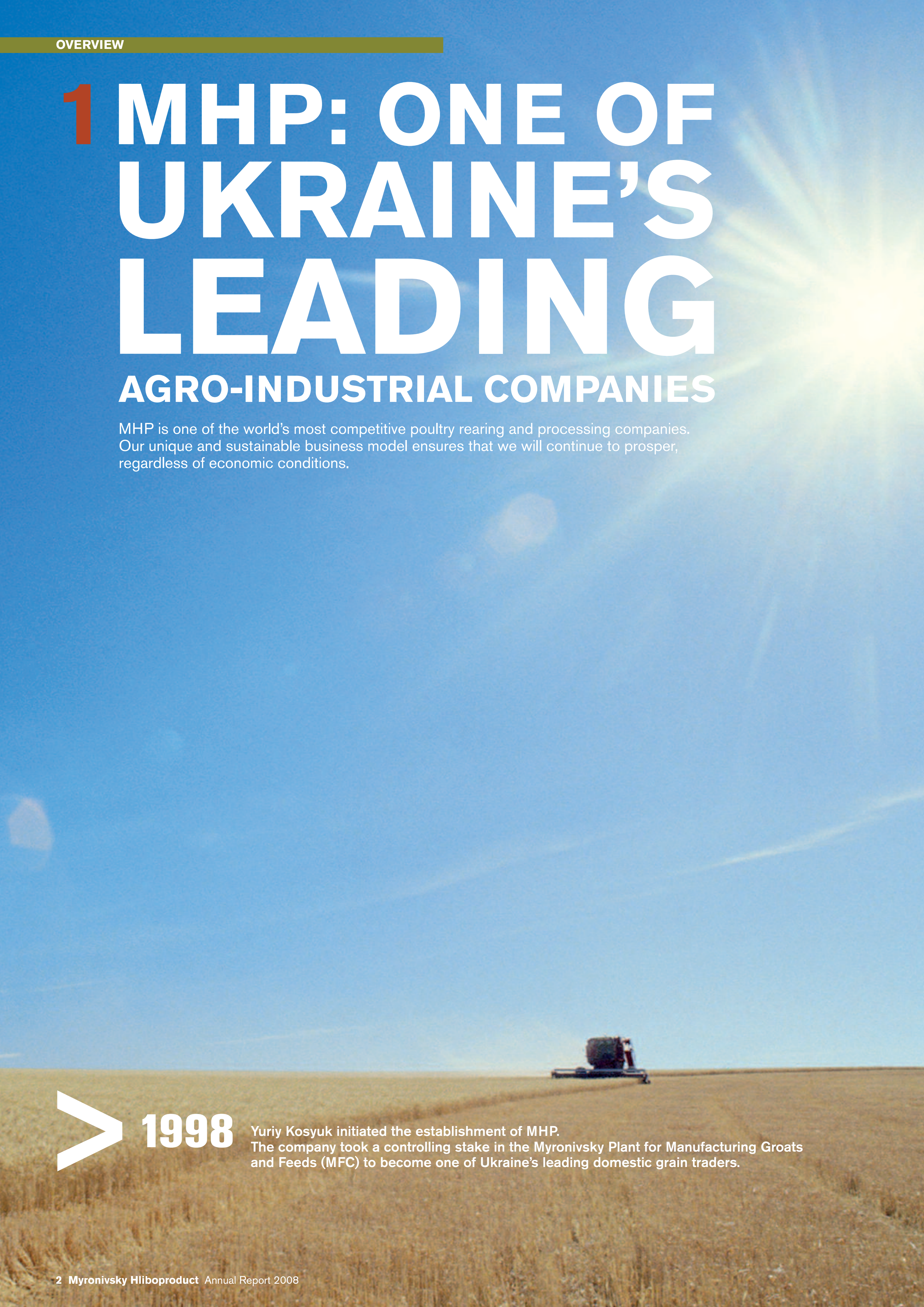
10 YEARS AND 10 THINGS TO KNOW ABOUT MHP



1 MHP: ONE OF UKRAINE'S LEADING AGRO-INDUSTRIAL COMPANIES

MHP is one of the world's most competitive poultry rearing and processing companies. Our unique and sustainable business model ensures that we will continue to prosper, regardless of economic conditions.

> 1998 Yuriy Kosyuk initiated the establishment of MHP.
The company took a controlling stake in the Myronivsky Plant for Manufacturing Groats and Feeds (MFC) to become one of Ukraine's leading domestic grain traders.

2 MHP: WE HOLD CLOSE TO 40% OF THE MARKET FOR COMMERCIALLY-PRODUCED CHICKEN

In each month in 2008, the group had the capacity to process more than 9 million chickens to produce 19,000 tonnes of meat. In a country which has one of Europe's lowest rates of meat consumption, there are huge opportunities to increase sales of this healthy and economical source of protein.

> **1999** MHP acquired and modernised the Peremoga poultry farm, and began rearing chickens.

3 MHP: VERTICAL INTEGRATION ENABLES US TO CONTROL COSTS

On the principle of "if you want something done well, do it yourself" MHP grows its own grain to supply its fodder mills; produces feed for its two breeder farms and four chicken farms; undertakes the entire production cycle, from chicks to mature birds to finished product; distributes in its own fleet of trucks; and sells much of its product through a network of franchised stores.

> 2001 **Poultry farm Druzhba Narodiv Nova joined the group. Agricultural LLC Starynska Ptahofabryka, which specialises in breeding stock, joined the group.**

4 MHP: OUR "NASHA RYABA" BRAND SELLS AT A PREMIUM PRICE

For the past five years the "Nasha Ryaba" brand of chilled chicken has achieved more than 90% brand recognition, enabling it to be sold at a premium over its closest competitor.

> **2002** MHP launched its chilled chicken brand, "Nasha Ryaba".

5 MHP: WE EXPAND SALES OPPORTUNITIES THROUGH A FRANCHISE NETWORK

Our direct franchise network enables us to diversify our sales outlets and to resist pressures on pricing from major retailers.

> 2003 MHP began to develop a network of franchised stores to sell its poultry products.

6 MHP: WE USE SUNFLOWER PROTEIN IN OUR CHICKEN FEED

MHP is the only company in the world which has reduced the cost of chicken feed by replacing imported soy with locally-produced sunflower protein. Sunflower oil, the by-product of sunflower cake, is exported and generates US dollar revenue; sunflower husks are burnt to generate steam energy at our MFC facility and are also used for bedding in our chicken barns.

> **2004** **MHP brought an oil-press plant into operation.**

7 MHP: GROWING GRAIN PROTECTS US FROM FLUCTUATING COMMODITY PRICES

MHP's efficient production of crops on approximately 180,000 hectares of fertile "black soil" land helps it to stabilise the price of feed for its poultry flocks.

> 2005 MHP began to build its grain-growing business.

8 MHP: WE ARE NOW INTRODUCING VALUE-ADDED FOOD PRODUCTS

MHP's two meat-processing plants, and its convenience-food plant, are equipped with the most modern European equipment. In 2008, they produced around 16,000 tonnes of sausages and meat products (113% increase year-on-year) and 9,670 tonnes of pre-cooked convenience food (137% increase year-on-year).

> 2006

The group's vast range of convenience products was united under one trademark when the "Lehko!" brand was launched.

Myronisvsky Meat Processing Plant, "Lehko", began operating and became Ukraine's largest specialist producer of convenience food.

On 30 November, MHP completed a US$250 million offer of high-yield notes.

9 MHP: MYRONIVKA IS EXPECTED TO BE EUROPE'S LARGEST CHICKEN FARM

Myronivka is being constructed to meet the continuing growth in demand for chicken and chicken products. It will enable the group to increase its annual production capacity to 340,000 tonnes by 2010.

> 2007 **Phase 1 of the Myronivka chicken farm was launched in the middle of the year. When it reached full production in October 2007, the group's output increased by 70%.**

10 MHP: THE FIRST UKRAINIAN AGRO-INDUSTRIAL COMPANY TO LIST ON THE LONDON MARKET

> 2008

In May 2008, MHP made an Initial Public Offering of its ordinary shares in the form of global depositary receipts (GDRs) to be listed on the London Stock Exchange.

The group acquired an 80% interest in the meat-producing company, Ukrainian Bacon.

AT A GLANCE

MHP has a clear strategy to enable it to maintain its position as one of the leading agro-industrial companies in Ukraine. Vertical integration enables us to control the cost and supply of the ingredients for chicken feed and, thereby, to deliver improved profitability.

Strategic overview

MHP's strategy is to maintain and develop its position as one of Ukraine's leading agro-industrial companies while, at the same time, strengthening its position as the country's leading poultry producer.

The construction of our Myronivka complex will enable us to increase our annual chicken production capacity to 340,000 tonnes by 2010 – around 50% above production in 2008 – and to benefit from economies of scale. To supply Myronivka, we will continue to increase our breeding and hatching facilities, and expand our capacity for producing chicken feed. We aim to improve productivity in our grain-growing operations, enabling us to increase our self-sufficiency in grain for fodder, even in the face of our growing demand. We will also continue to develop our distribution network and customer base, to develop new products and, thereby, to improve our sales margins.

Financials throughout this report are for continuing operations.

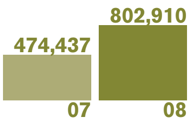
Financial highlights

- MHP's listing on the London Stock Exchange raised US$161 million
- MHP grew significantly as a result of expanding its Poultry and Related Operations segment
- Strong financial results: EBITDA increased by 88%
- Revenue from export of sunflower oil covered most of the interest on our foreign-currency debt
- Profitability almost doubled

Operational highlights

- Production increased as a result of a full year of operation of Phase I of Myronivka
- Vertical integration resulted in stable production costs
- Adding sunflower protein to chicken feed reduced our fodder costs
- Acquisition of 80% of meat-processing company, Ukrainian Bacon
- Production of value-added products increased

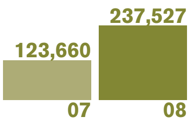
Sales US$m



Percentage increase 2007-2008

+69%

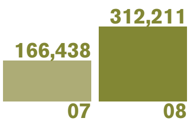
Gross profit US$m



Percentage increase 2007-2008

+92%

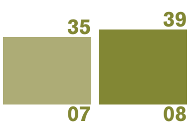
EBITDA* US$m



Percentage increase 2007-2008

+88%

EBITDA* margin %



Percentage increase 2007-2008

+11%

* See EBITDA definition on page 35.

POULTRY AND RELATED OPERATIONS

$660m

Sales in 2008

KEY PRODUCTS

- Chilled chicken, whole or in portions
- Frozen chicken, whole or in portions
- Pre-cooked convenience food
- Sunflower oil

BRANDS

- Nasha Ryaba
- Lehko!

STRATEGY

- Construction of new, full-cycle poultry complexes
- Myronivka complex – expected to be one of the biggest poultry farms in Europe; the second phase is scheduled to be fully operational in late 2009

KEY FACTS

- 157 million hatching eggs produced in 2008 at two breeder farms
- 119 million birds grown in 2008 at four poultry farms
- 225,000 tonnes of chicken produced
- 690 million tonnes of fodder produced at three mills
- 11 distribution centres
- 320 refrigerated trucks
- Approximately 2,000 branded franchise outlets
- Production of convenience food increased by 137% to 9,670 tonnes in 2008
- MHP is self-sufficient in sunflower protein and corn – the principle input costs
- The sunflower press produced 93,000 tonnes of oil

GRAIN GROWING OPERATIONS

$49.8m

Sales in 2008

KEY PRODUCTS

- Corn
- Sunflowers
- Rape
- Wheat

STRATEGY

- Increase efficiency; maximise farms' potential through use of modern farming techniques
- Focus on self-sufficiency in grain for fodder
- Prepare MHP to be in best position for potential change in legislation (pre-emptive rights to acquire land)

KEY FACTS

- Six arable farms have 180,000 hectares of land under their control
- 620,000 cubic metres of grain storage capacity
- MHP's yields are higher than the Ukrainian average
- 735,000 tonnes of crops harvested in 2008
- Ukraine's "black earth" land is extremely fertile
- Crops rotated to protect the quality of the land
- Good climate – plenty of rain and sunshine

OTHER AGRICULTURAL OPERATIONS

$93.1m

Sales in 2008

KEY PRODUCTS

- Sausages
- Cooked meat
- Premium fresh beef
- Foie gras
- Fruit

BRANDS

- Druzhba Narodiv
- Certified Angus
- Foie gras

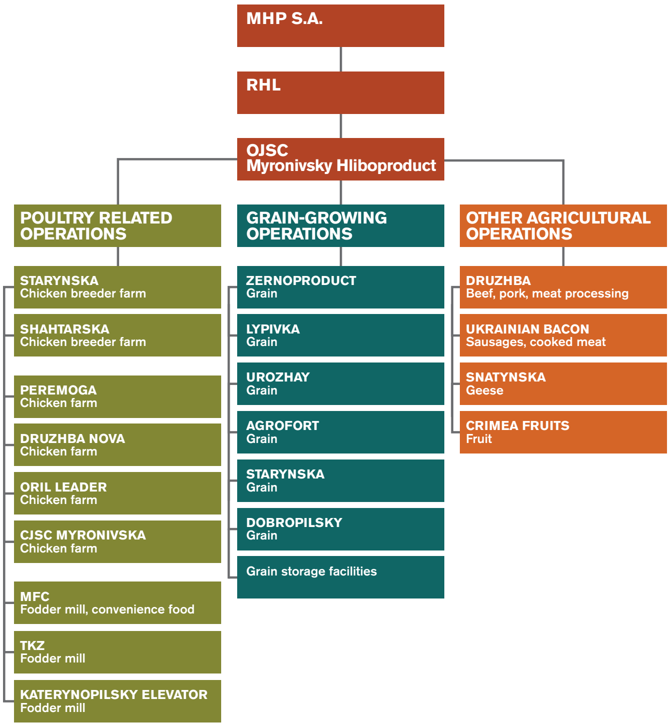
STRATEGY

- Increase MHP's presence in value-added products, such as processed meat and convenience food
- Introduce new types of sausage and meat products

KEY FACTS

- 80% interest in meat-processing company Ukrainian Bacon acquired in 2008
- Production of sausages and cooked meat up by 113% in 2008
- Two meat processing plants
- One mixed farm – rears pigs, cattle, grows crops and processes sausages and cooked meat
- The mixed farm also rears beef for our "Certified Angus" brand
- One goose farm – produces geese for our "Foie Gras" brand
- One fruit farm – primarily grows apples, but also several other fruits

STRUCTURE, OUR MARKETS, WHERE WE OPERATE



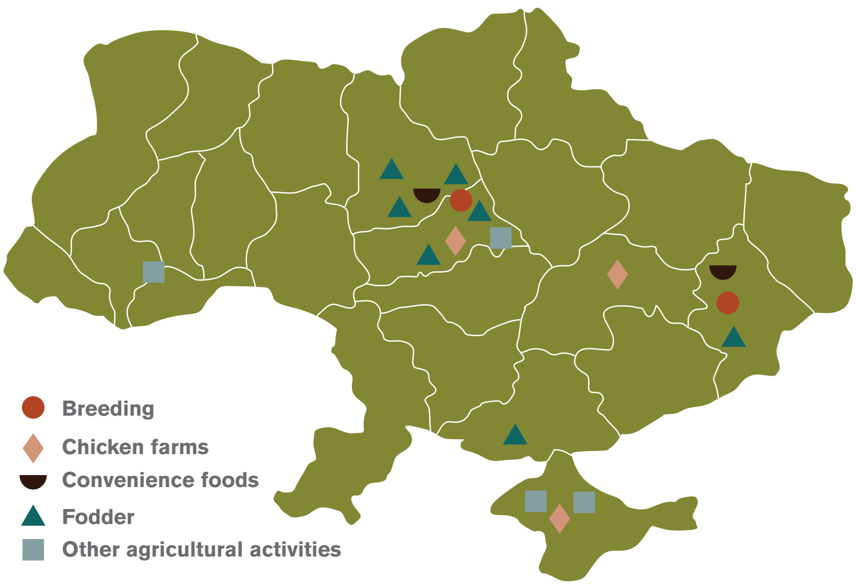
Our markets

DEMAND FOR OUR PRODUCTS IS INCREASING

MHP's products are sold throughout Ukraine, with sales being particularly strong in the east and the south of the country. We sell through our large franchise network, direct to supermarkets, and to industrial customers. Currently, only about 5% of our products are exported – principally to Kazakhstan – but we expect to increase that proportion over the next three to five years.

In the meantime, however, there is a great deal of scope in Ukraine, which has one of the world's lowest rates of meat consumption per capita. We expect current economic conditions to result in a decline in meat-eating overall, but for chicken consumption, which is an economical – and healthy – source of protein, to increase.

WE OPERATE THROUGHOUT UKRAINE



Kiev	Zernoproduct ▲
Kyiv region	Starynska Poultry Farm ●
	Myronivsky Plant for Manufacturing Groats and Feeds (MFC) ▲
	Myronivsky Meat Processing Plant "Lehko"
	Agrofort ▲
Cherkasy region	Katerynopilsky Elevator ▲
	Peremoga Nova ◆
	Urozhay ▲
	ZVB (Ferroconcrete products) ■
	Myronivska Poultry Farm ◆
Dnipropretrovsk region	Oril-Leader ◆
Donetsk region	Dobropilsky ▲
	Shahtarska Nova ●
	Ukrainian Bacon
Kherson region	Tavriysky ▲
Crimea	Druzhba Narodiv Nova ◆ (chicken farm)
	Crimea Fruits Company ■
	Druzhba Narodiv Agricultural ■ (crops, cattle, meat processing)
Ivano-Frankivsky region	Snyatynska Nova ■

CHAIRMAN'S STATEMENT

I am pleased to report that, in 2008, MHP made great strides in its strategy of expanding its activities and building on its position as one of Ukraine's leading agro-industrial companies.

The company's listing on the London Stock Exchange is evidence of its determination to continue to invest in, and develop, its business.

During the year, MHP substantially increased its poultry production capacity – the first step in its aim of achieving an annual output of 340,000 tonnes by 2010. Greater capacity has the added benefit of reducing unit costs and, thereby, increasing profitability.

To support a larger production capacity while, at the same time, maintaining quality and controlling costs through vertical integration, MHP increased the size and productivity of its breeding, hatching and rearing farms, became largely self-sufficient in ingredients for chicken feed during the year, and continued to find uses for the by-products of its production process. It expanded its meat processing facilities when it acquired an 80% interest in Ukrainian Bacon, and it divested some small non-core businesses.

Results and dividend policy

EBITDA increased by 88% to US$312 million; EBITDA margin was up from 35% to 39%; and sales and gross profit both increased – sales by 69% (to US$803 million) and gross profit by 92% (to US$238 million). Net profit, however, reduced to US$5 million (2007: US$47 million) as the result of a loss of approximately US$187 million on exchange rate translation – our loans are in US dollars, but our earnings are in our local currency, UAH, which devalued approximately 50% against the US dollar during the year.

We will not pay dividends for 2008, but will continue to invest net profits into enlarging the business.

The market

The economy in the world in general, and Ukraine in particular, is going through difficult times. We believe, however, that this is likely to be to our advantage. Meat consumption in Ukraine is increasing – although the country still has one of the world's lowest consumptions per capita – and approximately 20% of meat is imported. This creates the opportunity for us to sell more: our chilled chicken is fresher, tastier and cheaper than imported frozen poultry, and it is markedly more affordable than beef or pork.

In addition, we have extended our product range since we introduced convenience foods in 2006, and Ukrainian Bacon enabled us to produce more than 100% more sausages and cooked meat than in 2007.

Securing feed supplies

The cost of ingredients for chicken feed could have the greatest potential for increasing our production costs: poor growing seasons, worldwide, result in increased prices and decreased availability. Our strategy of growing our own crops, in what is an ideal agricultural climate, has made us largely immune from external market forces.

We operate a traditional crop rotation system. This enables us to protect the properties of the earth, but also to sell those crops which we do not use for feed.

Corporate governance

MHP, registered in Luxembourg, complies with Luxembourg's voluntary corporate governance regime and has adopted a clear and transparent corporate governance framework.

Of our seven directors three, including myself, are independent non-executives. Each director contributes a different, and valuable, set of skills to the management of the company.

Our people

We believe our 19,000 employees make us the largest employer in Ukraine's agricultural sector. Their skill and commitment is an important factor in our success. Each of the four members of our senior management team brings specific skills and knowledge to their role. I thank them all for their hard work and look forward to continuing to work with them.

Looking ahead

Our performance in a challenging economic environment gives me great confidence. I look forward to MHP continuing to grow and to succeed in its ambition of becoming not only Ukraine's leading agro-industrial company, but also one of the largest in Europe.

Charles E Adriaenssen
Chairman

DELIVERING AS PROMISED

At the time of our IPO, in May 2008, I said we were confident in our ability to expand and diversify. My view has not changed.

Our sole reason for raising funds through the listing was to enable us to increase our investment in our business and, by doing that, to take advantage of the growing demand for chicken in Ukraine.

It was clear at the time of the IPO that we had sufficient resources to continue to operate our business profitably but it has always been our strategy to grow and expand. Since we founded MHP in 1998, we have made a series of strategic acquisitions and investments to create what the group is today – one of Ukraine's leading agro-industrial businesses.

Since 2004 we have been Ukraine's largest producer of chicken by volume. Our most recent investment in our Miyronivka chicken farm has improved our leading position. When the second stage of the Myronivka chicken farm is completed during 2009, we expect this will make it Europe's biggest chicken farm.

Our strategy

From the outset, it was our strategy to become a leading producer of poultry, a source of high-quality protein which we could produce economically and sell at an affordable price on the Ukrainian market. To enable us to achieve that, we instituted a vertically integrated system: we rear our own chickens – from eggs to fully-grown birds – we feed them with our own fodder made primarily from crops we have grown, we distribute the finished products in our own transport, and sell much of our production through our branded franchise network.

The future

Our intention is to expand our poultry and grain businesses, and to increase vertical integration.

Our Myronivka farm will enable us to increase chicken production to 340,000 tonnes a year, and we intend to expand our Starynska breeding facility to give us an aggregate capacity of 230-250 million hatching eggs a year. We are also considering building additional chicken facilities in the near future.

We will increase the efficiency of our grain growing activities by applying the latest farming methods, and are also leasing further tracts of land. This will not only enable us to gain greater control over the cost of fodder, but will also put us in the best position for the expected change in legislation under which we will have pre-emptive rights to acquire the land. In a further move to control input costs, we will continue to seek and use sources of alternative energy, including co-generation technology.

In addition, we are looking at achieving a greater presence in value-added foods, such as processed meat and convenience foods. We will focus on promoting our branded products, will expand our distribution network to cover most regions of Ukraine, and will continue to resist pressure on prices from the large supermarkets by selling around 50% of our products through our franchise network.

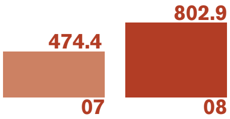
We have the land, the facilities, the skills and the resources to achieve everything we have planned, and more. As a well-established business, and the lowest-cost domestic producer, we believe we are relatively insulated from competition. We take immense care to control quality and costs, and it would take new competitors a great deal of time and investment to be able to challenge our position.

We believe that our target of winning an even greater share of the market is realistic and we look to the future with confidence.

Yuriy Kosyuk
Chief Executive Officer

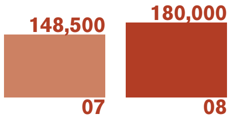
KEY PERFORMANCE INDICATORS (KPIs)

Revenue* US$m

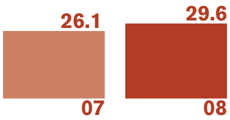


* from continuing operations

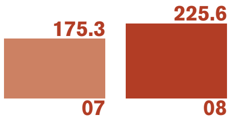
Land under MHP's control hectares



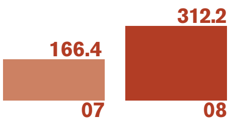
Gross margin %



Poultry production by volume tonnes



EBITDA US$m

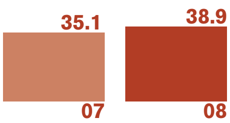


Brand recognition

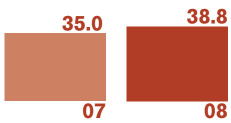
90+%

Source: GFK 2008

EBITDA margin %



Market share %



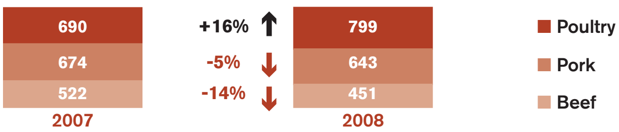
Source: Company estimates based on Ukrainian Statistics Committee data

DELIVERING OUR STRATEGY

We have realised our strategy, to become Ukraine's leading producer of poultry, by creating a truly integrated business. Now, with close to 40% of commercial production, we are the undisputed leader in the Ukranian poultry market.

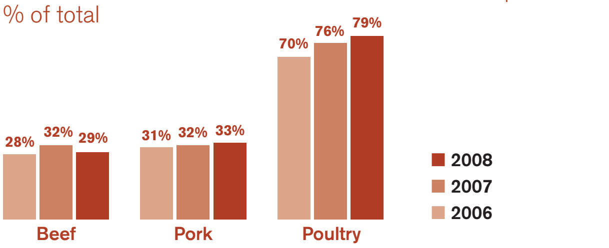
The market

Meat production in Ukraine tonnes 000



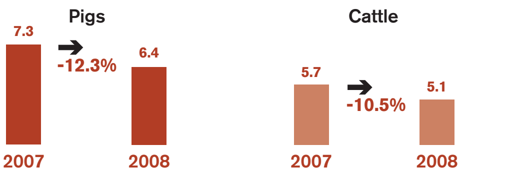
Source: GFK, Ukrainian Statistics Committee

Ukrainian industrial meat production industrial producers % of total



Source: GFK, Ukrainian Statistics Committee

Cattle and pigs livestock evolution heads million



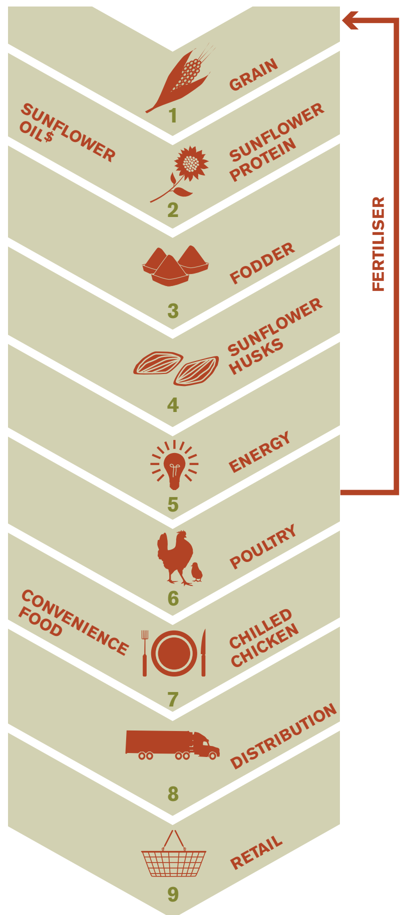
Source: Ukrainian Statistics Committee

Ukraine has a poulation of 46 million, but it also has one of Europe's lowest consumptions of meat per capita. Demand has been increasing but, despite Ukraine being an agricultural country, commercial production of meat has failed to keep pace. Householders and small farmers still account for 75% of the cattle and pigs reared in Ukraine, and for nearly 50% of all meat produced. There are still no major commercial producers of beef or pork.

In recent years, the shortfall in supply has been made up with imports: in 2008, 450,000 tonnes – 19% of all meat consumed – was imported, and much of that was poultry. Now, after several years of fast growth, the Ukrainian economy is decelerating: during 2008, inflation rose to 22% while the hyrvna depreciated by around 50%. This has made imported meat increasingly expensive – and for many people unaffordable.

It is clear, therefore, that on the grounds of cost and availability, MHP's chicken – produced in Ukraine and on a commercial scale – is the most attractive and affordable source of protein. It costs 50% less than pork or beef, and is cheaper, fresher and tastier than imported frozen poultry.

A truly integrated business



$ The dollar revenue from the export of sunflower oil – a by-product of manufacturing sunflower cake – services the debt on our foreign-currency loans.

With the purchase in 1999 of Peremoga, we began to build our poultry business. Now we own four prinicipal chicken farms and two breeder facilities. To ensure that we can supply them with high-quality feed, we need to control the cost of fodder by protecting ourselves from fluctuations in world grain prices.

Since 2005, we have grown an increasing proportion of the crops we need, and have acquired or constructed fodder mills and grain storage facilities. We are the only company in the world to replace



expensive soy protein with sunflower protein, and to facilitate that we constructed an oil press. To complete the circle, we operate distribution centres in 11 major Ukrainian cities, deliver to customers in our own fleet of refrigerated trucks, and have established a network of franchised shops to sell our products.

Now, with the exception of a proportion of sunflower seed which we buy in, we are almost entirely self-sufficient. After the sunflower seeds are pressed to make cake for fodder, some of the husks are burnt to provide steam heat for the plant, others are used for bedding in the chicken barns. The profit we make from exporting the sunflower oil – the by-product of pressing the seeds – services the debt on our foreign-currency loans. Finally, when the chicken barns are cleaned the combined sunflower husks and chicken droppings are used to fertilise the fields on which we grow crops.

While rearing chicken and growing crops for chicken feed is, and will continue to be, our principal focus, we are increasingly turning our attention to the production of value-added food products.

In 2006, we began producing convenience food, and are now Ukraine's leading convenience-food company, and in 2008 our acquisition of an 80% interest in Ukrainian Bacon dramatically increased our capacity to produce sausages and cooked meat.

In addition, we raise pigs, geese – we sell goose and foie gras – and breed and raise pedigree cattle to supply our "Certified Angus" brand. A farm in Crimea grows and sells a wide range of fruit.

A structure designed for growth

MHP is structured in three segments: Poultry and Related Operations, Grain Growing Operations and Other Agricultural Operations.

Poultry We own four principal chicken farms, two breeder farms – which include facilities for producing hatching eggs – three fodder mills, and a number of storage facilities for sunflower seed and grain. Each farm incorporates a processing plant. Our 11 distribution centres and refrigerated delivery vehicles enable us to deliver our products, chilled as well as frozen, to our customers.

We operate at 100% capacity and sell 100% of our output. Our new Myronivka chicken farm, the second phase of which will be completed during 2009, includes a new hatchery and a modern processing plant. The hatchery will be able to hatch 150 million eggs a year, and the processing plant will have an average monthly volume of around 9 million chickens. Myronivka has already enabled us to increase production to more than 200,000 tonnes of chicken a year.

Chicken sales Our wide range of chilled chicken products is sold under our flagship "Nasha Ryaba" brand, which dominates the market. The range also includes nine vacuum-packed products which have a longer shelf-life. Marinated chicken, whole or in portions, is sold under the "Nasha Ryaba Appetising" range, which we introduced in 2004.

Fodder Our fodder is produced from corn, sunflower seeds, peas and soy beans, at our own mills. It is steam treated to ensure that it is free from contamination and is delivered to our farms in our own trucks.

Value-added food We produce pre-cooked convenience food, a relatively new concept in Ukraine. Sold under our "Lehko!" brand, through distributors, supermarkets and to foodservice companies, it is gaining in popularity.

Grain We grow corn, sunflowers, wheat and rape. The corn and sunflower seed are used in our fodder mills, the wheat and rape are sold to third parties. We rotate crops and include a fallow period to allow the soil to recover, and to minimise the need for chemical fertilisers and pesticides.

The land we lease is primarily in the "black earth" region of Ukraine. It is extremely fertile, and combines with Ukraine's adequate rainfall and sunshine to create ideal growing conditions.

Other Agricultural Operations Our other operations include sausages and cooked meat, beef, goose and foie gras, and fruit.

Sausages and cooked meat Our Druzhba facility in the Crimea produces pork and beef sausages, wieners and frankfurters, smoked and semi-smoked sausages, and ham. These are principally sold wholesale to foodservice customers and supermarkets. In July 2008 we added to our capacity when we took an 80% holding in Ukrainian Bacon, which produces products under the mass-market brands "Europroduct" and "Baschinsky".

Beef We sell beef under our "Certified Angus" brand. Chilled, vacuum packed and matured, it is sold to foodservice customers and supermarkets.

Goose and foie gras MHP is Ukraine's only commercial producer of goose and foie gras. Our goose is sold through supermarkets and food stores, our foie gras is sold, chilled and frozen, under our "Foie Gras" brand.

Fruit A wide range of fruit, grown at our Crimea Fruits farm, is sold to supermarkets and wholesalers.

DELIVERING HIGH-QUALITY PROTEIN

MHP's poultry farms operated at full capacity during 2008. They produced approximately 225,000 tonnes of chicken, an increase of 30% on the previous year.

The first phase of our Myronivka farm, which began operating in the middle of 2007 and reached full capacity in October that year, made a significant contribution to our output.

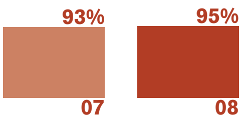
An efficient production process

We currently operate four chicken farms – Myronivka, in the Cherkasy region, Druzhba Nova in the Crimea, Oril-Leader in the Dnipropetrovsk region, and Peremoga, also in the Cherkasy region. Each consists of a number of independent units and each incorporates a hatchery and a processing plant as well as chicken barns.

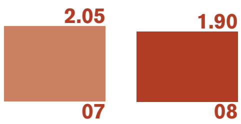
Breeding, hatching and growing We begin the process when we buy day-old Cobb 500 chicks from a specialist breeder in Germany. The chicks are taken to one of our breeder farms, Starynska or Shahtarska, where they are grown for around 20 weeks, before being transferred to one of our rearing sites to produce eggs.

Starynska, in the Kiev region, has four facilities which can grow 540,000 birds simultaneously, and eight rearing sites, which can house 980,000 hens at one time. In 2008, as a result of expanding the farm to supply our new Myronivka complex, Starynska produced more than 110 million hatching eggs.

Survival rate %



Conversion rate kgs fodder to produce 1 kg increase in live weight



Shahtarska, in the Donetsk region, has the capacity to grow 195,000 young birds at one time in its three facilities, and to house 360,000 hens simultaneously for producing hatching eggs at its six rearing sites. In 2008, it produced approximately 47 million eggs.

We take the eggs – certified by the State veterinary authorities – from the breeder flocks to the closed hatcheries at our chicken farms. There they are kept in incubators, which control temperature, humidity and air circulation, for 21 days.

The newly-hatched chicks are vaccinated against Newcastle Disease and bronchitis, and are transferred to sterilised barns at the same farm. Light, temperature, air circulation, feed and water are all carefully controlled to ensure stable growth, but MHP does not use any chemicals or steroids in the production process. Feed is carefully balanced to include all the fat, protein, vitamins and minerals the chicks need and is adjusted regularly as they grow. Within six to seven weeks, the birds have reached 2.5 kgs and are ready for processing.

A vertically integrated process

The biggest potential for fluctuating costs in an operation such as MHP's, is the price of materials for feed. We have overcome this problem by growing the vast majority of our own crops and producing our own fodder. We grow corn and sunflower seeds to produce fodder.

Feed production and storage The feed products are stored at our Katerynopilsky and MFC Oril-Leader storage facilities which, between them, have a capacity of approximately 620,000 cubic metres. We mix our own fodder at our three fodder mills, MFC, near Kiev, TKZ, in southern Ukraine, and Katerynopilsky, in the Cherkasy region.

MFC, which produced 274,000 tonnes of feed in 2008, includes a fodder mill, a protein mill, five grain stores and a cereals mill. Its two production lines – one a Sprout Matador from Denmark, the other a Buhler from Switzerland – can each produce 220,000 tonnes a year. The protein mill has the capacity to produce 560 tonnes of sunflower cake and 440 tonnes of sunflower oil a day; the cereal mill is used to peel peas and oats.

TKZ supplies Druzbha Nova. Its Sprout Matador production line, which has a capacity of 220,000 tonnes a year, produced 180,000 tonnes in 2008.

Our Katerinopilsky facility principally supplies Myronivka. Its two Sprout Matador production lines, installed in 2007, together have an annual capacity of 600,000 tonnes. In 2008, they produced 261,000 tonnes of fodder, but with the second stage of Myronivka in full production for 2009, this will increase.

Processing The chickens are killed, dressed and chilled, either whole or in portions, again on the same site. To preserve flavour and texture, we use the most up-to-date technology in the chilling process. Packaged chicken is kept at 2°C before being delivered to customers, while any meat which is surplus to immediate requirements is frozen.

The majority, approximately 85%, of our chilled chicken is sold under our "Nasha Ryaba" brand through a franchise network and supermarkets.

Close to 40% market share in 2008

Average sale price increased by 44%

EBITDA increased by 126%

DELIVERING HIGH-QUALITY PROTEIN CONTINUED

Value-added food MHP is Ukraine's leading producer of innovative convenience food. The modern production lines at our MMPP facility currently produce nearly 1,000 tonnes of products a month – a three-fold increase from 2007 – ranging from uncooked marinated meat to pre-cooked recipes. Sixty per cent of the finished products, which are blast frozen to protect their flavour, are sold through distributors, the rest are sold through supermarkets and to the foodservice trade.

Maintaining quality and biosecurity

We employ a broad range of biosecurity measures at all our facilities to minimise the risk, and transmission, of disease. All chickens are kept indoors, access to facilities is strictly controlled, employees and vehicles are disinfected before entering production areas, and a team of around 70 vets monitors the health of the stock. Wild birds in the vicinity of our farms are monitored on a weekly basis to identify any potential signs of bird flu.

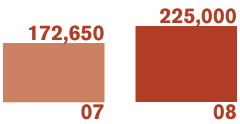
Under a multi-site farming system, units at each facility are positioned at least 1 km away from one another to prevent the spread of any disease between them, and individual barns within a unit are approximately 50 metres away from one another.

To enable barns to be cleaned thoroughly before a new generation of chickens is introduced, chicks hatched at the same time are raised together as a group and are not mixed with birds of other ages.

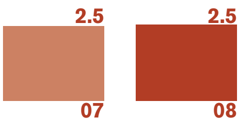
Bedding is a by-product of our fodder production process – no straw or hay is added – and is thermally treated and disinfected before use.

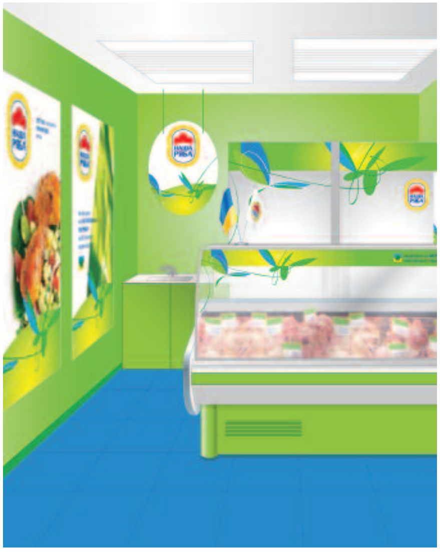
To maintain the quality of our products, we operate an efficient traceability system which enables us to link every batch of chicken we produce to its original facility and, thereby, to track the production process from start to finish. Druzhba Nova, our second-largest farm, was certified under HACCP (Hazard Analysis and Critical Control Point) methodology in 2006, and we expect Oril-Leader and Peremoga Nova to be certified in 2009. We have implemented a QMS (Quality Management System) and an FSMS (Food Safety Management System) at our MMPP facility. QMS achieved ISO 9001 and FSMS ISO 22000 in February 2008. We plan to obtain certification for Snyatynska and Druzhba during 2009, and Myronivka in 2010.

Chicken tonnes



Live weight kg per bird





Distribution and sales We control the distribution of our products through our own network of 320 refrigerated trucks and 11 distribution centres. Our trucks take products from the farms to the distribution centres and from there to one of about 2,000 branded franchise outlets and to other customers. The 50%, approximately, of our products which are sold through franchises give us a number of advantages: these include the ability to control quality on the shelf, to generate better cash flow (franchisees have to observe a short payment period), to ensure our products are available to meet demand, and to be flexible in marketing and pricing.

A strategy of expansion

The Myronivka complex is part of our strategy of expansion. By late 2009, when the second phase will become operational, the farm will be the largest in Ukraine, and is expected to be one of the largest in Europe. As with all our production facilities, Myronivka is self-contained: it incorporates a hatchery, which will have a capacity of 150 million hatching eggs a year; will have 24 chicken-barn sites; and its up-to-date processing plant will have the capacity to process 9 million chickens a week.

We are looking at building additional production facilities in the near future. This would enable us to achieve further economies of scale, to decrease our operating costs per unit and to meet the demand for high-quality, affordable chicken, which we are confident will continue to increase.

DELIVERING HIGH-QUALITY CHICKEN FEED

We protect ourselves from fluctuating prices by growing crops and manufacturing our own feed.

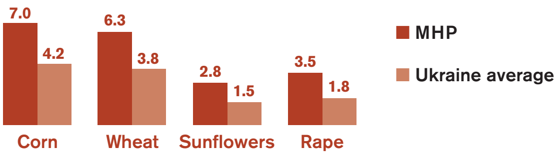
We grow corn and sunflowers, for fodder; wheat and rape for sale on the open market.

Grain prices tend to be volatile: the size of the harvest depends on the weather and that, in turn, affects demand, worldwide. Storage and transport add to the cost, as do tariffs imposed by our own or other governments. To protect us from these elements, we made the decision to become self-sufficient in materials for chicken feed. With the exception of a proportion of sunflower seed, we succeeded in this strategy in 2008.

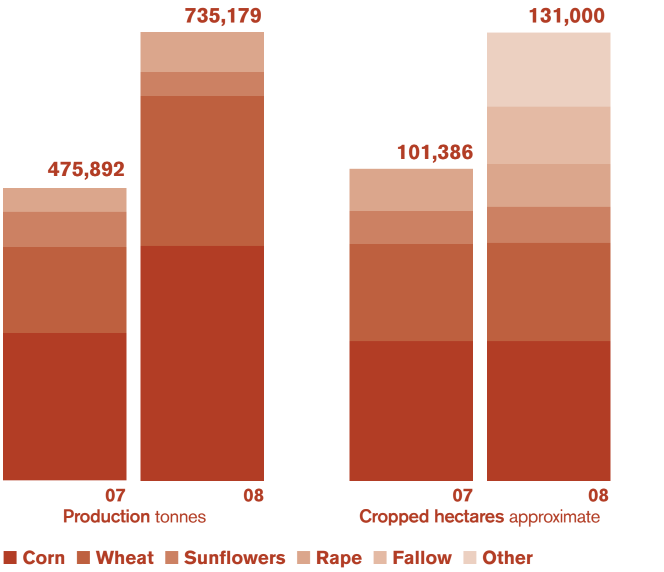
Ukraine's black soil is extremely fertile and its temperate climate provides plenty of sunshine and rain. In 2008, on more than 130,000 hectares of land we rotated crops of corn, wheat, sunflowers and rape. Those crops which we do not use for fodder are grown to enable us to operate a crop-rotation system and, when they are sold on the open market, they provide additional revenue. We minimise the use of chemical fertilisers and pesticides, and we use the bedding and chicken droppings from the chicken barns as fertiliser.

Our farms, Zernoproduct and Lypivka in the Vinnytsya region, Agrofort and Starynska in the Kiev region, and Urozhay in the Cherkasy region, are managed by an experienced team. In 2008, we increased the land under our control to 180,000 hectares (from 148,500 hectares in 2007). On the approximately 130,000 hectares which were under cultivation, 46,000 hectares were used for growing corn, and yielded 7.0 tonnes per hectare; 32,500 hectares were used for growing wheat, and yielded 6.3 tonnes per hectare; 11,900 were used for sunflowers,

Crop yield: MHP v Ukraine average tonnes per hectare



MHP grain operations



and yielded 2.8 tonnes per hectare; and on the remaining 14,000 hectares, we grew rape which yielded 3.9 tonnes per hectare. As part of our crop rotation system a proportion of land was left to lie fallow.

We store the harvested grain at our Katerynopilsky, MFC and Oril-Leader storage facilities. Katerynopilsky has a capacity of 231,500 cubic metres, MFC holds 228,000 cubic metres, and Oril-Leader 160,000 cubic metres.

Expanding our capacity

Our longer-term strategy is to expand our grain cultivation by bringing more high-yielding plots of land under our control, particularly in areas close to our existing operations. In the short- to medium-term we plan to improve yield by modernising our farms and technology, in the firm belief that increased production will aid us in our plans to increase our chicken production. It will also enable us to capitalise on increasing prices for the products we sell to third parties.

Under existing legislation we have pre-emptive rights to buy the land we lease. When the moratorium on sales of agricultural land in Ukraine is lifted, we would consider the commercial viability of purchasing the land on a case-by-case basis.

MHPs yield is 60% higher than the Ukrainian average

Crops harvested from 28% more land in 2008

MHP will use the majority of 2008's harvest in 2009

DELIVERING DIVERSIFICATION

Our Other Agricultural Operations division produces a range of fresh and prepared meat products, and fruit.

During 2008 we acquired an 80% interest in Ukrainian Bacon to enable us to meet increasing demand for sausages and cooked meat.

Increasing production

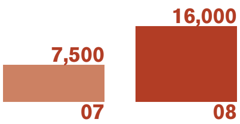
During 2008, production of sausages and cooked meat increased by 113% to 16,000 tonnes, more than double that sold in 2007. Our 80% interest in Ukrainian Bacon, acquired in July 2008, was responsible for more than 60% of this increase. Sales are through convenience and local stores, supermarkets, distributors and the foodservice industry.

Sausages and cooked meat We produce and sell various types of pork and beef sausages, smoked and semi-smoked sausages, and ham at our Druzhba Nova complex in the Crimea, and at Ukrainian Bacon in the Donetsk region.

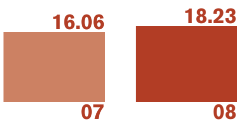
Druzhba, an integrated facility for meat production has been fully operational since 2007. It rears around 20,000 head of cattle and 34,000 pigs a year, and grows corn, wheat and barley on 15,000 hectares of irrigated land for its own feed needs. It processes the meat at its fully-automated, modern factory, which produces approximately 40 tonnes of sausages and cooked meat a day.

Ukrainian Bacon currently produces around 50 tonnes of sausages and cooked-meat products a day under the "Europroduct" and "Baschinsky" brands. We expect to be able to increase output to 200-250 tonnes a day.

Sausages and cooked meat tonnes



Sausages and cooked meat average prices UAH per kg



Producing varied products

Beef MHP's Druzhba farm, breeds pedigree Aberdeen-Angus cattle which are used for our Certified Angus brand.

Goose and foie gras MHP produces goose and foie gras at its Snyatynska complex. The facility comprises parent stock rearing and growing facilities, a hatchery, 38 geese houses and a processing plant. The parent stock at the farm was initially imported from France and Hungary. The Babolna Grey Landes breed has a high hatching capacity and feeds well, producing high-fat liver. We are looking at the possibility of exporting foie gras to Europe.

Fruit The group grows apples, pears, peaches, grapes, strawberries, plums and cherries – which are primarily sold to supermarkets – at its farm in Crimea, where the climate is similar to that of Northern Italy. Around 50% of the farm's 2,110 hectares of land are devoted to apple orchards.

Monitoring the market

Our activities in this division, including the rearing of cattle and pigs, enable us to keep our finger on the pulse of the market, to monitor changes in demand and to introduce innovative products to meet them.

Production of sausages and cooked meats up 113% in 2008

Sales increased by 82% to US$93 million

MANAGING RISK

MHP has effective policies in place to manage and, where possible, to avoid risk. Some of the risks it faces are common to all commercial operations, others are inherent to farming in general and chicken farming in particular.

The principal risks in the group's operations are macro-economic risks; financial risks, including credit, liquidity, currency exchange and interest rate risk; and operating risks, including fluctuations in demand and market prices, avian flu and other diseases, fluctuations in grain prices, increased cost for, or disruptions in, fuel and gas prices, and the weather.

Macro-economic risks

Conditions in Ukraine MHP's business is, to a large extent, dependent on Ukraine's general economy. After seven of years of growth in real GDP, and a commensurate rise in household incomes, in 2008 the economy was affected by the worldwide recession and the hryvna depreciated by 52% against the US dollar during the year.

We believe, however, that the economic crisis will not be to our detriment: instead of buying expensive imported meat – pork and beef retail at 50% more than chicken – consumers will increasingly choose to buy locally-produced chicken and, as Ukraine's largest producer of chicken and chicken products, we will benefit from this change in buying habits.

Banking system risks The economic crisis has resulted in the failure of some Ukrainian banks and others coming under control of the National Bank. We have deposits in one of the State Banks, as well as in some domestic banks. We also have loans from some domestic banks which, in all cases, are larger than our deposits with them.

Financial risks

Credit risk MHP controls its exposure to credit risk by limiting the credit allowed to any one customer or group of customers. No single customer represents more than 8% of total sales. Major groups of customers, including franchises and supermarkets, are allowed credit of between five and 30 days.

Credit limits are approved and monitored regularly by MHP's management, which assesses the recoverability of amounts receivable – for poultry at 30 days after the end of the credit period, for other sales at 60 days after the end of the credit period.

Liquidity risk MHP has a detailed budgeting and cash forecasting process to help it ensure that it has adequate funds available to meet payments due. Our target is to maintain our current ratio, defined as the proportion of current assets to current liabilities, at more than 1:1.

Currency exchange risk The majority of our debt is in US dollars. We do not use derivatives, which are neither available nor routinely used in Ukraine, to manage our exposure to the risk of fluctuations in exchange rates.

We earn around 15% of our total revenue in US dollars through the sale of sunflower oil – a by-product of processing seed for fodder. These earnings represent a hedge against exchange risk and very nearly service our dollar-denominated loans. In addition, our policy of growing the majority of our own ingredients for feed, rather than having to rely on imports, helps to reduce our exposure.

Interest rate risk MHP borrows both on fixed and variable bases. The majority of our loans from foreign banks are tied to LIBOR or EURIBOR and are generally at lower interest rates than are available in Ukraine. Changes in rates do, however, affect the cost of our borrowings and the value of our financial instruments, and could affect our profit and loss, and shareholders' equity. We mitigate the risk by having more than 50% of our debt at fixed rates.

Operational risks

Fluctuations in demand and in market prices Demand fluctuates from time to time for a number of reasons, including seasonality, price, consumer preferences, and the price and availability of other types of meat. Falls in demand can generally be overcome with modest price reductions.

We believe that demand for chicken in Ukraine will continue to increase. Per capita consumption is still low compared with other European countries and other meat, such as beef and pork, which is not readily available is far more expensive kg for kg.

Avian flu and other livestock diseases In the past five years, avian flu has affected wild birds and poultry flocks in a number of countries around the world. It was first discovered in Ukraine in December 2005 and was still present in the Crimea and Sumy regions in 2008. We operate strict biosecurity measures, including disinfectant washes, culling wild birds in the immediate vicinity of our farms, and vaccinating all employees who have direct contact with our chickens.

Fluctuations in grain prices Because grain forms a significant portion of fodder, fluctuations in world prices could have the potential to affect our production costs. We have, to a large extent, overcome this by growing 100% of the corn we need and by replacing protein from expensive imported soybeans with that from sunflower seeds. We grow a proportion of our own sunflowers and buy the balance from domestic suppliers.

As a hedge against fluctuating prices, we enter into forward contracts for feed ingredients, and for selling our grain, such as rape and wheat.

Increased cost for, or disruptions in, gas and fuel supplies
MHP uses natural gas and fuel to produce and distribute its products. While gas and fuel represent only about 8% of our overall costs, both are imported and, as a result, continuity of supply is uncertain and prices fluctuate.

In the longer term, our aim is to increase our use of co-generation and alternative energy technology. We have already begun this process. When we process sunflower seeds we are left with a huge amount of husks; we burn some to generate the steam heat for the processing plant and also convert a proportion into briquettes, which we export for generating energy.

Weather The yield we gain from our crops depends on the climate. The weather in Ukraine – generally temperate, with plenty of sunshine in the summer and adequate rainfall – combines with the country's extremely fertile earth to be conducive to agriculture. In addition, our management of the land, and the technology we use, enables us to achieve a yield which is approximately double the norm for Ukraine.

CORPORATE RESPONSIBILITY REPORT

The environment

MHP complies with government regulations under which all Ukrainian meat producers are required to gain approval for the installation of new machinery or the introduction of new technologies.

A number of our activities are subject to various laws and regulations on protecting the environment. The various chemicals we use and the waste we produce could, for example, have a negative impact on the wildlife and vegetation close to our facilities if they were discharged improperly. We make annual payments – effectively an environmental tariff – to the State to compensate for any pollution we generate. These payments, which are adjusted each year, are based on expected emissions and would increase significantly if actual levels were higher.

We have never incurred material environmental penalties nor have we been subject to material environmental investigations.

Companies which use packaging in their operations are expected to create their own recycling systems or to make regular payments to the State to cover the cost of recycling. We do not produce a significant amount of packaging and our products are predominantly sold in returnable containers.

Genetically modified materials MHP does not use genetically modified materials in its fodder or its products.

Steroids, antibiotics and other substances MHP does not use steroids in its chicken production; it uses antibiotics only to the extent permitted by legislation.

Pesticides and agro-chemicals MHP's crop-rotation process enables it to minimises the use of pesticides and agro-chemicals. To the extent that we use either, we comply with the legislation which governs their use.

Employees

The majority of our employees belong to trades unions, or labour or workers' syndicates, and collective bargaining agreements are in place at most of our companies. Our facilities operate year-round and there is little seasonal fluctuation in our labour force.

Worksite safety We have instituted programmes to improve worksite safety and working conditions, including training employees. We inspect our equipment regularly and have a labour protection department which is responsible for ensuring that we comply with health and safety requirements.

Remuneration We operate a two-tier remuneration scheme: a fixed salary and a performance-related bonus. Fixed salaries comply with employment legislation; performance-related bonuses depend on the efficiency and quality of production achieved by each employee, as well as by the facility at which the employee works. They are paid as a fixed sum on an annual basis.

Pensions Pensions are based on salary, as required by legislation. We make voluntary post-retirement payments to certain key employees on a case-by-case basis.

Holidays All employees are entitled to a minimum of 24 days' paid holiday, plus Public holidays.

Maternity leave Employees are entitled to 70 working days' paid leave before the birth of their child and 56 working days after the birth.

Education

We have a programme aimed at attracting and retaining qualified young people. We sponsor specialised agricultural education for our employees' children, offer summer employment to students from Ukraine's leading agricultural colleges, and provide rent-free accommodation for new young employees who join us after taking part in our programme.

FINANCIAL REVIEW

MHP, one of Ukraine's leading agro-industrial companies, focuses on producing chicken and chicken products, and processed meat products, and on growing grain. As the leading poultry producer in Ukraine, according to the State Committee on Statistics of Ukraine (SCSU) MHP accounted for approximately 39% of all chicken commercially produced in the country in 2008.

We also have one of the country's largest portfolios of agricultural land: we have approximately 180,000 hectares under our control, of which approximately 150,000 hectares were under cultivation in 2008. In addition, we produce and sell sunflower oil as a by-product of producing chicken feed, as well as sausages, cooked meat, convenience food, goose, foie gras, fruit and other agricultural products.

Operations

Our operations are structured into three segments: Poultry and Related Operations, Grain Growing Operations, and Other Agricultural Operations.

Poultry and Related Operations segment produces and sells chicken and chicken products, sunflower oil, convenience food, mixed fodder and other related products. In 2008 it accounted for 82.2% of sales (2007: 81.1%).

Grain-Growing Operations segment, produces feed grain for our own operations; a proportion is also sold to third parties. In 2008, grain sold to third parties was responsible for 6.2% of MHP's total revenues (2007: 8.1%).

Other Agricultural Operations segment produces and sells sausages and cooked meat, produced by Druzhba and Ukrainian Bacon, as well as goose, foie gras, fruit and other agricultural products. It accounted for 11.6% of 2008 sales (2007: 10.8%).

Results

Continuing operations

	2008 US$000	2007 US$000	Change`
Revenue	**802,910**	474,437	69%
Net change in fair value of biological assets and agricultural produce	**6,327**	14,241	(56%)
Cost of sales	**(571,710)**	(365,018)	57%
Gross profit	**237,527**	123,66	92%
Gross margin	**30%**	26%	13%
Selling, general and administrative expenses	**(80,495)**	(51,599)	56%
Government grants recognised as income	**107,663**	56,289	91%
Other operating expenses	**(10,022)**	(7,275)	38%
Other operating income	**600**	1,306	(54%)
Operating profit before loss on impairment of property, plant and equipment	**255,273**	122,381	109%
EBITDA	**312,211**	166,438	88%
EBITDA margin	**39%**	35%	11%
Loss on impairment of property, plant and equipment	**(11,767)**	(10,238)	15%
Operating profit	**243,506**	112,143	117%
Finance costs, net	**(51,663)**	(49,482)	4%
Finance income	**6,695**	–	N/A
Foreign exchange losses, net	**(187,127)**	(13,059)	1,333%
Other expenses	**(784)**	(734)	7%
Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net	**4,482**	1,285	249%
Other income	**1,085**	669	62%
Other expenses, net	**(227,312)**	(61,321)	271%
Profit before tax	**16,194**	50,822	(68%)
Income tax expense	**(1,279)**	(428)	199%
Profit for the year from continuing operations	**14,915**	50,394	(70%)
Net income margin	**2%**	11%	(83%)

In 2008, MHP's consolidated revenue from continuing operations increased by 69.2% to US$802.9 million (2007: US$474.4 million) – a reflection of the strong performance of the company's poultry division. Gross profit from continuing operations was US$237.5 million (2007: US$123.7 million). Gross margin increased by 13.5% to 29.6% (2007: 26.1%). EBITDA increased by 87.6% year-on-year to US$312.2 million (2007: US$166.4 million); EBITDA margin increased year-on-year to 38.9% (2007: 35.1%).

Net profit for the year from continuing operations at US$14.9 million (2007: US$50.4 million) was adversely affected by non-cash foreign exchange losses of US$187.1 million, principally as a result of the revaluation of the company's foreign-currency debt. This was a result of the significant depreciation of the hryvna and a subsequent revaluation of the company's balance sheet.

FINANCIAL REVIEW CONTINUED

Income statement 2008 by segment

	Poultry US$000	Other agricultural US$000	Grain US$000	Un-allocated US$000	Total
Revenue					
Total revenue	680,393	94,370	67,430	–	842,193
Inter-segment eliminations	(20,362)	(1,268)	(17,653)	–	(39,283)
Sales to external customers	660,031	93,102	49,777	–	802,910
CoGS*	(442,326)	(91,492)	(37,892)		(571,710)
Net change in fair value of biological assets and agricultural produce	17,854	(1,137)	(10,390)	–	6,327
Gross profit	235,559	473	1,495	–	237,527
Selling, general and administrative expenses	(63,152)	(8,958)	–	(8,385)	(80,495)
Government grants, recognised as income	86,696	11,389	9,578		107,663
Other operating income/ expenses	(3,938)	(2,720)	(334)	(2,430)	(9,422)
Segment result/operation profit before loss on impairment	255,165	184	10,739	(10,815)	255,273
EBITDA	296,395	7,567	19,064	(10,815)	312,211
Loss on impairment	–	(2,653)	–	(9,114)	(11,767)
Operating profit	255,165	(2,469)	10,739	19,929	243,506
Finance cost	–	–	–	–	(51,663)
Finance income	–	–	–	–	6,695
Foreign exchange losses	–	–	–	–	(187,127)
Gains from acquisitions	–	–	–	–	4,482
Other income/expenses	–	–	–	–	301
Profit before tax					16,194
Income tax expenses					(1,279)
Net profit from continuing operations					14,915

* CoGS to external customers, as adjusted for intersegment sales results

Discontinued operations

In December 2008, in line with its stated strategy of focusing on chicken production and strengthening its vertical integration, the company agreed to sell its stake in LLC Agrofirma Kyivska ("Agrofirma Kyivska"). Agrofirma Kyivska's principal activity (the cultivation of potatoes) was non-core and, in 2008, returned a loss of US$3.5 million, (2007: US$3.5 million). Further development would have required significant investment. Agrofirma Kyivska's operations, which accounted for revenues of US$3.9 million, were classified as discontinued operations in 2008 and are shown separately in the 2008 income statement. The loss on the disposal of Agrofirma Kyivska's operations was US$6.2 million.

State support for agricultural production in Ukraine

In view of the agricultural sector's importance to the national economy, as well as the need to improve living conditions in rural areas, support for the sector is a major priority for the Ukrainian government. During 2008, State support was provided in various forms, including special tax regimes (zero corporation tax), tax privileges (VAT refunds), direct subsidies per 1kg of live weight and compensation for finance costs under loans from Ukrainian banks.

In 2008, MHP benefited from various forms of State support, which resulted in significant tax savings, as well as from substantial direct government grants and interest subsidies. We received an aggregate of US$107.7 million (2007: US$56.3 million) in government support, including VAT refunds of US$59.3 million (2007: US$21.4 million) and direct subsidies per 1kg of live weight of US$46.1 million (2007: US$29.6 million).

On 31 October 2008, The Verkhovna Rada of Ukraine adopted Law No 639-VI "On Immediate Measures to be taken to prevent Negative Consequences of Financial Crisis". In accordance with this law certain tax rules and policies for agricultural producers were amended, these include:

- extending VAT payments benefits; and
- extending the term of the fixed agricultural tax (this tax exemption had previously been effective until 31 December 2009).

The new law, 5922-V1, 04.02.09 (to come into effect 17.03.09), does not restrict the duration of VAT and profit tax benefits for agricultural producers, and will be in effect indefinitely.

Foreign currency exchange rates

MHP's operating assets are located in Ukraine and its revenues and costs are principally denominated in hryvnas. Approximately 15% of our revenue and all financial costs are denominated in foreign currencies, primarily US dollars. During 2008 the hryvna depreciated approximately 50%, which had a negative effect on the full-year net profit. Management believes that MHP's exposure to currency exchange rate fluctuations as a result of foreign currency costs is almost completely offset by its US dollar revenue earned from the export of sunflower oil and export of meat and sunflower husks. In total, during 2008, the company generated US$120.0 million of revenue in foreign currencies.

Acquisitions

Ukrainian Bacon In July 2008 MHP acquired an 80% interest in Ukrainian Bacon. The amount paid to date amounts to US$25.0 million, the majority of which was to settle Ukrainian Bacon's existing liabilities. Ukrainian Bacon currently produces approximately 50 tonnes of sausages and cooked meat products a day under the "Europroduct" and "Baschinsky" brands, but we plan to increase that to 200-250 tonnes a day within the next three to five years. Since the company was acquired on, and consolidated as from, July 2008, revenue from its operations is included in the income statement only from that date.

Functional currency

The functional currency for the Group's companies is the Ukrainian hryvna (UAH). Since 30 September 2008, however, for convenience of users of financial statements, MHP Group has presented its financial statements in US dollars (US$).

The relevant exchange rates were:

	As of 31 December 2008	Average for 2008	As of 31 December 2007	Average for 2007	As of 31 December 2006	Average for 2006
UAH/US$	**7.7000**	**5.2693**	5.0500	5.0500	5.0500	5.0500
UAH/€	**10.8555**	**7.7114**	7.4195	6.9192	6.6509	6.3389

Translation to the presentation currency has been conducted in line with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates":

- assets and liabilities for each balance sheet are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

For practical reasons, the Group translated items of income and expenses for each period presented in the financial statements using the average rates of exchange which, it estimates, reasonably approximate to the relevant exchange rates at the dates of the transactions.

Poultry and Related Operations

	2008 US$m US$000	2007 US$m US$000	Growth rate
Revenue	**660,031**	384,865	71%
– chicken meat	**501,013**	283,835	77%
– sunflower oil	**109,974**	67,028	64%
– convenience food	**20,696**	8,344	148%
– other related poultry	**28,348**	25,658	10%
CoGS*	**(442,326)**	(292,929)	51%
IAS 41 standard gains	**17,854**	7,754	130%
Gross profit	**235,559**	99,960	136%
Gross margin	**35.7%**	25.9%	38%
EBITDA	**296,395**	131,360	126%
EBITDA margin	**44.9%**	34.1%	32%

* CoGS to external customers, as adjusted for intersegment sales results

MHP's revenue in its Poultry and Related Operations division is principally generated from sales of chicken and, to a lesser extent, of sunflower oil (a by-product of its sunflower protein production), convenience food, mixed fodder and other related products. The division's revenue accounted for 82.2% of MHP's total revenue from continuing operations (2007: 81.1%) and 94.9% of its EBITDA (2007: 78.9%).

Revenue from sales of chicken is primarily from sales of chilled chicken, whole or in portions, ancillary products (such as hearts and livers) and frozen chicken. During 2008, consumer demand continued to be high and our existing poultry production facilities all continued to operate at full capacity. As a result, our revenue is principally driven by two factors: the output capacity of our production facilities and increases in prices.

In 2008, MHP produced 225,000 tonnes of adjusted weight chicken (245,000 tonnes processed weight) (2007:190,775 tonnes adjusted weight; 172,650 tonnes processed weight). Chicken sales to third parties on an adjusted-weight basis increased by 26% to 215,000 tonnes in 2008 (2007: 170,000 tonnes). This growth was primarily a result of the launch of the first phase of the Myronivka chicken complex in the middle of 2007, which reached its full production capacity in October 2007. On an adjusted-weight basis calculated in line with industry standards, the average sale price for our chicken products and by-products increased year-on-year by 44%, to UAH12.03, excluding VAT, per kg compared with 2007.

Revenue from sales of chicken increased by 76.5% to US$501.0 million (2007: US$283.8 million) as a result of greater volumes being sold and increased prices.

MHP produces sunflower oil as a by-product of using sunflower seeds in the manufacture of chicken feed. Almost 100% of the sunflower oil it produces is exported. US dollar revenue from the sale of sunflower oil increased by 64.2% to US$110.0 million (2007: US$67.0 million). This was the result of increased sales, principally as a result of producing more fodder to meet the needs of our expanding chicken production, and increased prices. In 2008 we sold 93,300 tonnes of sunflower oil (2007: 88,100 tonnes).

Revenue from sales of convenience food increased by 148% to US$20.7 million (2007: US$8.3 million), which comprised 3.1% of the Poultry division's sales in 2008 (2007: 2.2%). The increase was principally the result of a 137% growth in volume.

Revenue from other poultry-related sales, including the sale of excess fodder, was US$28.3 million (2007: US$25.7 million).

The cost of raw materials and other inventory in the Poultry division is primarily for feed grain and other items associated with production, such as vitamin additives, utilities, payroll and related expenses, and depreciation. Feed grain and sunflower protein represent the major portion of the Poultry division's costs. Feed grain, primarily corn, is produced by the group's Grain Growing division and sold between the divisions at prices generally consistent with average market prices at the time of harvesting; sunflower protein is also produced internally.

The division's revenue increased by 71.5% in 2008, despite the cost of sales increasing by 51% to US$442.3 million (2007: US$292.9 million).

The division's high level of vertical integration resulted in its gross profit increasing by 135.7% year-on-year to US$235.6 million (2007: US$99.7 million). Gross margin increased to 35.7% (2007: 25.9%).

An increase in the average price of chicken, combined with stable costs, resulted in the division's EBITDA increasing by 125.6% to US$296.4 million (2007:US$131.4 million).

FINANCIAL REVIEW CONTINUED

Grain Growing Operations

	2008 US$000	2007 US$000	Growth rate
Revenue	**49,777**	38,490	29%
– wheat	**23,218**	13,048	78%
– rape	**22,907**	4,130	455%
– other crops	**3,652**	21,312	(83)%
CoGS*	**(37,892)**	(16,424)	131%
IAS 41 standard gains	**(10,390)**	2,334	(545)%
Gross profit	**1,495**	24,400	(94)%
Gross margin	**3.0%**	63.4%	(95)%
EBITDA	**19,064**	34,010	(44)%
EBITDA margin	**38.3%**	88.4%	(57)%

* CoGS to external customers, as adjusted for intersegment sales results

MHP grows four major crops: corn and sunflowers, which are used in its own operations; rape and wheat, which are sold to third parties in the Ukrainian domestic market. In 2008, the division harvested 131,000 hectares of crops.

MHP currently uses the majority of the grain it produces in its own operations. Revenue from the Grain division is attributable to the sale of a certain quantity of grain to third parties.

Revenue from the sale of feed grain to third parties was US$49.8 million in 2008 (2007: US$38.5 million) and included the sale of rape, wheat, barley, and soy beans.

The division's costs primarily relate to raw materials, including seed, fertiliser and pesticides, payroll and related expenses, and the depreciation of agricultural machinery, equipment and buildings.

The division's gross profit decreased to US$1.5 million (2007: US$24.4 million) as a result of record low market prices for corn. In 2008, the profit the division generated from the sale of rape and wheat was offset by a net change in corn inventories under IAS 41, which resulted in record low corn prices at the time of harvesting. The company uses 100% of the corn it grows to produce fodder for the Poultry segment. As a result, the Grain division's 2008 profit will be distributed to the Poultry division in 2009, since the majority of 2008's harvest will be used by the Poultry division during 2009. In general, the price of corn has no impact on our business since we use the crop we grow in our production process. Divisional EBITDA decreased by 43.9% to US$19.1 million (2007: US$34.0 million) while EBITDA margin decreased to 38.3% (2007: 88.4%) on an external sales basis.

Other Agricultural Operations

	2008 US$000	2007 US$000	Growth rate
Revenue	**93,102**	51,082	82%
– meat processing	**66,122**	34,523	92%
– other	**26,980**	16,559	63%
CoGS	**(91,492)**	(55,665)	64%
IAS 41 standard gains	**(1,137)**	4,153	(127)%
Gross profit	**473**	(430)	210%
Gross margin	**0.5%**	(0.8)%	163%
EBITDA	**7,567**	9,716	(22.1)%
EBITDA margin	**8.1%**	19.0%	(57.4)%

MHP's revenue in its Other Agricultural Operations division is generated from the sale of sausages and cooked meat, produced by Druzhba and Urkainian Bacon, and sales of beef, goose, foie gras, milk and fruit.

Druzhba's operations include meat processing, and breeding cattle and pigs for use in its meat-processing operations. It also grows grain on 15,000 hectares of land and has its own fodder facility.

An 80% interest in Ukrainian Bacon's operations was acquired by MHP in July 2008 as a part of the company's diversification strategy – aimed at taking advantage of opportunities in expanding markets – and an increase in the production of value-added products. Based in the Donetsk Region, Ukrainian Bacon produces sausages and cooked meat; more than 50% of the meat used in the production of the sausages is chicken.

Revenue from Other Agricultural Operations was US$93.1 million (2007: US$51.1 million) an 82.3% increase year-on-year. This was primarily attributable to an increase in sales volume. Sausage and cooked meat production increased by 113.0% to 16,000 tonnes (2007: 7,500 tonnes). More than 60% of this growth resulted from the acquisition of Ukrainian Bacon. Average sausage and cooked meat prices increased by 14% during the year to UAH18.23 per kg (2007: UAH16.06 per kg), excluding VAT. Revenue from meat processing was US$66.1 million (2007: US$34.5 million). This represented 71.0% of the division's sales (2007: 67.6%).

The cost of raw materials and other inventory used, primarily consists of seeds, fertilisers, pesticides and veterinary medicines. In addition, costs include payroll expenses; depreciation of agricultural machinery, equipment and buildings; and fuel, electricity and natural gas used in the production process. Divisional costs increased by 64.3% to US$91.5 million (2007: US$55.7 million) as a result of increased production.

Divisional gross profit increased to US$0.5 million in 2008 (2007: US$(0.4) million). Divisional EBITDA decreased by 22.1% to US$7.6 million (2007: US$9.7 million) and EBITDA margin decreased to 8.1% (2007: 19.0%), primarily as a result of the revaluation of biological assets used in the production of fruit and foie gras.

Liquidity and capital resources

MHP's cash flow from operating activities principally resulted from operating profit adjusted for non-cash items, such as depreciation, and for changes in working capital. Net cash generated from operating activities was US$122.7 million (2007: US$98.6 million). Stronger cash flow was driven primarily by higher prices and greater sales volumes.

In 2008, the total in working capital was US$140.6 million. The main contributors to working capital were:

- a US$52.0 million increase in corn and sunflower inventories;

- a US$39.8 million increase in VAT-related tax account receivables resulting from significant capital expenditure in 2008;
- a US$23.1 million increase on biological assets, prinicipally in expenditure on grain-growing production (costs associated with preparing land for the 2009 season) as a result of more hectares of land being used;
- a US$25.5 million increase in trade accounts receivable as a result of higher prices, greater supermarket sales, and an increase in sales of meat and convenience food products which have a longer shelf life.

Cash flows

	2008 US$000	2007 US$000	Growth rate
Funds from operations	**263,274**	107,826	144%
Increase in working capital	**(140,556)**	(9,261)	
Cash from operating activities	**122,718**	98,565	25%
CAPEX	**(265,206)**	(171,311)	55%
Including non-cash investments	**63,929**	56,266	
Assets sale and other	**3,238**	15,689	
Deposits	**(15,581)**	(8,055)	
Cash from investment activities	**(213,620)**	(107,411)	99%
Cash from financial activities	**141,866**	(25,481)	
Effects of exchange rates on cash	**(6,980)**		
Total change in cash	**43,984**	(34,327)	(228)%

In 2008 our total capital expenditure, of US$265.2 million, included the construction of phase 2 of the Myronivka poultry facility, the acquisition of additional agricultural machinery for our arable farms, and the expansion of our meat-processing facilities.

	2008 US$000	2007 US$000
CAPEX		
Mironivka complex	**99,267**	101,898
Grain growing	**48,468**	14,123
Meat processing	**29,251**	7,985
Administrative and distribution	**46,571**	15,956
Other agricultural projects	**14,125**	15,823
Maintenance CAPEX	**27,524**	15,526
Total:	**265,206**	171,311

As at 31 December 2008, the company's total debt was approximately US$516.7 million, most of which was denominated in US dollars. The average weighted cost of debt is below 10%. US$250 million of the debt is in Eurobonds, which are not redeemable until November 2011.

US$79 million of our long-term debt is principally represented by bank loans to finance agreements with vendors of equipment; it matures at various times up to the end of 2013.

US$70 million represents financing for the lease of agricultural machinery and equipment used in our grain growing activities and for vehicles for distribution, and has maturities up to 2012.

US$109 million short-term debt includes a US$35 million revolving committed credit line facility with ING Bank (Ukraine) which matures in 2010; a US$20 million loan from OTP bank, was refinanced in January 2009 and maturity was extended to 2010; and a US$54 million debt which matured in the second half of 2008.

The increase in company debt during 2008 was as a result of additional short-term loans to support an increase in working capital and an additional finance lease for agricultural machinery.

Debt

	31 December 2008 US$000	31December 2007 US$000
Total debt, US$000	**516,681**	467,382
– Eurobond	**246,903**	243,604
– Ukrainian bonds	**–**	39,604
– Loans covered ECA	**78,697**	86,596
– Financial leases and vendor financing	**69,597**	44,441
– ST loans*	**109,000**	53,137
– Other debt	**12,484**	–
Cash and bank deposits	**79,414**	20,143
Net debt	**437,267**	447,239
EBITDA from continuing operations	**312,211**	166,438
Debt/EBITDA	**1.65**	2.81
Net debt/EBITDA	**1.40**	2.69

* excludes short-term portion of long-term debt

Current trading

Consumer demand for poultry continues to be high and the company's production facilities are all operating at full capacity. As a result of lower corn prices and our substitution of sunflower protein for imported soybean protein, we expect poultry production costs in the first quarter of 2009 to be lower than in same period in 2008. Since most of Ukrainian Bacon's products are sold to the mass market, in which consumer demand continues to grow, MHP continues to increase the quantity of sausages and cooked meat it produces.

EBITDA

EBITDA does not represent operating income or net cash provided by operating activities as those items are defined by IFRS and should not be considered as an alternative to operating income or cash flow from operations or indicative of whether cash flows will be sufficient to fund our future cash requirements. EBITDA is not a measure of profitability because it does not include costs and expenses for depreciation and amortisation, net finance costs and income taxes and foreign exchange gains and losses (net), other expenses and other income, gain realised from acquisitions and changes in non-controlling interests in subsidiaries (net) and loss on impairment of property, plant and equipment.

BOARD OF DIRECTORS

Charles E Adriaenssen, age 52
Non-executive Chairman
Chairman of the Nominations and Remunerations Committee
Mr Adriaenssen joined the board as Chairman in 2006. He is founder and Chairman of CA & Partners SA, a consulting and management training company, Chairman of Outhere SA, an independent European classical music publisher, and Chairman of Bastille Investments, a private investment company. He is a director of Rayvax Holdings SA and, between 2004 and 2008, was a non-executive director of EPS SA, the holding company of the Belgian brewer, Inbev. Between 1982 and 1995 he was a diplomat in Belgium's Foreign Service. Mr Adriaenssen holds a BA in philosophy from the University of Vienna and a law degree from the University of Antwerp.

Yuriy Kosyuk, age 40
Chief Executive Officer
Mr Kosyuk founded MHP in 1998 and is also the CEO of JSC MHP. In 1995 he founded the Business Centre for the Food Industry (BCFI) and was President until 1999. BCFI operated in the domestic and export markets for grain and other agricultural products. Mr Kosyuk graduated as a processing engineer in meat and milk production from the Kiev Food Industry Institute in 1992.

Viktoria B Kapelyushnaya, age 39
Chief Financial Officer
Ms Kapelyushnaya, who is also Financial Director of JSC MHP, joined MHP in 1998 and was elected to the board in 2006. She was previously Deputy Chief Accountant, then Chief Accountant, of BCFI. She holds diplomas in meat processing engineering, 1992, and financial auditing, 1998, from the Kiev Institute of Food Industry.

Artur Futyma, age 39
Director of Development
Mr Futyma joined MHP in 1998 and was elected to the board in 2007. He was previously at BCFI. He is responsible for developing and managing new projects, and was a director of MHP's agricultural department between 2001 and 2007. He graduated from the Kiev Institute of Food Industry in 1992 with a diploma in food machinery engineering.

Yevhen H Shatokhin, age 33
Director of Sales and Marketing
Mr Shatokhin joined the MHP board in 2007. He was previously General Director of Druzhba. He graduated from the National University Kiev-Mohyla Academy in 1998 with a diploma in history and political science, and from the Kharkiv State Veterinary Academy in 2006 with a diploma in mechanical engineering.

Dr John C Rich, age 56
Non-executive Director
Dr Rich joined the board in 2006. He is the Managing Director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC) and is a specialist agri-business consultant for the IFC and IFC invested clients. From 1990 to 2003, he was an executive director of Austasia Pty Ltd, an agri-business conglomerate which has operations in Australia, South East Asia and China, and from 1995 to 2002 was a director of AN-OSI Pty Ltd, a company that specialised in supply-chain management for feedlot beef, poultry and dairy operations in Asia and Europe. Dr Rich holds a BSc and a BVSc from the University of Sydney, is a member of the Australian College of Veterinary Scientists and a registered financial member of the Australian College of Veterinary Surgeons. He has completed a number of post-graduate courses in agricultural and food-related industries.

John Grant, age 63
Non-executive Director
Chairman of the Audit Committee
Mr Grant is Chairman of Torotrak plc and Hasgo Group Limited, and is a non-executive director of Melrose plc, Pace plc and The Royal Automobile Club Limited. He was previously Chairman of Peter Stubs Limited, the Royal Automobile Club Motor Sports Association Limited and a non-executive director of National Grid plc and Corac Group plc. From 1992 to 1996, he was Finance Director of Lucas Industries plc and Lucas Varity plc, and before that was Director of Corporate Strategy for the Ford Motor Company. Mr Grant holds a BSc in economics from Queen's University, Belfast, and an MBA from Cranfield School of Management.

CORPORATE GOVERNANCE

MHP is registered in Luxembourg. Its shares are listed on the London Stock Exchange. The company complies with the non-binding principles on corporate governance contained in "Ten principles of corporate governance of the Luxembourg stock exchange" approved in April 2006.

MHP has a clear and transparent corporate governance framework and provides adequate disclosure.

Board of directors

During the year, the Board comprised
Charles E Adriaenssen, Non-executive Chairman, elected 30 May 2006
Yuriy A Kosyuk, Chief Executive Officer, elected 30 May 2006
Viktoria B Kapelyushnaya, Chief Financial Officer, elected 30 May 2006
Artur Futyma, elected 12 September 2007
Yevhen Shatokhin, elected 30 May 2006
Dr John C Rich, Non-executive Director, elected 30 May 2006
John Grant, Non-executive Director, elected 30 May 2006

Members of the Board are elected by a majority vote of shareholders at the annual general meeting (AGM), may be elected for a six-year period and may be re-elected an unlimited number of times. Of the Board's seven directors, elected for a three-year term, three are independent. Each director has signed a letter of appointment with the company which applies for as long as he or she remains a director. The letters do not provide for any benefits on termination of directorship and, in the case of Mr Adriaenssen, Dr Rich and Mr Grant, provide for payment of compensation and the reimbursement of certain expenses. Ms Kapelyushnaya, Mr Futyma and Mr Shatokhin do not receive compensation for their service as directors and any expenses incurred are reimbursed by JSC MHP or the relevant subsidiary.

The terms and conditions for Mr Kosyuk's appointment as Chief Executive Officer (CEO) were agreed and signed on 21 June 2006. The terms are for the duration of his office and do not provide for any benefits on termination of his directorship. Mr Kosyuk may, however, resign from his position as Chief Executive Officer only subject to a prior three-months' notice. The terms contain confidentiality obligations applicable to Mr Kosyuk for a period of five years after termination of his office. The amount of remuneration and benefits paid by the company to the persons responsible for the day-to-day management of the company is reported by the Board of Directors to the AGM.

The amount of remuneration and benefits of all members of the Board of Directors, including the Chief Executive Officer, regardless of whether such remuneration is paid by the company or by any other entity within the group, is established by the Nominations and Remuneration Committee. In addition, the amount of remuneration paid to non-executive directors is approved by the AGM.

Nominations and Remuneration Committee

Charles E Adriaenssen, Chairman
John Grant
Dr John C Rich

The committee's responsibilities include the consideration of the award of stock options to any member of the Board of directors and all matters relating to the remuneration and benefits paid to all members of the Board, including the CEO, regardless of whether that is paid by the company or any other entity in the group. It is also responsible for, among other things, reviewing the composition of the Board, making recommendations to the Board with regard to any changes, and is also authorised to carry out any other functions that may, from time to time, be delegated to it by the Board.

Decisions are taken by a majority vote. In the event of an equal vote, the Chairman of the committee has the casting vote.

Audit Committee

John Grant, Chairman
Viktoria B Kapelyushnaya
Dr John C Rich

The committee is authorised to carry out its functions as may, from time to time, be delegated to it by the Board of Directors, relating to the oversight of audit functions, financial reporting and internal control principles, and the appointment, compensation, retention and oversight of the company's independent auditors.

Decisions are taken by a majority vote. In the event of an equal vote, the Chairman of the committee has the casting vote.

Internal control/risk management

MHP complies with the corporate governance code of the Luxembourg Stock Exchange. The Audit Committee is responsible for overseeing internal control and risk management, and for monitoring its effectiveness.

CORPORATE GOVERNANCE
CONTINUED

Compensation of key management personnel
Total compensation of the group's key management personnel (excluding compensation to Yuriy Kosyuk) included in selling, general and administrative expenses in the accompanying consolidated income statements, amounted to US$9,273,000 (2007: US$2,245,000). Total compensation consists of contractual salary and performance bonuses.

Key management personnel totalled 32 (2007: 31).

Litigation statement on the directors and officers
At the date of this annual report, no member of the Board of Directors or of MHP's senior management had, for at least five years:

1 any convictions relating to fraudulent offences;

2 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

3 been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) nor had 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.

Share options
At the date of this annual report, neither the company nor JSC MHP has a share option plan and no share options have been granted to members of the Board of Directors, members of the company's senior management or employees. MHP may consider establishing various compensation structures and granting share options in the future.

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2008.

Principal activities and review of the business

MHP is one of the leading agro-industrial companies, and the largest producer of chicken, in Ukraine. The business, run on a vertically-integrated principle with the objective of making it self-sufficient, is structured into three segments: Poultry and Related Operations, Grain-Growing Operations, and Other Agricultural Operations.

Poultry segment This division produces and sells chicken products, sunflower oil, mixed fodder and convenience foods. It incorporates four chicken and two breeder farms, feed mills, and convenience foods facilities.

Grain segment This division grows crops for fodder, and for sale to third parties, on 180,000 hectares of land. It incorporates a number of arable farms and grain storage facilities.

Other Agricultural Operations segment This division produces and sells beef, goose and foie gras, fruit, and sausages and cooked meat. It incorporates two mixed farms, a goose farm and facilities for producing prepared meat products.

More information about the operations of the business is set out in the Chairman's Statement on page 15, the Chief Executive Officer's review on page 16, and the Business review on pages 18-27.

Future developments

The group's strategy is:

- to expand its capacity to produce chicken and chicken products in a domestic market which has a 46 million population and one of the world's lowest rates of meat consumption per capita;
- to expand its grain production to provide stability in the ingredients for fodder;
- to increase the efficiency of its grain production through modernisation and use of up-to-date technology;
- to reduce costs and improve quality control by increasing vertical integration;
- to maintain, and improve, its high biosecurity standards;
- to promote and develop its strong brands through consumer-driven innovation;
- to increase its presence in value-added food products, such as processed meat and convenience food;
- to continue to develop its distribution network and customer base; and
- to continue its agro-industrial diversification.

The management believes there is ample opportunity for growth as customers choose to buy domestically-produced chicken, which is cheaper and fresher than imported meat.

Going concern

After reviewing the 2009 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.

Dividends

We do not intend to pay dividends for 2008, but plan to invest all net profits into the business. We firmly believe that this will be to the long-term benefit of the company and its shareholders.

Directors in the year

The following served as directors of the company during the year ended 31 December 2008.

Charles E Adriaenssen, Non-executive Chairman
Yuriy Kosyuk, Chief Executive Officer
Viktoria B Kapelyushnaya, Chief Financial Officer
Artur Futyma, Deputy CEO
Yevhen H Shatokhin, Deputy Chairman, Head of Sales
Dr John C Rich, Non-executive Director
John Grant, Non-executive Director

The directors' biographies are on page 36 of this report.

Election and re-election of directors

Details of the procedure for election and re-election of directors is in the Corporate governance report on pages 37-38 of this report.

Annual General Meeting (AGM)

The AGM will be held at the company's registered office in Luxembourg at 12 noon on 27 April 2009.

Disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the group's auditors are unaware. Each director has take 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.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of the independent auditors set out on page 41, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of MHP SA and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as of 31 December 2008, 2007 and 2006, the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The accompanying consolidated financial statements of the Group for the year ended 31 December 2008, 2007 and 2006 are the responsibility of the Group's management.

The consolidated financial statements of the Group for the year ended 31 December 2008, 2007 and 2006 were authorised for issue on 9 April 2009 by:

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the shareholders of
MHP S.A.
8-10, rue Mathias Hardt
Luxembourg

Report on the consolidated financial statements
Following our appointment by the General Meeting of the Shareholders, we have audited the accompanying consolidated financial statements of MHP S.A., which comprise the balance sheet as at December 31, 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of directors' responsibility for the consolidated financial statements The board of directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des réviseurs d'entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion In our opinion, the consolidated financial statements give a true and fair view of the financial position of MHP S.A. as of December 31, 2008 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements
The consolidated annual report, which is the responsibility of the board of directors, is consistent with the consolidated financial statements.

Deloitte S.A.
Réviseur d'entreprises

Sophie Mitchell
Partner

April 9, 2009

CONSOLIDATED BALANCE SHEETS

AS OF 31 DECEMBER 2008, 2007 AND 2006

	Notes	2008 US$000	2007 US$000	2006 US$000
ASSETS				
Non-current assets				
Property, plant and equipment, net	7	**517,564**	624,756	487,771
Prepayments for property, plant and equipment		**22,269**	5,883	46,246
Deferred tax assets	8	**2,047**	2,705	–
Long-term VAT recoverable, net	9	**9,112**	1,742	7,855
Non-current biological assets	10	**29,480**	42,096	26,689
Other non-current assets	11	**6,458**	8,013	4,601
Total non-current assets		**586,930**	685,195	573,162
Current assets				
Inventories	12	**38,118**	42,645	57,091
Biological assets	10	**84,095**	90,785	51,594
Agricultural produce	13	**42,765**	31,680	21,244
Natural gas in stock		**–**	–	4,841
Other current assets, net	14	**15,370**	16,321	16,464
Taxes recoverable and prepaid, net	15	**46,338**	45,400	41,574
Trade accounts receivable, net	16	**31,531**	20,363	17,727
Short-term bank deposits	17	**25,342**	10,055	2,000
Cash and cash equivalents	18	**54,072**	10,088	44,415
Total current assets		**337,631**	267,337	256,950
Total assets		**924,561**	952,532	830,112
LIABILITIES AND SHAREHOLDERS' EQUITY				
Equity attributable to equity holders of the Parent				
Share capital	19	**284,505**	251,311	251,311
Additional paid-in capital		**178,815**	60,059	56,973
Revaluation reserve		**9,410**	9,410	536
Cumulative translation differences		**(222,699)**	6,292	6,292
Retained earnings		**82,480**	80,962	39,425
		332,511	408,034	354,537
Minority interest		**13,706**	11,372	12,331
Total equity		**346,217**	419,406	366,868
Non-Current Liabilities				
Long-term bank borrowings	20	**57,456**	65,878	56,054
Bonds issued	21	**246,903**	243,604	281,503
Long-term finance lease and vendor financing obligations	22	**47,972**	30,538	17,828
Other long-term payables		**400**	2,005	1,474
Deferred tax liabilities	8	**6,160**	6,506	2,289
Total non-current liabilities		**358,891**	348,531	359,148
Current liabilities				
Trade accounts payable	23	**22,170**	25,116	13,725
Accounts payable for property, plant and equipment	22	**8,116**	9,626	11,847
Other current liabilities	24	**32,992**	18,085	8,754
Short-term bank borrowings and current portion of long-term bank borrowings	20	**130,241**	73,855	55,988
Current portion of bonds issued	21	**–**	39,604	–
Interest accrued		**3,520**	4,102	3,851
Current portion of finance lease obligations	22	**21,625**	13,903	9,283
Deferred income	25	**789**	304	648
Total current liabilities		**219,453**	184,595	104,096
Total liabilities		**578,344**	533,126	463,244
Contingencies and contractual commitments	26			
Total liabilities and shareholders' equity		**924,561**	952,532	830,112

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 47 to 84 form an integral part of these consolidated financial statements. Independent auditors' report is on page 41.

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

	Notes	2008 US$000	2007* US$000	2006* US$000
CONTINUING OPERATIONS				
Revenue	28,4	**802,910**	474,437	310,997
Net change in fair value of biological assets and agricultural produce	4	**6,327**	14,241	9,329
Cost of sales	29	**(571,710)**	(365,018)	(209,996)
Gross profit		**237,527**	123,660	110,330
Selling, general and administrative expenses	30	**(80,495)**	(51,599)	(35,074)
Government grants recognised as income	25	**107,663**	56,289	46,678
Other operating expenses	31	**(10,022)**	(7,275)	(6,405)
Other operating income		**600**	1,306	906
Operating profit before loss on impairment of property, plant and equipment		**255,273**	122,381	116,435
Loss on impairment of property, plant and equipment	7	**(11,767)**	(10,238)	–
Operating profit		**243,506**	112,143	116,435
Finance costs, net	32	**(51,663)**	(49,482)	(36,516)
Finance income		**6,695**	–	–
Foreign exchange losses, net	27	**(187,127)**	(13,059)	(5,628)
Other expenses		**(784)**	(734)	(830)
Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net	2	**4,482**	1,285	26,470
Other income		**1,085**	669	938
Other expenses, net		**(227,312)**	(61,321)	(15,566)
Profit before tax		**16,194**	50,822	100,869
Income tax expense	8	**(1,279)**	(428)	(573)
Profit for the year from continuing operations		**14,915**	50,394	100,296
DISCONTINUED OPERATIONS				
(Loss)/profit for the year from discontinued operations, net of income tax	5	**(9,722)**	(3,601)	5,409
Net profit for the year		**5,193**	46,793	105,705
Attributable to:				
Equity holders of the Parent		**1,518**	40,870	100,549
Minority interest		**3,675**	5,923	5,156
Earnings per share	35			
From continuing operations (US$ per share):				
Basic		**0.11**	0.44	0.95
Diluted		**0.11**	0.44	0.95
From continuing and discontinued operations (US$ per share):				
Basic		**0.01**	0.41	1.01
Diluted		**0.01**	0.41	1.01

* Amounts have been retroactively restated as a result of the discontinued operations discussed in Note 5.

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 47 to 84 form an integral part of these consolidated financial statements. Independent auditors' report is on page 41.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

	Attributable to Equity Holders of the Parent							
	Share capital US$000	Additional paid-in capital US$000	Revaluation reserve US$000	Retained earnings US$000	Translation difference US$000	Total US$000	Minority interest US$000	Total equity US$000
1 January 2006	**54,707**	**–**	**536**	**170,682**	**6,292**	**232,217**	**33,230**	**265,447**
Net profit for the year	–	–	–	100,549	–	100,549	5,156	105,705
Total recognised income and expense for the period	–	–	–	100,549	–	100,549	5,156	105,705
Acquisition of entities under common control (Note 2)	–	22,060	–	–	–	22,060	(4,675)	17,385
Acquisition of non-controlling interest in subsidiaries (Note 2)	–	–	–	–	–	–	(25,476)	(25,476)
Increase in minority interest due to sale of shareholding (Note 2)	–	–	–	–	–	–	321	321
Increase in minority interest due to business combination (Note 2)	–	–	–	–	–	–	3,116	3,116
Establishment of new entities (Note 2)	–	–	–	–	–	–	478	478
Withdrawal of subsidiary's share capital by minority shareholder	–	–	–	–	–	–	(327)	(327)
Contribution to share capital and additional paid-in capital	50	348	–	–	–	398	–	398
The Group's reorganisation (Note 2)	196,554	34,565	–	(231,806)	–	(687)	508	(179)
31 December 2006	**251,311**	**56,973**	**536**	**39,425**	**6,292**	**354,537**	**12,331**	**366,868**
Net profit for the year	–	–	–	40,870	–	40,870	5,923	46,793
Effect of revaluation of property, plant and equipment (Note 7)	–	–	11,124	–	–	11,124	–	11,124
Deferred tax charged directly to revaluation reserve (Note 8)	–	–	(2,250)	–	–	(2,250)	–	(2,250)
Total recognised income and expense for the period	–	–	8,874	40,870	–	49,744	5,923	55,667
Effect of sale of subsidiary to the Principal Shareholder, net of income tax effect (Note 2)	–	430	–	–	–	430	(3,039)	(2,609)
Effect of sale of building to the Principal Shareholder, net of income tax effect (Note 6)	–	405	–	–	–	405	–	405
Acquisition and changes in non-controlling interest in subsidiaries (Note 2)	–	2,251	–	–	–	2,251	(4,147)	(1,896)
Increase in minority interest due to increase in share capital of subsidiary	–	–	–	667	–	667	304	971
31 December 2007	**251,311**	**60,059**	**9,410**	**80,962**	**6,292**	**408,034**	**11,372**	**419,406**
Net profit for the year	–	–	–	1,518	–	1,518	3,675	5,193
Cumulative translation difference	–	–	–	–	(228,991)	(228,991)	–	(228,991)
Total recognised income and expense for the period	–	–	–	1,518	(228,991)	(227,473)	3,675	(223,798)
Increase in share capital (net of issue costs) (Note 19)	33,194	118,756	–	–	–	151,950	–	151,950
Acquisition and changes in non-controlling interest in subsidiaries (Note 2)	–	–	–	–	–	–	(1,341)	(1,341)
31 December 2008	**284,505**	**178,815**	**9,410**	**82,480**	**(222,699)**	**332,511**	**13,706**	**346,217**

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 47 to 84 form an integral part of these consolidated financial statements. Independent auditors' report is on page 41.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

	2008 US$000	2007 US$000	2006 US$000
OPERATING ACTIVITIES			
Profit before tax from continuing and discontinued operations	**6,472**	47,187	107,999
Adjustments to reconcile profit to net cash provided by operations			
Depreciation of property, plant and equipment	**57,394**	44,814	23,843
Finance costs, net	**51,663**	49,482	36,516
Finance income	**(6,695)**	–	–
Effect of fair value adjustments	**(4,945)**	(11,095)	(11,790)
Loss on disposal of discontinued operation	**6,193**	–	–
Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net	**(4,482)**	(1,285)	(26,470)
Non-operating foreign exchange loss, net	**187,127**	13,059	5,628
Change in allowance for irrecoverable amounts and direct write-offs	**5,873**	5,215	2,650
Impairment of property, plant and equipment	**11,767**	10,238	–
Loss/(gain) on disposal of property, plant and equipment	**1,145**	(660)	426
Other non-cash items	**–**	(777)	(722)
Operating profit before working capital changes	**311,512**	156,178	138,080
(Increase)/decrease in inventories	**(12,106)**	14,446	(17,737)
(Increase)/decrease in biological assets	**(23,066)**	(34,138)	702
Increase in agricultural produce	**(44,603)**	(8,879)	(8,831)
Decrease in natural gas stock	**–**	3,675	2,308
Increase in other current assets	**(726)**	(3,422)	(3,504)
Increase in taxes recoverable and prepaid	**(39,759)**	(150)	(28,291)
(Increase)/decrease in trade accounts receivable	**(25,480)**	(3,862)	5,137
(Decrease)/increase in other long-term payables	**(2,523)**	531	(129)
(Decrease)/increase in trade accounts payable	**(976)**	11,391	(10,228)
Increase/(decrease) in other current liabilities	**6,278**	11,491	(9,804)
Increase/(decrease) in deferred income	**2,405**	(344)	(1,396)
Cash generated by operations	**170,956**	146,917	66,307
Finance costs paid	**(51,861)**	(47,633)	(33,067)
Interest received	**5,976**	769	614
Income tax paid	**(2,353)**	(1,488)	(779)
Net cash generated by operating activities	**122,718**	98,565	33,075
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	**(179,695)**	(100,149)	(204,494)
Purchases of other non-current assets	**(2,688)**	(3,398)	(2,845)
Proceeds from sale of building to the Principal Shareholder	**–**	4,005	–
Proceeds from disposal of subsidiary, net of cash disposed	**(17)**	4,798	–
Proceeds from disposals of property, plant and equipment	**3,957**	6,529	1,003
Purchases of non-current biological assets	**(1,462)**	(11,498)	(21,017)
Financial aid provided in relation to acquisition of subsidiaries and acquisition of non-controlling interest in subsidiaries	**(17,432)**	–	–
Short-term deposits placement	**(57,711)**	(11,442)	(2,000)
Withdrawals of short-term deposits	**42,130**	3,387	1,421
Loans (provided to)/repaid by employees, net	**(1,022)**	(1,053)	549
Loans (provided to)/repaid by related parties, net	**(136)**	673	854
Contributions to share capital of subsidiaries by minority shareholders	**–**	737	–
Long-term financial aid to related parties	**–**	–	(3,913)
Acquisition of subsidiaries, net of cash acquired	**456**	–	809
Net cash used in investing activities	**(213,620)**	(107,411)	(229,633)

CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

	2008 US$000	2007 US$000	2006 US$000
FINANCING ACTIVITIES			
Proceeds from loans received	**274,618**	156,084	271,418
Repayment of bank loans	**(238,716)**	(166,284)	(315,482)
Proceeds from corporate bonds issued	**–**	–	289,604
Repayment of corporate bonds issued	**(41,288)**	–	–
Transaction costs related to corporate bonds issued	**–**	(2,106)	(6,290)
Finance lease payments	**(18,544)**	(13,175)	(5,206)
Other financing received	**13,846**	–	–
Issue of share capital, net of issue costs	**151,950**	–	398
Net cash (used in)/generated by financing activities	**141,866**	(25,481)	234,442
Net (decrease)/increase in cash and cash equivalents	**50,964**	(34,327)	37,884
Cash and cash equivalents at beginning of the year	**10,088**	44,415	6,531
Effect of translation to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(6,980)**	–	–
Cash and cash equivalents at end of the year	**54,072**	10,088	44,415

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 47 to 84 form an integral part of these consolidated financial statements. Independent auditors' report is on page 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

1 DESCRIPTION OF FORMATION AND THE BUSINESS

Description of formation – MHP SA (the "Parent" or "MHP SA"), a limited liability company registered under the laws of Luxembourg, was formed on 30 May 2006. MHP SA was formed to serve as the ultimate holding company of OJSC "Myronivsky Hliboproduct" ("MHP") and its subsidiaries. The registered address of MHP SA is 8-10, rue Mathias Hardt, L-1717 Luxembourg, Grand-Duchy of Luxembourg.

In the course of the corporate reorganisation related to the establishment of MHP SA, Raftan Holding Limited ("RHL") was established as a sub-holding company under MHP SA, and through a series of transactions became the immediate parent of MHP. As a result of these transactions (collectively referred to as the "Corporate Reorganisation") MHP SA indirectly owned 99.8% of MHP (see Note 2 for a discussion of the impact on the consolidated financial statements related to the Corporate Reorganisation").

References to the "Group" for the periods prior to the formation of MHP SA are references to MHP and its subsidiaries and for the periods after the formation of MHP SA are to MHP SA and its subsidiaries.

The primary subsidiaries and the principal activities of the companies forming the Group as of 31 December 2008, 2007 and 2006 were as follows (for details of changes see Note 2):

Operating entity	Country of registration	Year established/ acquired	Principal activity	Effective ownership interest*, % 2008	2007	2006
MHP SA	Luxembourg	2006	Holding company	**Parent**	Parent	Parent
RHL	Republic of Cyprus	2006	Sub-holding company	**100**	100	100
MHP	Ukraine	1998	Management, marketing and sales	**99.9**	99.8	99.8
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv ("MZVKK")	Ukraine	1998	Fodder and sunflower oil production	**88.5**	84.7	84.7
Peremoga Nova ("Peremoga")	Ukraine	1999	Chicken farm	**99.9**	99.8	99.8
Druzhba Narodiv Nova ("Druzhba Nova")	Ukraine	2002	Chicken farm	**99.9**	99.8	99.8
Oril-Leader ("Oril")	Ukraine	2003	Chicken farm	**99.9**	99.8	99.8
Tavriysky Kombikormovy Zavod ("TKZ")**	Ukraine	2004	Fodder production	**99.9**	99.9	29.4
Ptahofabryka Shahtarska Nova ("Shahtarska")	Ukraine	2003	Breeder farm	**99.9**	99.8	99.8
Myronivska Pticefabrica ("Myronivska")	Ukraine	2004	Chicken farm	**99.9**	99.8	99.8
Starynska Ptahofabryka ("Starynska")	Ukraine	2003	Breeder farm	**84.9**	84.8	84.8
Ptahofabryka Snyatynska Nova ("Snyatynska")	Ukraine	2005	Geese breeder farm	**99.9**	99.8	99.8
Zernoproduct	Ukraine	2005	Fodder grain cultivation	**89.9**	89.8	89.8
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage	**99.9**	99.8	99.8
Druzhba Narodiv ("Druzhba")	Ukraine	2006	Cattle breeding, plant cultivation	**99.0**	95.3	87.6
Agrofirma Kyivska ("Kyivska")	Ukraine	2006	Cattle breeding	**n/a**	75.8	75.8
Crimean Fruit Company ("Crimean Fruit")	Ukraine	2006	Fruits grain cultivation	**81.9**	81.8	81.8
NPF Urozhay ("Urozhay")	Ukraine	2006	Fodder grain cultivation	**89.9**	89.8	89.8
Agrofort ("AGF")	Ukraine	2006	Fodder grain cultivation	**86.1**	86.0	86.0
Zernoproduct-Lypivka ("ZPL")	Ukraine	2006	Fodder grain cultivation	**63.0**	62.9	62.9
Ukrainian Bacon ("UB")	Ukraine	2008	Meat processing	**79.9**	n/a	n/a

* Effective voting rights in subsidiaries did not differ from effective ownership rights. Direct ownership interest in subsidiaries by the Parent differs from the effective ownership interest due to cross holdings between subsidiaries.

** The Group consolidated TKZ in 2006 as, in substance, activities of TKZ were conducted on behalf of the Group, so that the Group benefited from TKZ operations, and the Group was exposed to risks incidental to the activities of TKZ. In November 2006, TKZ's majority shareholder withdrew US$411 thousand of its investment in TKZ resulting in a change in a minority interest. In April 2007, RHL acquired 70.6% of the participatory interests in TKZ from Allied Tech LLC for a cash consideration of US$200 thousand, which resulted in a decrease in minority interest of US$2,451 thousand. The resulting excess of the book value of the minority interest over cash consideration paid of US$2,251 thousand was recognised in these consolidated financial statements as an adjustment to shareholders' equity.

Description of the business – The principal business activities of the Group are agricultural operations (poultry and related operations), cultivation and selling fruits and producing beef and meat products ready for consumption (other agricultural operations) and grain growing. 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, sunflower oil, mixed fodder and convenience food products. Other agricultural operations comprise the production and sale of beef, goose meat, foie gras, sausages, fruits, potatoes and feed grains. Grain growing comprises the production and sale of grains and sugar beets.

The Group's operational facilities are located in different regions of Ukraine, including Kyiv, Cherkasy, Dnipropetrovsk, Donetsk, Ivano-Frankivsk, Vinnytsya, Kherson regions and Autonomous Republic of Crimea.

Prior to 2007, the Group also had natural gas related operations which were discontinued in the first quarter of 2007 (see Note 5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

2 THE GROUP'S FORMATION, ACQUISITIONS AND CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES

Corporate Reorganisation – As described in Note 1, in 2006 the Corporate Reorganisation was completed in order to establish MHP SA as the ultimate holding company.

As the Corporate Reorganisation did not have a direct result on MHP or its subsidiaries and the underlying business has operated for all periods, the consolidated financial statements have been prepared to present all years on a comparative basis. There has been no accounting impact from the Corporate Reorganisation except as follows:

- Share capital, additional paid-in-capital and retained earnings: For the periods prior to the Corporate Reorganisation, share capital and additional paid in capital is that of MHP. Upon the Corporate Reorganisation share capital was changed to that of MHP SA and additional paid-in capital was determined as the excess of the net assets of the Group as of the date of the Corporate Reorganisation over cost of investment as part of the Corporate Reorganisation. The cost of the investment represents the cash contributed to establish MHP SA and RHL and the value of the contributed shares of MHP to RHL. The Group has elected to record the offset to the capital and additional paid in capital against retained earnings.

- Minority Interest: There were certain minority shareholders of 0.4% of MHP at the time of the reorganisation that did not exchange their shares in MHP for shares in MHP SA. As a result, the Group has established a minority interest associated with these minority shareholders.

In connection with this Corporate Reorganisation, MHP also entered into an agreement to acquire ownership in Kyivska and Druzhba resulting in an expansion of the Group's operations and an increase in the value of the Group (see "Kyivska and Druzhba" below).

Acquisitions from entities under common control and subsequent purchase of minority interest from third parties
Kyivska and Druzhba During 2006, the Group entered into share purchase agreements to acquire 52.0% of voting common shares of Kyivska for cash consideration of US$91 thousand and to purchase 60.5% of Druzhba from Kyivska for US$198 thousand. At the time of the share purchase agreements, Druzhba owned a 99.9% interest in Crimean Fruit Company and a 22.6% interest in Druzhba Nova.

Net assets of Druzhba and Kyivska as of the date of acquisition were as follows:

	Druzhba's consolidated carrying amounts US$000	Kyivska's carrying amounts US$000
Property, plant and equipment, net	26,151	5,021
Accounts receivable from the Group	22,578	932
Non-current biological assets	6,939	2,569
Investment in Druzhba Nova	4,475	–
Other non-current assets	2,152	930
Inventories and agricultural produce	5,315	1,886
Current biological assets	13,261	1,352
Trade accounts receivable, net	9,921	14,992
Cash and cash equivalents	703	6
Total assets	**91,495**	**27,688**
Long-term bank borrowings and other long-term payables	(9,754)	(591)
Short-term bank borrowings	(4,500)	–
Accounts payable to the Group	(36,264)	(39,367)
Trade accounts payable	(1,009)	(117)
Other current liabilities	(1,615)	(2,989)
Deferred income	–	(231)
Total liabilities	**(53,142)**	**(43,295)**
Net assets/(liabilities) acquired	38,353	(15,607)
Net liabilities attributable to 52.0% ownership interest of Kyivska	–	(15,607)
Net assets attributable to 60.5% ownership interest of Druzhba	23,189	–
Decrease in minority interest in Druzhba Nova	14,767	–
Purchase price	(198)	(91)
Difference between purchase price and net assets/(liabilities) acquired recorded in shareholders' equity	**37,758**	**(15,698)**
Cash acquired	703	6
Net cash inflow arising on the acquisition	**703**	**6**

As a result of the Druzhba acquisition in March 2006, the Group obtained an additional 13.7% effective ownership in Druzhba Nova, resulting in a decrease of minority interest by US$19,242 thousand as of the date of acquisition.

2 THE GROUP'S FORMATION, ACQUISITIONS AND CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES CONTINUED

In accordance with the Group's accounting policy, assets and liabilities of these entities were recognised at the pre-acquisition carrying values. The excess of the carrying value of the assets over consideration paid of US$22,060 thousand was recorded in shareholders' equity. The results of Kyivska and Druzhba were consolidated by the Group from the date of acquisition of control. As the minority shareholder does not have any obligation to fund losses of Kyivska, the Group has recognised 100% of the net liabilities and has not established a minority interest.

In June 2006, the Group purchased an additional 23.8% ownership in Kyivska from a minority shareholder for a cash consideration of US$2 thousand increasing its ownership to 75.8%. In June 2006, MHP acquired 82.0% of voting shares in Crimean Fruit Company from Druzhba for US$162 thousand. The remaining shares of Crimean Fruit Company were sold to the General Director of Crimean Fruit Company for US$18 thousand. The difference between the consideration paid and the fair value of the net assets acquired, after reversing minority interest, of US$261 thousand, was recognised in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net".

In September 2006, the Group acquired an additional 27.3% shareholding in Druzhba from third parties for US$764 thousand. As a result of the transaction, the Group acquired additional effective interest of 6.2% in Druzhba Nova. The excess of the fair value of the acquired share of Druzhba's and Druzhba Nova's net assets over purchase price, after reversing the minority interest, of US$20,959 thousand was recognised in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net".

In October 2006, MHP purchased 22.6% shares of Druzhba Nova from Druzhba resulting in an increase in its total ownership of Druzhba Nova to 100.0%. The difference between the purchase price of US$158 thousand and the net assets acquired, after reversing the minority interest, of US$4,499 thousand was recognised in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net".

During the year ended 31 December 2007, through a series of transactions, the Group increased its effective ownership in Druzhba to 95.3%. These transactions resulted in the recognition of US$1,285 thousand in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net".

In August 2008, Druzhba decreased its share capital by repurchasing shares from a number of its minority shareholders, which resulted in an increase of the Group's effective ownership in Druzhba from 95.3% to 98.9%. Consideration payable to the minority shareholders in exchange for the shares was determined based on the respective shareholder's share in the net assets of Druzhba, as recorded in the statutory financial statements as of the date of transaction, and was payable in cash or in kind, depending on the agreements reached with each shareholder. The excess of the fair value of the acquired share over the consideration payable of US$161 thousand was recognised in these consolidated financial statements in "Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net".

In December 2008, prior to the sale of its interest, the Group increased the share capital of Kyivska, which resulted in an increase in the Group's effective ownership to 99.7%. The transaction did not have effect on the minority interests due to negative net assets of Kyivska as of the date of the transaction. The Group subsequently sold its interest in Kyivska prior to the year end.

Acquisitions from third parties

Urozhay In October 2006, the Group acquired from a third party 89.8% interest in Urozhay for US$595 thousand. Urozhay specialises in fodder grain cultivation. This transaction has been accounted for under the purchase method of accounting.

The fair value of the net assets acquired was as follows:

	US$000
Property, plant and equipment, net	893
Other non-current assets	6
Other investments	33
Inventories, biological assets and agricultural produce	6,146
Trade accounts receivable, net	4,146
Cash and cash equivalents	100
Total assets	**11,324**
Other long-term payables	(32)
Short-term bank borrowings	(990)
Trade accounts payable	(9,265)
Other current liabilities	(376)
Total liabilities	**(10,663)**
Net assets acquired	**661**
Fair value of net assets attributable to 90.0% ownership interest	**595**
Cash consideration paid	(595)
Cash acquired	100
Net cash outflow arising on the acquisition	**(495)**

The revenue and financial results of Urozhay for the year ended 31 December 2006 were insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

2 THE GROUP'S FORMATION, ACQUISITIONS AND CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES CONTINUED

Ukrainian Bacon In July 2008, the Group acquired from a third party a 80.0% interest in Ukrainian Bacon, a meat processing company. The transaction was accounted for under the purchase method of accounting. The Group's effective ownership interest in Ukrainian Bacon upon the acquisition and as of 31 December 2008 was 79.9%.

The fair value of the net assets acquired was as follows:

	US$000
Property, plant and equipment, net	28,737
Prepayments for property, plant and equipment	662
Other non-current assets	302
Taxes recoverable and prepaid, net	3,492
Other current assets, net	2,605
Trade accounts receivable, net	107
Accounts receivable from the Group	732
Inventories	1,408
Cash and cash equivalents	456
Total assets	**38,501**
Deferred tax liabilities	(2,630)
Trade accounts payable	(7,501)
Accounts payable to the Group	(20,344)
Other current liabilities	(2,989)
Total liabilities	**(33,464)**
Net assets acquired	5,037
Fair value of net assets attributable to 80% ownership interest	4,030
Fair value of the consideration payable	(469)
Gain realised upon acquisition	3,561
Cash consideration paid	–
Cash acquired	456
Net cash inflow arising on the acquisition	**456**

The gain realised upon acquisition was recognised within "Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net" for the year ended 31 December 2008.

Prior to and in connection with the acquisition, in order to finance working capital deficit of Ukrainian Bacon, the Group provided short-term interest-free returnable financial aid to Ukrainian Bacon for the total amount of US$17,432 thousand, as well as provided extended payment terms on ordinary trade transactions in the amount of US$2,180 thousand as of the date of acquisition.

Other acquisitions

MHP During 2006, the Group acquired an additional shareholding in MHP from minority shareholders, which resulted in the Group owning 99.8% of MHP as of 31 December 2006. The related excess of the fair value of share of net assets acquired over the purchase price of US$752 thousand was recognised in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net" for the year ended 31 December 2006.

In September 2008 the Group increased the share capital of MHP, which resulted in the Group owning 99.9% in MHP as of 31 December 2008. The gain on the transaction in the amount of US$718 thousand was recognised in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net".

MZVKK During the year ended 31 December 2008, through a series of transactions, the Group increased its effective share in MZVKK from 84.7% to 88.5%. The excess of the fair value of the share of the net assets acquired over the purchase price in the amount of US$42 thousand was recognised in these consolidated financial statements in "Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries, net".

Other The Group made other insignificant acquisitions during each of the periods presented. These acquisitions have been accounted for based on the Group's accounting policies. The impact of these acquisitions was not significant to the consolidated financial statements of the Group.

2 THE GROUP'S FORMATION, ACQUISITIONS AND CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES CONTINUED

"Pro forma" results of Acquisitions – The "pro forma" revenues and results for the year ended 31 December 2006, had the transactions related to Kyivska and Druzhba as discussed above been entered into on 1 January 2006, would have been US$318,746 thousand and US$101,496 thousand, respectively. The "pro forma" earnings per share would have been US$0.96 per share and US$1.01 per share from continuing and discontinued operations, respectively.

The "pro forma" revenues and results for the year ended 31 December 2008, had the acquisition of Ukrainian Bacon been completed on 1 January 2008, would have been US$809,358 thousand and US$3,793 thousand, respectively. The "pro forma" earnings per share would have been US$0.11 and US$0.01 per share from continuing and discontinued operations, respectively.

These "pro forma" revenues and results do not reflect any adjustments related to other transactions. The "pro forma" results represent an approximate measure of the performance of the combined Group on an annualised basis. The unaudited "pro forma" information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at such dates or to project the Group's future results of operations.

Establishment of new subsidiaries – In September 2006, the Group established ZZG, a mink production company contributing US$4,395 thousand into its share capital. In November 2006, ZZG's minority shareholder, LLC Elite, contributed assets comprising the mink production complex in exchange for 41% of the participatory interests in ZZG. The assets contributed by LLC Elite were recorded at fair value at the date of contribution.

Assets contributed by LLC Elite in ZZG were as follows:

	US$000
Property, plant and equipment, net	694
Non-current biological assets (mink)	2,360
Total assets	**3,054**

In February 2006, the Group, together with a third party, established a new subsidiary Zernoproduct-Lypivka engaged in grain-growing activities. The Group's share was fully paid in cash for US$869 thousand; share capital contribution by the third party was paid in kind by property, plant and equipment. As of 31 December 2006, the Group's effective interest in Zernoproduct-Lypivka was 62.9%.

In September 2006, the Group, together with a third party, established Agrofort, which is engaged in grain-growing activities with participatory interest of 86.2% and 13.8%, respectively. The Group share was fully paid in cash; share capital contribution by the third party was paid in kind by property, plant and equipment.

Disposal of subsidiaries

ZZG In April 2007, the Group sold its shares in ZZG to its Principal Shareholder for a cash consideration of US$4,798 thousand. The excess of the consideration received by the Group over the carrying value of the net assets of ZZG of US$430 thousand was recorded in shareholders' equity.

Assets and liabilities of ZZG as of the date of disposal were as follows:

	US$000
Property, plant and equipment, net	2,392
Non-current biological assets (mink)	3,006
Accounts receivable and other current assets, net	2,368
Current liabilities (including payables to the Group of US$325)	(363)
Net assets disposed	7,403
Net assets attributable to 59% ownership in ZZG	4,368
Sale price	(4,798)
Gain recorded in shareholders' equity	**(430)**
Cash consideration received	4,798
Cash disposed	–
Net cash inflow arising on the disposal	**4,798**

The financial results of ZZG for the years ended 31 December 2007 and 2006 were insignificant. ZZG assets and liabilities were presented in these consolidated financial statements within the other agricultural business segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

2 THE GROUP'S FORMATION, ACQUISITIONS AND CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES CONTINUED

Kyivska In December 2008, the Group sold its voting rights in Kyivska to a third party for a consideration of US$974 thousand, receivable in cash during the period from 2011 till 2017. The fair value of the consideration receivable was determined at US$341 thousand, which is the present value of the expected future cash flows.

Assets and liabilities of Kyivska as of the date of disposal were as follows:

	US$000
Property, plant and equipment, net	3,709
Biological assets	1,723
Agricultural produce	1,507
Amounts receivable from the Group	8,300
Inventories	224
Taxes recoverable and prepaid, net	1,123
Cash and cash equivalents	17
Total assets	**16,603**
Accounts payable to the Group	(9,315)
Trade accounts payable	(501)
Other current liabilities	(240)
Total liabilities	**(10,056)**
Net assets disposed	6,547
Group's share in net assets disposed (99.8%)	6,534
Fair value of consideration receivable	(341)
Loss on disposal	**(6,193)**
Cash consideration received	–
Cash disposed	(17)
Net cash outflow arising on the disposal	**(17)**

The disposal of Kyivska was accounted for in these consolidated financial statements as a discontinued operation (Note 5). The loss realised on disposal of Kyivska in the amount of US$6,193 thousand was recognised in these consolidated financial statements in "Loss for the year from discontinued operations".

Kyivska assets and liabilities were presented in these consolidated financial statements within the other agricultural business segment.

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 as adopted by the European Union ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The operating subsidiaries of the Group maintain their accounting records under Ukrainian Accounting Standards ("UAS"). UAS principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' UAS records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for revalued amounts of property, plant and equipment, biological assets, agricultural produce, natural gas in stock and certain financial instruments.

Adoption of new and revised International Financial Reporting Standards – Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 "IFRS 2: Group and Treasury Share Transactions", IFRIC 12 "Service Concession Arrangements", IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Standard/Interpretation

	Effective for annual accounting period beginning on or after:
IAS 1 "Presentation of Financial Statements" (Revised September 2007)	1 January 2009
IAS 23 "Borrowing Costs" (Revised March 2007)	1 January 2009
IFRS 1 "First-time Adoption of International Financial Reporting Standards (Revised November 2008)	1 July 2009*
IFRS 3 "Business Combinations" (Revised January 2008)	1 July 2009*
IFRS 8 "Operating Segments"	1 January 2009
IFRIC 13 "Customer Loyalty Programmes "	1 July 2008
IFRIC 15 "Agreements for the Construction of Real Estate"	1 January 2009*
IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"	1 October 2008*
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009*
IFRIC 18 "Transfers of Assets from Customers"	1 July 2009*
Amendments to IAS 27 "Consolidated and Separate Financial Statements" (January 2008)	1 July 2009*
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (July 2008)	1 July 2009*
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Effective Date and Transition (November 2008)	1 July 2008*
Amendment to IFRS 7 "Financial Instruments: Disclosures" (March 2009)	1 January 2009*
Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"	30 June 2009*

* Standards and Interpretations not endorsed by the European Union.

The management is currently evaluating the impact of the adoption of IFRS 8 "Operating Segments", IAS 27 "Consolidated and Separate Financial Statements" and IFRS 3 "Business Combinations" (Revised January 2008). For other Standards and Interpretations management anticipates that their adoption in future periods will have no material effect on the consolidated financial statements of the Group.

Use of estimates and assumptions – The preparation of the financial statements requires management of the Group to make judgments, estimates and assumptions that affect the application of the standards and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

These consolidated financial statements include Group's management estimates on value of assets, liabilities, income, expenses and commitments recognised. The most significant estimates related to the following:

- Determination of the fair value of the biological assets;
- Fair values of assets and liabilities acquired in business combinations;
- Impairment of items of property, plant and equipment;
- Allowances for irrecoverable accounts receivable and taxes recoverable;
- Estimates of the useful lives of property, plant and equipment;
- Determination of whether deferred tax assets are realisable;
- Allowance for obsolete and slow-moving raw materials and spare parts.

Although the estimates were based on the best information available as of 31 December 2008, future events may require these estimates to be modified (increased or decreased) in subsequent years.

This may result in the recognition of expense in a future period related to amounts from prior periods. Any change in accounting estimates would be recognised prospectively in the corresponding consolidated income statement.

Critical accounting judgements in applying accounting policies – The following are the critical judgements, apart from those involving estimates (see above), that the 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 the Group's functional currency;
- Consolidation of special purpose entities on the basis of effective control;
- Determination of reportable segments;
- Determination of whether significant risks and rewards associated with ownership of assets were transferred to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Functional and presentation currency – The functional currency of MHP SA and each of its subsidiaries is the Ukrainian Hryvnia ("UAH"). Transactions in currencies other than the functional currency of the Group are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All realised and unrealised gains and losses arising on exchange differences are included in the consolidated income statement for the period.

In the current year, the Group has chosen to present its consolidated financial statements in US dollars ("US$"). The decision was taken for convenience of the users of financial statements.

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

- Assets and liabilities for each consolidated balance sheet presented are translated at the closing rate as of the date of that balance sheet;
- Income and expenses for each consolidated income statement are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognised as a separate component of equity.

The relevant exchange rates were:

	As of 31 December 2008	**Average for 2008**	As of 31 December 2007	Average for 2007	As of 31 December 2006	Average for 2006
UAH/US$	**7.7000**	**5.2693**	5.0500	5.0500	5.0500	5.0500
UAH/EUR	**10.8555**	**7.7114**	7.4195	6.9192	6.6509	6.3389

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Parent (its subsidiaries). Control is achieved when the Parent has the power to govern the financial and operating policies of an investee, either directly or indirectly, so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control effectively commences.

All significant inter-company transactions, balances and unrealised gains/(losses) on transactions are eliminated on consolidation, unless 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.

The Group consolidates a special purpose entity under the provisions of SIC 12, "Consolidation – Special Purpose Entities" when, in substance, the activities of such an entity are being conducted on behalf of the Group, so that the Group benefits from the entity's operations, and the Group is exposed to risks incidental to the activities of this entity.

Accounting for acquisitions – The acquisitions of subsidiaries from third parties are accounted for using the purchase method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values. The interest of minority shareholders of subsidiaries acquired from third parties is stated at the minority's proportion of the fair values of the assets and liabilities recognised. The excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition is recognised as goodwill.

Any excess of the fair value of the share in net identifiable assets over the cost of acquisition is recognised immediately in the consolidated income statement.

The acquisition of an additional interest in entities controlled by the Group are accounted for based on the fair value of the net assets at the date of acquisition.

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 reflected as a component of shareholders' equity.

Discontinued operations – Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. 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. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Non-current assets or disposal groups to be abandoned are not classified as held for sale as the carrying amount will be recovered principally through continuing use. Non-current assets or disposal groups to be abandoned include non-current assets or disposal groups that are to be used to the end of their economic life or to be closed rather than sold. The assets or disposal groups to be abandoned are reported as discontinued operations in the period at which they are abandoned.

Property, plant and equipment – Property, plant and equipment are carried at historical cost, or at the cost of construction, less accumulated depreciation and accumulated impairment losses, except for grain storage facilities, which are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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, 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.

Subsequently capitalised 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 capitalisation are charged to the consolidated income statement as incurred.

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 balance sheet 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 income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the consolidated income statement. 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 income statement. 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. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

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	15-35 years
Grain storage facilities	20-35 years
Machinery and equipment	10-15 years
Utilities and infrastructure	10 years
Vehicles and agricultural machinery	5-15 years
Office furniture and equipment	3-5 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.

The depreciable amount of assets held under finance 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 as a change in an accounting estimate.

The gain or loss arising on a 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 consolidated income statement.

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of the construction in progress, on the same basis as for other property, plant and equipment items, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment 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 income statement, 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 income statement, 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.

Income taxes – Income taxes have been computed in accordance with the laws currently 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 balance sheet 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 utilised.

Deferred tax is charged or credited to the consolidated income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and liabilities are offset when:

- The Group has a legally enforceable right to set-off the recognised amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously;
- 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.

Thirteen of the Group companies (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These thirteen companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 8).

Inventories and natural gas stock for own usage – Inventories and natural gas stock for own usage of the Group are stated at the lower of cost and net realisable value. Cost comprises 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 realisable 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 realisable value and this value is deducted from the cost of the main product.

Commodities – The Group's commodities are principally acquired by the Group with the purpose of selling in the near future and generating a profit from fluctuations in price. Commodities held by the Group for resale represent natural gas in stock and are measured at each balance sheet date at fair value.

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 recognises 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 point-of-sale costs at both initial recognition and as of the balance sheet date, with any resulting gain or loss recognised in the consolidated income statement. Point-of-sale costs include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The difference between fair value less estimated point-of-sale costs and total production costs is allocated to biological assets held in stock as of each balance sheet date as a fair value adjustment.

The change in this adjustment from one period to another is recognised in "Net change in fair value of biological assets and agricultural produce" in the consolidated income statements.

Agricultural produce harvested from biological assets is measured at its fair value less estimated point-of-sale costs at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in the consolidated income statement in the period in which it arises.

Based on the above policy, the principal groups of biological assets and agricultural produce are stated as follows:

Biological Assets
i) Broilers Broilers comprise poultry held for chicken meat production. Fair value of broilers is determined by reference to the cash flows that will be obtained from sales of 44-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 held for regeneration of livestock population and animals raising 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) Orchards Orchards consist of plants used for fruits production. Fruit trees achieve the normal productive age in the second to fifth year. The fair value of orchards which have attained normal productive age is determined using the discounted cash flow approach.

v) 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.

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) **Fodder grain, potatoes and fruits** The fair value of fodder grain, potatoes and fruits is determined by reference to market prices at the point of harvest.

Changes in accounting estimates related to biological assets – In 2006, the Group changed the accounting estimates in respect to valuation of broilers and breeders as follows:

Before 2006, the Group accounted for breeders of the age less than 50 days at cost, considering little biological transformation at this stage. The cost basis was used for the immature portion of biological assets as it was not possible to estimate fair value with a sufficient degree of accuracy. The Group significantly developed its methods for fair valuations of breeders and starting from 2006 is revaluing all breeders based on discounted cash flow approach.

Starting from 2006, the Group changed estimates in respect to the fair valuation model for the broilers livestock. The Group started to use discounting of net cash flows that will be obtained from sales of 44-day chickens for all age groups of broilers.

In 2007, the Group changed the accounting estimates in respect to valuation of milk cows as follows:

Before 2007, the Group accounted for milk cows of age less than two years at cost, considering little biological transformation until the assets reach their productive age. The Group was not able to reliably estimate the fair value of immature milk cows due to unavailability of sufficient historical data supporting major assumptions and assessment of risks attributable to the biological transformation process. Starting from 2007, the Group estimates fair value less estimated point-of-sale costs for all milk cows using discounted cash flow techniques.

The changes in these accounting estimates resulted in a gain of US$150 thousand during the year ended 31 December 2007 (2006: US$6,738 thousand) recognised in "Net change in fair value of biological assets and agricultural produce" in the consolidated income statements.

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 poultry intended for the production of meat, as well as milk cows. Bearer biological assets include poultry held for hatchery eggs production, orchards, breeding bulls and pork.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial instruments – Financial assets and financial liabilities are recognised on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognised using settlement date accounting. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity. 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.

Accounts receivable – Accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Short-term accounts receivable, which are non-interest bearing, are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, cash with banks, deposits and marketable securities with original maturity of less than three months.

Bank borrowings, corporate bonds issued and other long-term payables – Interest-bearing borrowings, bonds 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 – Derivative financial instruments are initially measured at fair value on the contract date and are re-measured to fair value at subsequent reporting dates. The Group does not enter into financial instruments that would be accounted for as derivatives. Changes in the fair value of derivative financial instruments are recognised in the consolidated income statement as they arise.

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.

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

Assets received by the Group under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement and classified as finance costs.

Rental income or expenses under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease.

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.

Revenue recognition – The Group generates revenue primarily from the sale of agricultural products to end customers. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably and it is probable that collection will occur. The point of transfer of risk, which may occur at delivery or shipment, varies for contracts with different types of customers.

Revenue of the natural gas operations is recognised when gas is dispatched to customers and title has transferred.

Segment reporting – The Group applies IAS 14 "Segment Reporting" for disclosure of information on business segments in the consolidated financial statements. The Group identifies a business segment as a separate reportable segment if a majority of its revenue is earned from sales to external customers and (a) its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or (b) its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or (c) its assets are 10% or more of the total assets of all segments.

The Group combines business segments into a separately reportable segment with one or more other similar internally reported segments if an internally reported segment is below all of the thresholds of significance above. If a segment is identified as a business segment in the current period because it satisfies the relevant 10% thresholds, prior period comparative segment data is restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the 10% thresholds in the prior period.

Finance costs – Interest expenses, finance charges on finance leases and other interest-bearing long-term payables and debt service costs are recognised in the consolidated income statement as finance costs in the period in which they are incurred. Finance costs are added to the carrying amount of the respective liability to the extent they are not settled in the period in which they arise.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Government grants – Government grants received or receivable for processing of live animals and value added tax ("VAT") grants for agricultural industry (conditional upon reinvestment of the granted funds for agricultural production purposes) and compensation of the finance costs are recognised as income over the periods necessary to match them with the related costs. To the extent the conditions attached to the grants are not met at the balance sheet date, the received funds are recorded in the Group's consolidated financial statements as deferred income. Government grants related to selection and genetics programmes in breeding as well as subsidies related to crop growing are recognised at the moment when the decision to disburse the amounts to the Group is made.

Contingent liabilities and assets – Contingent liabilities are not recognised in the consolidated financial statements. 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.

4 BUSINESS SEGMENTS

All of the Group's operations are located within Ukraine.

During 2006, the Group's operations were divided into three primary business segments – poultry, other agricultural operations and natural gas operations. As a result of the expansion of the Group's grain growing operations in 2007, the Group has identified this as a separate business segment as of 31 December 2007.

In addition, during the first quarter of 2007 the Group ceased its natural gas operations and has treated this as a discontinued operation (Note 5).

The Group does not disclose any secondary segments based on geography as all of its operations are conducted within one geography.

Other agricultural operations were largely acquired by the Group in March 2006 acquisitions (Note 2).

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the year ended 31 December 2008. In this table segment results represent operating profit of each business segment. Unallocated corporate assets comprise assets that are not directly attributable to particular segment. Unallocated corporate liabilities comprise interest-bearing liabilities, equity and liabilities that are not directly attributable to a particular segment.

	Poultry and related operations US$000	Other agricultural US$000	Grain growing US$000	Consolidated US$000
REVENUES				
Total revenue	680,393	94,370	67,430	842,193
Inter-segment eliminations	(20,362)	(1,268)	(17,653)	(39,283)
Sales to external customers	**660,031**	**93,102**	**49,777**	**802,910**
SEGMENT RESULTS				
Segment results before loss on impairment of property, plant and equipment	255,165	184	10,739	266,088
Loss on impairment of property, plant and equipment (Note 7)	–	(2,653)	–	(2,653)
Segment results	255,165	(2,469)	10,739	263,435
Unallocated corporate expenses				**(19,929)**
Operating profit				**243,506**
OTHER INFORMATION				
Segment assets	562,485	122,430	120,287	805,202
Unallocated corporate assets				119,359
Consolidated total assets				**924,561**
Segment liabilities	(32,565)	(9,696)	(5,202)	(47,463)
Unallocated corporate liabilities				(530,881)
Consolidated total liabilities				**(578,344)**
Additions to property, plant and equipment	159,658	23,764	48,468	231,891
Depreciation	41,230	7,383	8,325	56,938
Effect of fair value adjustments	17,854	(1,137)	(10,390)	6,327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

4 BUSINESS SEGMENTS CONTINUED

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the years ended 31 December 2007 and 2006:

	2007				2006			
	Poultry and related operations US$000	Other agricultural US$000	Grain growing US$000	Consolidated US$000	Poultry and related operations US$000	Other agricultural US$000	Grain growing US$000	Consolidated US$000
REVENUES								
Total revenue	395,621	51,655	68,672	515,948	269,505	28,826	25,175	323,506
Inter-segment eliminations	(10,756)	(573)	(30,182)	(41,511)	(3,882)	(766)	(7,861)	(12,509)
Sales to external customers	**384,865**	**51,082**	**38,490**	**474,437**	**265,623**	**28,060**	**17,314**	**310,997**
SEGMENT RESULTS								
Segment results before loss on impairment of property, plant and equipment	98,159	3,995	28,725	130,879	116,129	5,770	3,104	125,003
Loss on impairment of property, plant and equipment (Note 7)	(5,683)	(4,555)	–	(10,238)	–	–	–	–
Segment results	92,476	(560)	28,725	120,641	116,129	5,770	3,104	125,003
Unallocated corporate expenses				(8,498)				(8,568)
Operating profit				**112,143**				**116,435**
OTHER INFORMATION								
Segment assets	684,951	158,434	80,207	923,593	595,815	160,955	29,986	786,756
Unallocated corporate assets*				28,939				43,356
Consolidated total assets				**952,532**				**830,112**
Segment liabilities	(27,882)	(8,965)	(9,715)	(46,562)	(23,588)	(6,598)	(1,614)	(31,800)
Unallocated corporate liabilities				(486,564)				(431,444)
Consolidated total liabilities				**(533,126)**				**(463,244)**
Additions to property, plant and equipment**	165,564	13,633	14,707	193,904	194,674	27,938	23,872	246,484
Property, plant and equipment acquired through business combinations	–	–	–	–	–	31,866	893	32,759
Non-current biological assets acquired through business combination	–	–	–	–	–	11,868	–	11,868
Depreciation	33,201	5,721	5,285	44,207	17,788	2,894	2,613	23,295
Effect of fair value adjustments	7,754	4,153	2,334	14,241	11,287	(2,953)	995	9,329

* As of 31 December 2006, unallocated corporate assets and liabilities include assets and liabilities related to natural gas trading operation in the amount of US$5,304 thousand and US$170 thousand, respectively.

** Additions to property, plant and equipment in 2006 (Note 7) include unallocated additions to property, plant and equipment in the amount of US$7,188 thousand.

5 DISCONTINUED OPERATIONS

Natural gas During the year ended 31 December 2007, the Group ceased its natural gas operations (Note 4). The comparative information for the consolidated income statement has been represented to show the discontinued operations separately from continuing operations.

The results of the natural gas operations segment for the years ended 31 December 2007 and 2006 were as follows:

	2007 US$000	2006 US$000
Revenue	8,872	29,721
Net change in fair value of natural gas in stock less estimated point-of-sale costs	(1,166)	1,166
Cost of sales	(7,842)	(25,981)
Gross (loss)/profit	(136)	4,906
Other operating income	–	1,979
Operating (loss)/profit	(136)	6,885
Income tax benefit/(expense) (Note 8)	34	(1,721)
(Loss)/profit for the year from discontinued operations	**(102)**	**5,164**

5 DISCONTINUED OPERATIONS CONTINUED

The net cash inflows from operating activities obtained by the Group in relation to the natural gas operations for the year ended 31 December 2007 comprised US$6,164 thousand (2006: net cash inflows of US$2,840 thousand). No cash flows related to financing or investing activities from natural gas operations were incurred by the Group during the years ended 31 December 2007 and 2006.

The assets and liabilities comprising the discontinued operations were as follows:

	2007 US$000	2006 US$000
Total assets	–	5,304
Total liabilities	–	170

Kyivska During the year ended 31 December 2008, the Group disposed of its shareholding in Kyivska (Note 2). The comparative information for the consolidated income statement has been represented to show the discontinued operations separately from continuing operations.

The results of the Kyivska for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Revenue	**3,922**	3,213	3,644
Net change in fair value of biological assets and agricultural produce	**(1,382)**	(1,980)	1,295
Cost of sales	**(5,796)**	(5,229)	(4,683)
Gross (loss)/profit	**(3,256)**	(3,996)	256
Other operating (expenses)/income	**(114)**	564	301
Operating (loss)/profit	**(3,370)**	(3,432)	557
Other expenses, net	**(159)**	(67)	(312)
Income tax benefit/(expense) (Note 8)	**–**	–	–
	(3,529)	(3,499)	245
(Loss) on disposal of operation	**(6,193)**	–	–
(Loss)/profit for the year from discontinued operations	**(9,722)**	(3,499)	245

During the years ended 31 December 2008, 2007 and 2006 the results from discontinued operations were attributable to equity holders of the Parent.

The assets and liabilities comprising the discontinued operations were as follows:

	2008 US$000	2007 US$000	2006 US$000
Total assets	**16,603**	30,126	30,724
Total liabilities	**10,056**	48,342	47,579

The net cash flows incurred by the Group in relation to Kyivska for the years ended 31 December were as follows:

	2008 US$000	2007 US$000	2006 US$000
Operating activities	**(3,019)**	(1,535)	(396)
Investing activities	**(867)**	(1,265)	(2,388)
Financing activities	**3,893**	2,453	4,304
Net increase/(decrease) in cash and cash equivalents	**7**	(347)	1,520

6 RELATED PARTY BALANCES AND TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

6 RELATED PARTY BALANCES AND TRANSACTIONS CONTINUED

The following companies and individuals are considered to be related parties to the Group as of 31 December 2008:

Name of the related party	Nature of relations with the Group
Mr Yuriy Kosyuk	Chief Executive Officer of MHP SA and the Principal Shareholder of the Group
WTI	Immediate parent, company owned by Mr Yuriy Kosyuk
Mrs Olena Kosyuk	Wife of Mr Yuriy Kosyuk
Allied Tech LLP (United Kingdom) Allied Tech LLC (USA) Allied Tech Commerce LLP (United Kingdom) Agrofirma Berezanska Ptahofabryka ULL Beteiligungs und Management GmbH Merkaba LLC	Companies owned or controlled by Mr Yuriy Kosyuk
Spector	Company owned by Merkaba LLC
LLC Zolotoniske Zvirogospodarstvo	Company owned by Agrofirma Berezanska Ptahofabryka

In March 2006, Mrs Olena Kosyuk sold her shareholding in Kyivska, Druzhba and Crimean Fruit to the Group (Note 2). Starting from the date of their acquisition Kyivska, Druzhba and Crimean Fruit were consolidated into the Group. Accordingly, balances of the transactions with the acquired subsidiaries have been eliminated in the Group's consolidated balance sheet as of 31 December 2006.

In April 2007, Mr Yuriy Kosyuk sold his shareholding in Roda. Accordingly, starting from June 2007 Roda and Realizatsiyna Baza ceased to be related parties to the Group.

In November 2006, the Group made a prepayment for production equipment amounting to US$1,500 thousand to ULL Beteiligungs und Management GmbH ("ULL"). In January 2007, the initial agreement was canceled and ULL returned the full amount of the prepayment.

In October 2008 Allied Tech LLC (USA) was liquidated.

The balances of trade accounts receivable due from related parties (Note 16) were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Agrofirma Berezanska Ptahofabryka	**2,316**	1,235	6,549
Other related parties	**475**	80	235
Total	**2,791**	1,315	6,784

The balances of short-term advances, finance aid to and promissory notes from related parties (Note 14) as of 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Agrofirma Berezanska Ptahofabryka	**670**	408	891
Spector	**16**	656	444
Allied Tech LLP	**–**	–	395
Allied Tech Commerce LLP	**–**	–	350
Other related parties	**290**	359	120
Total	**976**	1,423	2,200

The revenues from sales to related parties for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Agrofirma Berezanska Ptahofabryka	**9,630**	8,430	5,744
Druzhba	**n/a**	n/a	376*
Kyivska	**n/a**	n/a	73*
Other related parties	**573**	122	6
Total	**10,203**	8,552	6,199

* Before acquisition on 31 March 2006

6 RELATED PARTY BALANCES AND TRANSACTIONS CONTINUED

During the years ended 31 December 2008, 2007 and 2006, the Group's sales to Agrofirma Berezanska Ptahofabryka mainly consisted of sales of mixed fodder and its components. During the year ended 31 December 2007, the Group sold property, plant and equipment for US$3,465 thousand to Agrofirma Berezanska Ptahofabryka.

In June 2007, the Group sold to Mr Yuriy Kosyuk a building with net book value of US$3,460 thousand, which was used by the Principal Shareholder as a benefit in kind, for a cash consideration of US$4,005 thousand. The difference between the sale price and net book value of the building at the date of transaction of US$405 thousand (net of current income tax effect of US$140 thousand) was recognised in the Group's consolidated financial statements as an adjustment to shareholders' equity.

In April 2007, the Group sold its participatory shareholding in ZZG to Mr Yuriy Kosyuk for the cash consideration of US$4,798 thousand (Note 2).

Terms and conditions of sales to related parties are determined based on arrangements, specific to each contract or transaction. Management believes that the accounts receivable due from related parties do not require allowance for irrecoverable amounts and that the amounts payable to related parties will be settled at cost. 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.

The balances of advances received from related parties were as follows (Note 24) as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Allied Tech LLC	**120**	116	18
Allied Tech LLP	**218**	213	–
Other related parties	**–**	–	8
Total	**338**	329	26

The purchases from related parties for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Spector	**1,474**	11	631
Agrofirma Berezanska Ptahofabryka	**418**	358	35
Druzhba	**n/a**	n/a	1,426*
Kyivska	**n/a**	n/a	95*
Crimean Fruit	**n/a**	n/a	30*
Other related parties	**–**	–	87
Total	**1,892**	369	2,304

* Before acquisition on 31 March 2006

As of 31 December 2008, 2007 and 2006, the Group leased property, plant and equipment with the carrying value of US$150 thousand, US$285 thousand and US$2,679 thousand, respectively, to its related parties under operating lease arrangements (Note 7).

For the years ended 31 December 2008, 2007 and 2006, lease payments received from the related parties under the operating lease agreements amounted to US$53 thousand, US$116 thousand and US$403 thousand, respectively (Note 7).

Compensation to key management personnel – Total compensation of the Group's key management personnel (excluding compensation to Mr Yuriy Kosyuk) included in selling, general and administrative expenses in the accompanying consolidated income statements amounted to US$9,281 thousand, US$2,245 thousand and US$1,959 thousand for the years ended 31 December 2008, 2007 and 2006, respectively. Compensation to key management personnel consists of contractual salary and performance bonuses.

Key management personnel totalled 32 individuals as of 31 December 2008 and 29 individuals as of 31 December 2007 and 2006.

The aggregate amount of remuneration paid by the Group to the Chief Executive Officer Mr Yuriy Kosyuk during the years ended 31 December 2008, 2007 and 2006 was US$1,804 thousand, US$1,620 thousand and US$1,463 thousand, respectively, in the form of salary and bonuses.

As of 31 December, Mr and Mrs Kosyuk received benefits in kind by use of the following assets:

	2008 US$000	2007 US$000	2006 US$000
Vehicles at net book value (Note 7)	**–**	2,807	2,523
Short-term and long-term interest free loans	**223**	207	881
Buildings at net book value (Note 7)	**–**	–	3,402
Total	**223**	3,014	6,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

7 PROPERTY, PLANT AND EQUIPMENT, NET

The following table represents movements in property, plant and equipment for the year ended 31 December 2008:

	Buildings and structures US$000	Grain storage facilities US$000	Machinery and equipment US$000	Utilities and infra-structure US$000	Vehicles and agricultural machinery US$000	Office furniture and equipment US$000	Construction in progress US$000	Total US$000
Cost or valuation								
As of 1 January 2008	184,169	31,497	244,200	32,115	135,930	5,016	94,375	727,302
Additions	13,643	626	18,643	6,063	54,164	1,335	137,417	231,891
Disposals	(3,218)	(2)	(10,392)	(471)	(3,297)	(92)	–	(17,472)
Transfers	7,353	7	4,879	892	3,326	273	(16,730)	–
Disposal of Kyivska (Note 2)	(1,317)	(38)	(1,429)	(81)	(1,488)	(31)	(1,287)	(5,671)
Acquired through business combination (Note 2)	6,143	–	8,587	992	408	165	12,442	28,737
Impairment loss	(2,653)	–	–	–	–	–	(9,114)	(11,767)
Translation difference	(66,423)	(11,030)	(90,178)	(13,467)	(63,962)	(2,228)	(85,955)	(333,243)
As of 31 December 2008	137,697	21,060	174,310	26,043	125,081	4,438	131,148	619,777
Accumulated depreciation								
As of 1 January 2008	19,922	–	41,976	6,779	31,974	1,895	–	102,546
Depreciation charge for the year	10,011	686	22,798	3,052	19,937	1,108	–	57,592
Eliminated on disposal	(375)	–	(1,603)	(32)	(1,559)	(78)	–	(3,647)
Disposal of Kyivska (Note 2)	(410)	(25)	(659)	(25)	(820)	(23)	–	(1,962)
Translation difference	(9,898)	(216)	(21,135)	(3,286)	(16,804)	(977)	–	(52,316)
As of 31 December 2008	19,250	445	41,377	6,488	32,728	1,925	–	102,213
Net book value								
31 December 2008	**118,447**	**20,615**	**132,933**	**19,555**	**92,353**	**2,513**	**131,148**	**517,564**
1 January 2008	**164,247**	**31,497**	**202,224**	**25,336**	**103,956**	**3,121**	**94,375**	**624,756**

The following table represents movements in property, plant and equipment for the year ended 31 December 2007:

	Buildings and structures US$000	Grain storage facilities US$000	Machinery and equipment US$000	Utilities and infra-structure US$000	Vehicles and agricultural machinery US$000	Office furniture and equipment US$000	Construction in progress US$000	Total US$000
Cost or valuation								
As of 1 January 2007	98,447	14,129	133,011	16,507	95,029	2,568	189,543	549,234
Additions	20,454	1,651	50,863	3,435	41,586	1,756	74,159	193,904
Disposals	(4,564)	–	(6,901)	(119)	(959)	(77)	(210)	(12,830)
Transfers	77,852	1,465	74,320	12,681	882	834	(168,034)	–
Disposal of ZZG (Note 2)	(742)	–	(422)	(46)	(114)	(3)	(1,083)	(2,410)
Reclassifications	(2,912)	4,610	(1,698)	–	–	–	–	–
Increase due to revaluation	–	9,642	–	–	–	–	–	9,642
Impairment loss	(4,366)	–	(4,973)	(343)	(494)	(62)	–	(10,238)
As of 31 December 2007	184,169	31,497	244,200	32,115	135,930	5,016	94,375	727,302
Accumulated depreciation								
As of 1 January 2007	12,353	806	26,195	3,953	17,124	1,032	–	61,463
Depreciation charge for the year	8,375	558	17,563	2,885	15,776	925	–	46,082
Eliminated on disposal	(695)	–	(1,763)	(58)	(921)	(62)	–	(3,499)
Disposal of ZZG (Note 2)	(10)	–	(2)	(1)	(5)	–	–	(18)
Reclassifications	(101)	118	(17)	–	–	–	–	–
Eliminated from revaluation	–	(1,482)	–	–	–	–	–	(1,482)
As of 31 December 2007	19,922	–	41,976	6,779	31,974	1,895	–	102,546
Net book value								
31 December 2007	**164,247**	**31,497**	**202,224**	**25,336**	**103,956**	**3,121**	**94,375**	**624,756**
1 January 2007	**86,094**	**13,323**	**106,816**	**12,554**	**77,905**	**1,536**	**189,543**	**487,771**

7 PROPERTY, PLANT AND EQUIPMENT, NET CONTINUED

The following table represents movements in property, plant and equipment for the year ended 31 December 2006:

	Buildings and structures US$000	Grain storage facilities US$000	Machinery and equipment US$000	Utilities and infra-structure US$000	Vehicles and agricultural machinery US$000	Office furniture and equipment US$000	Construction in progress US$000	Total US$000
Cost or valuation								
As of 1 January 2006	65,616	4,155	94,723	13,220	43,679	1,450	40,229	263,072
Additions	15,964	9,401	18,448	2,138	44,284	876	162,561	253,672
Disposals	(374)	(26)	(904)	(258)	(1,858)	(72)	(92)	(3,584)
Transfers	4,977	548	9,491	768	329	59	(16,172)	–
Acquired through business combination (Note 2)*	12,264	51	11,253	639	8,595	255	3,017	36,074
As of 31 December 2006	98,447	14,129	133,011	16,507	95,029	2,568	189,543	549,234
Accumulated depreciation								
As of 1 January 2006	7,611	399	15,323	2,707	8,385	559	–	34,984
Depreciation charge for the year	4,361	393	9,834	1,285	7,774	441	–	24,088
Eliminated on disposal	(39)	–	(281)	(59)	(517)	(28)	–	(924)
Acquired through business combination (Note 2)*	420	14	1,319	20	1,482	60	–	3,315
As of 31 December 2006	12,353	806	26,195	3,953	17,124	1,032	–	61,463
Net book value								
31 December 2006	**86,094**	**13,323**	**106,816**	**12,554**	**77,905**	**1,536**	**189,543**	**487,771**
1 January 2006	**58,005**	**3,756**	**79,400**	**10,513**	**35,294**	**891**	**40,229**	**228,088**

* Include assets received in the course of Kyivska, Druzhba, Crimean Fruit, ZZG and Urozhay acquisitions.

As of 31 December 2008, included within property, plant and equipment were fully depreciated assets with the cost of US$5,276 thousand (2007: US$5,123 thousand; 2006: US$4,045 thousand).

As of 31 December 2008, the Group's machinery and equipment with the carrying amount of US$6,674 thousand were pledged as collateral to secure its bank borrowings (Note 20). Vehicles and agricultural machinery with the carrying amount of US$786 thousand were pledged to secure vendor-financing arrangements with foreign companies (Note 22).

As of 31 December 2008, 2007 and 2006 the net carrying amount of fixed assets held under finance lease agreements were US$57,476 thousand, US$57,389 thousand and US$37,111 thousand respectively.

Impairment assessment – The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, indicators of impairment were identified in 2008 and 2007 associated with the assets used in the production of goose meat and foie gras, assets used in production of convenience foods under the "Legko!" brand, and construction in progress represented by administrative office premises. As a result, the Group estimated the recoverable amount of these assets and determined that the carrying value exceeded the recoverable amount . Accordingly, during the year ended 31 December 2008 the Group has recognised impairment losses of US$11,767 thousand (2007: US$10,238 thousand, 2006: nil) for the difference in these amounts.

The additional impairment losses recognised in respect to assets used in the production of goose meat and foie gras and convenience foods under the "Legko!" brand during the year ended 31 December 2008 are attributable to increased business risks and lower expected returns to the production lines, as well as decreased market prices for commercial properties as compared to the analysis performed during the year ended 31 December 2007.

The amount of impairment losses recognised during the period, together with information on the discount rates used in the estimation of the recoverable amount of impaired assets and the business segments to which the assets belong, is as follows:

		2008		2007	
Production line	Business segment	**Discount rate used, %**	**Loss on impairment US$000**	Discount rate used, %	Loss on impairment US$000
Convenience foods	Poultry and related operations	**25.5**	**–**	19.6	5,683
Goose meat and foie gras	Other agricultural	**33.5**	**2,653**	22.0	4,555
Administrative office premises	Unallocated	**15.25**	**9,114**	n/a	–
Total			**11,767**		10,238

The discount rates used in assessment of the recoverable amounts of impaired assets vary depending on the currency denomination of future cash flows and different levels of business risks assessed for each group of assets.

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7 PROPERTY, PLANT AND EQUIPMENT, NET CONTINUED

Revaluation of grain storage facilities – During the year ended 31 December 2007, the Group engaged independent appraisers to revalue its grain storage facilities. The effective date of revaluation was 1 December 2007. The valuation, which conformed to the International Valuation Standards, was determined by reference to observable prices in an active market and recent market transactions on arm's length terms. During revaluation, the Group identified certain assets which related to the grain storage facilities, but were included in different groups. The related cost and accumulated depreciation of such assets in the amount of US$4,610 thousand and US$118 thousand, respectively, was transferred to the grain storage facilities group during the year ended 31 December 2007.

During the year ended 31 December 2008, the Group carried out a review of the carrying amount of grain storage facilities to determine whether the carrying amount differed materially from that which would be determined using fair value. Based on the results of this review, the Group determined that no further revaluation is required as of 31 December 2008.

If the grain storage facilities were carried at cost, their net book value as of 31 December 2008 would be US$13,321 thousand (2007: US$19,809 thousand).

Leased assets – As of 31 December 2008, 2007 and 2006, the Group leased or provided in use property, plant and equipment to related parties (including Mr and Mrs Kosyuk) under operating lease agreements (at net book value):

	2008 US$000	2007 US$000	2006 US$000
Buildings and structures	**–**	–	3,402
Machinery and equipment	**–**	–	2,278
Vehicles and agricultural machinery	**150**	3,089	2,913
Office furniture and equipment	**–**	3	11
Total	**150**	3,092	8,604

For the years ended 31 December 2008, 2007 and 2006, lease payments received from the related parties under the operating lease agreements amounted to US$53 thousand, US$116 thousand and US$403 thousand, respectively (Note 6).

8 TAXATION

Sixteen of the Group companies pay the Fixed Agricultural Tax (the "FAT") in accordance with the Law "On Fixed Agricultural Tax". The FAT substitutes the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Vehicle Tax (excluded in December 2006), Municipal Tax, Natural Resources Usage Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime was effective until 1 January 2011, and subsequent to 31 December 2008 was extended for an infinite period (Note 37).

During the years ended 31 December 2008, 2007 and 2006, the Group companies which have the status of the Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at 25% rate. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2007 and 2006.

The components of income tax expense were as follows for the years ended 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Current income tax expense	**1,739**	1,132	710
Deferred tax (benefit)/expense	**(460)**	(738)	1,584
Income tax expense	**1,279**	394	2,294
Attributable to:			
Continuing operations	**1,279**	428	573
Discontinued operations (Note 5)	**–**	(34)	1,721
	1,279	394	2,294

8 TAXATION CONTINUED

Reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2008, 2007 and 2006 is as follows:

	2008 US$000	2007 US$000	2006 US$000
Profit before tax from continuing operations	**16,194**	50,822	100,869
(Loss)/profit before tax from discontinued operations (Note 5)	**(9,722)**	(3,635)	7,130
Profit before income tax	**6,472**	47,187	107,999
Income tax expense at statutory tax rate of 25%	**1,618**	11,797	27,000
Tax effect of:			
Income generated by FAT payers (exempt from income tax)	**(44,987)**	(24,475)	(34,669)
Non-deductible expenses	**12,286**	5,952	1,418
Expenses not deducted for tax purposes	**32,362**	7,120	8,545
Income tax expense	**1,279**	394	2,294

As of 31 December 2008, 2007 and 2006, the Group did not recognise deferred tax assets arising from temporary differences of US$129,448 thousand, US$28,480 thousand and US$34,180 thousand, respectively, as the Group does not intend to deduct respective expenses for tax purposes in future periods.

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.

As of 31 December 2008, 2007 and 2006, deferred tax assets and liabilities comprised the following:

	2008 US$000	2007 US$000	2006 US$000
Deferred tax assets arising from:			
Advances received and other payables	**2,099**	2,209	–
Other current liabilities	**1,030**	310	1,328
Inventories	**473**	–	613
Expenses deferred in tax books	**4,994**	3,647	814
Other	**–**	64	636
Total deferred tax assets	**8,596**	6,230	3,391
Deferred tax liabilities arising from:			
Property, plant and equipment	**(12,312)**	(9,339)	(2,790)
Advances received and other payables	**(241)**	–	(1,296)
Inventories	**(156)**	(692)	(1,594)
Total deferred tax liabilities	**(12,709)**	(10,031)	(5,680)
Net deferred tax liability	**(4,113)**	(3,801)	(2,289)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off 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 balance sheet as of 31 December:

	2008 US$000	2007 US$000	2006 US$000
Deferred tax assets	**2,047**	2,705	–
Deferred tax liabilities	**(6,160)**	(6,506)	(2,289)
	(4,113)	(3,801)	(2,289)

The movements in net deferred tax liability for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Net deferred tax liabilities as of beginning of the year	**3,801**	2,289	705
Deferred tax (benefit)/expense	**(460)**	(738)	1,584
Deferred tax on property, plant and equipment charged directly to revaluation reserve	**–**	2,250	–
Deferred tax liabilities arising on acquisition of subsidiaries (Note 2)	**2,630**	–	–
Translation difference	**(1,858)**	–	–
Net deferred tax liabilities as of end of the year	**4,113**	3,801	2,289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

9 LONG-TERM VAT RECOVERABLE, NET

As of 31 December 2007 and 2006, the balances of long-term VAT recoverable were accumulated in start-up businesses in which significant capital expenditures during the year ended 31 December 2006 were incurred. As of 31 December 2008, the balance of long-term VAT recoverable was accumulated on increased trading activities and continuing investment programmes. The management expects that these balances will not be recovered within the 12 months after the balance sheet date.

As of 31 December 2008, an allowance for estimated irrecoverable amounts of US$1,437 thousand was recorded by the Group for the balance of long-term VAT recoverable.

10 BIOLOGICAL ASSETS

The balances of non-current biological assets were as follows as of 31 December 2008, 2007 and 2006:

	2008		2007		2006	
	Thousand units	**Carrying amount US$000**	Thousand units	Carrying amount US$000	Thousand units	Carrying amount US$000
Milk cows, boars, sows, units	**10.2**	**6,033**	12.7	8,305	9.3	4,753
Orchards, hectare	**2.11**	**19,934**	2.11	27,100	1.13	11,840
Other non-current bearer biological assets	**–**	**526**	–	200	–	224
Total bearer non-current biological assets		**26,493**		35,605		16,817
Non-current cattle and pigs, units	**8.6**	**2,987**	10.7	6,491	13.0	9,872
Total consumable non-current biological assets		**2,987**		6,491		9,872
Total non-current biological assets		**29,480**		42,096		26,689

The balances of current biological assets were as follows as of 31 December 2008, 2007 and 2006:

	2008		2007		2006	
	Thousand units	**Carrying amount US$000**	Thousand units	Carrying amount US$000	Thousand units	Carrying amount US$000
Breeders held for hatchery eggs production, units	**1,420**	**19,323**	1,481	23,710	1,108	12,501
Total bearer current biological assets		**19,323**		23,710		12,501
Broiler poultry, units	**14,297**	**23,126**	12,830	22,798	9,351	18,270
Hatchery eggs, units	**12,690**	**3,866**	12,841	5,786	6,621	1,702
Crops in fields, hectare	**70**	**26,840**	59	26,229	38	10,980
Cattle and pigs, units	**43**	**10,386**	48	10,538	43	4,245
Other current consumable biological assets	**–**	**554**	–	1,724	–	3,896
Total consumable current biological assets		**64,772**		67,075		39,093
Total current biological assets		**84,095**		90,785		51,594

Other current consumable biological assets include geese, minks and other livestock.

10 BIOLOGICAL ASSETS CONTINUED

The following table represents the changes in the carrying amounts of major biological assets during the years ended 31 December 2008, 2007 and 2006:

	Crops in fields US$000	Orchards US$000	Breeders held for hatchery eggs production US$000	Broiler poultry US$000	Total US$000
As of 1 January 2006	881	–	6,657	10,672	18,210
Increase due to purchases	3,948	2,149	3,388	1,940	11,425
Gains arising from change in fair value of biological assets less estimated point-of-sale costs	25,823	11,936	26,891	180,132	244,782
Transfer to consumable biological assets	–	–	(22,373)	22,373	–
Decrease due to harvest	(19,672)	(2,245)	(2,062)	(196,847)	(220,826)
As of 31 December 2006	10,980	11,840	12,501	18,270	53,591
Increase due to purchases	5,392	6,274	4,801	432	16,899
Gains arising from change in fair value of biological assets less estimated point-of-sale costs	77,538	15,615	64,818	196,943	354,914
Transfer to consumable biological assets	–	–	(54,422)	54,422	–
Decrease due to harvest	(67,681)	(6,629)	(3,988)	(247,269)	(325,567)
As of 31 December 2007	26,229	27,100	23,710	22,798	99,837
Increase due to purchases	7,431	185	5,238	26	12,880
Gains arising from change in fair value of biological assets less estimated point-of-sale costs	92,705	15,239	80,106	353,078	541,128
Transfer to consumable biological assets	–	–	(72,914)	72,914	–
Decrease due to harvest	(93,553)	(13,335)	(6,917)	(414,073)	(527,878)
Translation difference	(5,972)	(9,255)	(9,900)	(11,617)	(36,744)
As of 31 December 2008	**26,840**	**19,934**	**19,323**	**23,126**	**89,223**

11 OTHER NON-CURRENT ASSETS

The balances of other non-current assets were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Packaging and containers	**3,458**	4,227	2,349
Lease rights for land	**572**	872	941
Other investments	**283**	578	406
Long-term loans to employees and related parties	**95**	265	322
Other non-current assets	**2,050**	2,071	583
Total	**6,458**	8,013	4,601

Long-term loans to employees and related parties are interest free and measured at amortised cost using the effective interest rate method.

As of 31 December 2007, the balance of other non-current assets included project documentation related to construction in the amount of US$1,594 thousand (2006: US$570 thousand).

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12 INVENTORIES

The balances of inventories were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Components for mixed fodder production	**21,748**	20,793	37,319
Other raw materials	**6,998**	7,557	8,269
Spare parts	**2,780**	4,500	3,623
Packaging materials	**3,437**	3,185	1,964
Mixed fodder	**1,590**	2,785	3,175
Sunflower oil	**510**	793	382
Other inventories	**1,055**	3,032	2,359
Total	**38,118**	42,645	57,091

13 AGRICULTURAL PRODUCE

The balances of agricultural produce were as follows as of 31 December 2008, 2007 and 2006:

	2008		2007		2006	
	Thousand tonnes	**Carrying amount US$000**	Thousand tonnes	Carrying amount US$000	Thousand tonnes	Carrying amount US$000
Chicken meat	**4,887**	**7,881**	5,807	9,333	7,094	9,129
Other meat	**n/a**	**3,394**	n/a	1,460	n/a	1,899
Grain	**306**	**24,695**	67	12,394	26	6,238
Fruits, vegetables and other crops	**n/a**	**6,795**	n/a	8,493	n/a	3,978
Total agricultural produce		**42,765**		31,680		21,244

14 OTHER CURRENT ASSETS, NET

The balances of other current assets were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Prepayments to suppliers and prepaid expenses	**7,867**	8,707	7,854
Government grants receivable (Note 25)	**3,397**	4,192	5,331
Short-term advances, finance aid to and promissory notes from related parties (Note 6)	**976**	1,423	2,200
Loans to employees	**1,391**	1,467	1,030
Other receivables	**2,346**	2,235	709
Less: allowance for irrecoverable amounts	**(607)**	(1,703)	(660)
Total	**15,370**	16,321	16,464

As of 31 December 2008, 2007 and 2006, government grants receivable were mainly represented by amounts due from the state for poultry and cattle processed during the last months of 2008, 2007 and 2006, respectively.

15 TAXES RECOVERABLE AND PREPAID, NET

Taxes recoverable and prepaid were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
VAT recoverable	**49,736**	47,726	42,799
Miscellaneous taxes prepaid	**777**	540	5
Less: allowance for irrecoverable VAT	**(4,175)**	(2,866)	(1,230)
Total	**46,338**	45,400	41,574

16 TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Agricultural operations	**26,663**	19,941	9,939
Due from related parties (Note 6)	**2,791**	1,315	6,784
Sunflower oil sales	**2,957**	180	1,078
Natural gas trading	**–**	–	463
Less: allowance for irrecoverable amounts	**(880)**	(1,073)	(537)
Total	**31,531**	20,363	17,727

Allowance for irrecoverable amounts is estimated at the level of 25% for trade accounts receivable on sales of poultry meat which are aged over 30 days (for trade accounts receivable on other sales – over 60 days). Trade accounts receivable on sales of poultry meat which are aged over 270 days and trade accounts receivable on other sales which are aged over 360 days are provided in full.

The aging of trade accounts receivable that were impaired as of 31 December 2008 was as follows:

	Trade accounts receivable US$000	**Allowance for irrecoverable amounts US$000**
Trade accounts receivable on sales of poultry meat:		
Over 30 but less than 270 days	280	70
Over 270 days	561	561
Total trade accounts receivable on sales of poultry meat	841	631
Trade accounts receivable on other sales:		
Over 60 but less than 360 days	268	67
Over 360 days	182	182
Total trade accounts receivable on other sales	450	249
Total	**1,291**	880

17 SHORT-TERM BANK DEPOSITS

Short-term bank deposits were as follows as of 31 December 2008, 2007 and 2006:

	Currency	**Annual interest rate %**	**2008**	Annual interest rate %	2007	Annual interest rate %	2006
Term deposits with Ukreximbank	US$	**11.00**	**24,000**	–	–	–	–
Term deposits with UniCredit Bank	UAH	**18.00**	**1,040**	10.00	7,792	–	–
Term deposits with UniCredit Bank	UAH	**10.00**	**182**	9.00	2,263	–	–
Term deposits with Raiffeisen Bank Aval	US$	**6.00**	**94**	–	–		–
Term deposits with Vneshtorgbank	UAH	**12.00**	**13**	–	–	–	–
Term deposits with Vneshtorgbank	UAH	**10.00**	**13**	–	–	–	–
Term deposits with Ukrgasbank Bank	US$	**–**	**–**	–	–	7.50	2,000
Total			**25,342**		10,055		2,000

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18 CASH AND CASH EQUIVALENTS

The balances of cash and cash equivalents were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Cash in hand and with banks	**18,975**	10,088	6,625
Short-term deposits with banks	**35,097**	–	37,790
Total	**54,072**	10,088	44,415

At the end of 2008 the National Bank of Ukraine imposed restrictions as to early withdrawal of bank deposits (Note 26).

The balances of term deposits were as follows as of 31 December 2008, 2007 and 2006:

	Currency	**Annual interest rate* %**	**2008**	Annual interest rate %	2007	Annual interest rate* %	2006
Term deposits with UniCreditBank	US$	**12.00**	**20,500**	–	–	–	–
Term deposits with OTP Bank	US$	**11.25**	**10,000**	–	–	6.5	13,000
Term deposits with UniCreditBank	UAH	**18.00**	**2,597**	–	–	–	–
Term deposits with Ukrgazbank	US$	**11.00**	**2,000**	–	–	9.5	6,940
Term deposits with HVB Ukraine	US$	**–**	**–**	–	–	6.5	17,850
Total			**35,097**		–		37,790

* Actual annual interest rate as of 31 December 2008 and 2006

19 SHARE CAPITAL

Share capital of MHP SA

Share capital of MHP SA As of 30 May 2006 MHP SA issued 20,000 shares with par value of EUR 2, which resulted in the share capital of EUR 40 thousand (US$50 thousand). All these shares have been entirely paid by a contribution in cash. The authorised capital, including the issued share capital, was fixed at EUR 340,000 thousand represented by 170,000,000 shares with par value of EUR 2 each.

On 13 June 2006 MHP SA issued an additional 100,000,000 shares with par value of EUR 2, which resulted in increase of the share capital by EUR 200,000 thousand (US$251,261 thousand), in exchange for a 100% shareholding in RHL. The fair value of the shares was determined by an independent appraiser as of the date of the contribution.

On 15 May 2008 MHP SA issued 10,750,000 new ordinary shares. After the issue MHP SA's share capital consists of 110,770,000 ordinary shares at par value EUR 2 each. The offering has been completed at US$15 per share.

The increase in MHP SA share capital amounted to US$33,194 thousand at the transaction date. Share premium on issue constituted US$128,056 thousand at the transaction date. The net expenses related to the issue amounted to US$9,300 thousand. Net proceeds, after deducting expenses, of the offering amounted to US$151,950 thousand.

MHP SA share capital has a par value of EUR 2 and all issued shares have been paid in full. The shareholders have the right to vote and the right to receive dividends. Dividends are payable at the discretion of the Group.

Shareholders – As of 31 December 2008, 2007 and 2006, the shareholders of the parent company of the Group were:

Shareholders/parent	**2008 MHP SA %**	2007 MHP SA %	2006 MHP %
WTI Trading Limited	**77.67**	100.00	93.70
International Finance Corporation, USA ("IFC")	**–**	–	6.30
Others	**22.33**	–	–
Total	**100.00**	100.00	100.00

The controlling shareholder of the Group is the Chief Executive Officer of MHP SA Mr Yuriy Kosyuk. Mr Yuriy Kosyuk who owns 100% of the shares of WTI Trading Limited ("WTI"), which is the immediate shareholder of MHP SA, which, in its turn, was 77.67% in MHP SA. The rest of the shares are listed on the London Stock Exchange in the form of Global Depository Receipts (GDRs).

On 1 February 2007, WTI acquired 6.3% of the Parent's shares from IFC. As a result of the transaction IFC ceased to be a shareholder of the Group. The purchase price for such shares was determined based on the terms of an agreement entered into between IFC, Mr Yuriy Kosyuk and WTI dated 15 June 2006.

20 BANK BORROWINGS

The following table summarises bank loans and credit lines outstanding as of 31 December 2008, 2007 and 2006:

Bank	Currency	**Weighted average interest rate %**	**2008**	Weighted average interest rate %	2007	Weighted average interest rate %	2006
Foreign banks	EUR	**5.43**	**78,697**	4.77	86,597	4.82	63,426
Ukrainian banks	US$	**6.78**	**109,000**	8.71	10,799	10.10	4,257
Ukrainian banks	UAH	**–**	**–**	12.51	42,337	13.34	44,359
			109,000		53,136		48,616
Total bank borrowings			**187,697**		139,733		112,042
Less: Short-term bank borrowings and current portion of long-term bank borrowings			**(130,241)**		(73,855)		(55,988)
Total long-term bank borrowings			**57,456**		65,878		56,054

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 Ukrainian banks is payable on a monthly or quarterly basis. Interest on borrowings drawn with foreign banks is payable semi-annually.

Term loans and credit line facilities were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Credit lines	**132,560**	84,973	39,750
Term loans	**55,137**	54,760	72,292
Total bank borrowings	**187,697**	139,733	112,042

The following table summarises fixed and floating interest rates bank loans and credit lines held by the Group as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Floating interest rate	**147,941**	102,348	70,357
Fixed interest rate	**39,756**	37,385	41,685
Total	**187,697**	139,733	112,042

Bank loans and credit lines outstanding as of 31 December 2008 were repayable as follows:

		2008	
	Foreign	**Ukrainian**	**Total**
Within one year	21,241	109,000	130,241
In the second year	22,703	–	22,703
In the third to fifth year inclusive	34,753	–	34,753
Total	**78,697**	**109,000**	**187,697**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

20 BANK BORROWINGS CONTINUED

Included in bank borrowings as of 31 December 2008 is a revolving committed credit line facility drawn with ING Bank (Ukraine) in an amount of US$35,000 thousand. The facility is available until 2010, and may be drawn in six-month tranches.

On 25 December 2008 the Group entered into a credit facility agreement with OTP Bank (Ukraine) for US$20,000 thousand until 5 January 2010.

As of 31 December 2008, the Group had available borrowings on undrawn facilities of US$26,963 thousand, including US$1,844 thousand of available overdraft facilities. These undrawn facilities expire during the period from January 2009 until December 2016.

The Group as well as particular subsidiaries has to comply with certain covenants imposed by the banks providing the loans. The main covenants which are to be complied by the Group are as follows: total debt to equity ratio, total debt to EBITDA ratio and total equity to total assets ratio. The Group subsidiaries should also obtain approval with lenders regarding the property to be used as collateral.

As of 31 December 2008, the Group had borrowings of US$13,521 thousand that were secured. These borrowings were secured by property, plant and equipment with the carrying amount of US$6,674 thousand (Note 7).

21 BONDS ISSUED

Bonds issued and outstanding as of 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
10.25% Senior Notes due in 2011	**250,000**	250,000	250,000
14% Druzhba Nova Bonds due in 2008	**–**	39,604	39,604
Unamortised premium on bonds issued	**–**	116	295
Unamortised debt issue cost	**(3,097)**	(6,512)	(8,396)
Total	**246,903**	283,208	281,503
Less: Current portion of long-term bonds	**–**	(39,604)	–
Total long-term portion of bonds issued	**246,903**	243,604	281,503

10.25% Senior Notes In November 2006, MHP SA issued US$250 million 10.25% Senior Notes ("Senior Notes"), due in November 2011, at par. The notes are listed on London Stock Exchange. The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Peremoga, Druzhba Nova, Oril, MZVKK, Zernoproduct and Druzhba. Interest on the Senior Notes is payable semi-annually in arrears. On or prior to 30 November 2009, the Group may redeem up to 35% of the aggregate principal amount of the Senior Notes with the net proceeds of any offering of MHP SA common equity at a redemption price of 110.25% of the principal amount, plus accrued and unpaid interest up to the redemption date.

These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. The effective interest rate on the Senior Notes is 11.43% per annum.

If the Group fails to comply with the covenants imposed, all outstanding Senior Notes will become due and payable without further action or notice. If 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.

As of 31 December 2008, the fair value of the Senior Notes issued by the Group was equal to US$120,875 thousand (2007: US$252,500 thousand; 2006: US$255,312 thousand).

14% Druzhba Nova Bonds In September 2006, Druzhba Nova issued 200,000 of 14.0% coupon bonds with nominal value of US$39,604 thousand at a premium of US$360 thousand, due in August 2008. Interest on the bonds was payable quarterly in arrears. The bonds were not subject to any restrictive covenants. The effective interest rate on the bonds was 14.31% per annum. As of 31 December 2007, the fair value of Druzhba Nova bonds was equal to US$40,966 thousand (2006: US$39,994 thousand). The bonds were fully repaid during the year ended 31 December 2008.

The fair value of the notes and bonds was determined based on market quotations.

22 LONG-TERM FINANCE LEASE AND VENDOR FINANCING OBLIGATIONS

Long-term finance lease and vendor financing obligations as of 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Finance lease obligations, long-term portion	**47,972**	30,018	17,433
Long-term payables for property, plant and equipment under vendor financing arrangements	**–**	520	395
Total	**47,972**	30,538	17,828

The long-term payables for property, plant and equipment mainly represent vendor financing arrangements with foreign and Ukrainian companies. As of 31 December 2007, the weighted average interest rates on such payables were 11% and 9.9% for payables denominated in EUR and UAH, respectively (2006: 7.58% and 10.0%).

As of 31 December 2008, 2007 and 2006, the current portion of long-term payables for property, plant and equipment was included in current accounts payable for property, plant and equipment as follows:

	2008 US$000	2007 US$000	2006 US$000
Long-term payables for property, plant and equipment	**–**	1,534	969
Short-term payables for property, plant and equipment	**8,116**	8,612	11,273
Less:			
Long-term portion of payables for property, plant and equipment	**–**	(520)	(395)
Total	**8,116**	9,626	11,847

As of 31 December 2008, the Group's property, plant and equipment with net book value of US$786 thousand were pledged as a collateral under vendor financing arrangements with foreign and Ukrainian companies (Note 7).

The long-term finance lease obligations represent amounts due under agreements for lease of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2008, the weighted average interest rates on finance lease obligations were 8.28% and 10.0% for finance lease obligations denominated in EUR and US$, respectively.

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2008:

	Minimum lease payments US$000	**Present value of minimum lease payments US$000**
Payable within one year	28,928	21,625
Payable in the second year	24,697	19,632
Payable in the third to the fifth year inclusive	32,408	27,776
Payable after fifth year	684	564
	86,717	69,597
Less:		
Future finance charges	(17,120)	–
Present value of lease obligations	69,597	69,597
Less:		
Current portion		(21,625)
Finance lease obligations, long-term portion		**47,972**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

23 TRADE ACCOUNTS PAYABLE

Trade accounts payable were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Trade accounts payable to third parties	22,145	25,077	13,555
Payables related to natural gas trading and related transactions	–	–	170
Payables due to related parties	25	39	–
Total	22,170	25,116	13,725

During the year ended 31 December 2008 the Group changed the terms of some of its arrangements related to grain purchase financing. As a result, as of 31 December 2008 trade accounts payable included liabilities that bear a floating rate of interest under grain purchase financing arrangements in the amount of US$6,205 thousand and accrued interest of US$136 thousand.

24 OTHER CURRENT LIABILITIES

Other current liabilities were as follows as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Accrued payroll and payroll related taxes	**15,151**	11,940	6,595
Advances from and other payables due to third parties	**2,470**	4,362	709
Advances from related parties (Note 6)	**338**	329	26
Payables on other financing arrangements	**12,484**	–	–
Other payables	**2,549**	1,454	1,424
Total	**32,992**	18,085	8,754

Payables on other financing arrangements represented credit facility received from the government organisation at 8.75% with a maturity on 30 June 2009.

25 GOVERNMENT GRANTS INCOME

The Ukrainian legislation provides for a number of different grants and tax benefits for companies involved in agricultural operations. The below-mentioned grants and similar privileges are established by Verkhovna Rada (the Parliament) of Ukraine, as well as by the Ministry of Agrarian Policy of Ukraine, the Ministry of Finance of Ukraine, the State Committee of Water Industry, the customs authorities and local district administrations.

The government grants recognised by the Group as income during the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
VAT refunds	**59,338**	21,365	26,121
Processing of live animals	**46,146**	29,641	18,006
Fruits and vine cultivation	**468**	2,417	1,397
Breeding	**293**	1,198	347
Other government grants	**1,418**	1,668	807
Total	**107,663**	56,289	46,678

VAT refunds for agricultural industry – According to the Law of Ukraine “On the Value Added Tax”, companies that generated not less than 50% of gross revenues for the previous tax year from sales of own agricultural products are entitled to refunds of VAT on sales of agricultural products. The VAT on sales, net of VAT paid on purchases, is transferred to a special account, restricted to payments for goods and services related to agricultural activities. The corresponding VAT liability to be refunded at each balance sheet date is recorded in the Group’s consolidated financial statements as deferred income, as the income recognition criteria is considered to be met only when payments are made. As of 31 December 2008, the balance of deferred income related to VAT refunds was US$789 thousand (2007: US$304 thousand, 2006: US$648 thousand).

The mentioned VAT refunds were effective during 2008, 2007 and 2006. In October 2008, the Law of Ukraine “On Immediate Actions on Prevention of Financial Crisis Impact” extended the exemption until January 2011. This Law introduced certain changes which come into effect from 1 January 2009 and may affect the amount of VAT refunds for the future periods. The management estimates that these changes will not have a significant impact on the Group’s future VAT refunds. Subsequent to 31 December 2008, the exemption was extended for an indefinite period (Note 37).

25 GOVERNMENT GRANTS INCOME CONTINUED

Government grants on processing of live animals – During the years ended 31 December 2008, 2007 and 2006, the Law "On State Budget of Ukraine" established subsidies for companies engaged in processing of live animals (chicken and other poultry, cows and pigs). This subsidy is provided to the Group's chicken farms in the form of payment for each item of poultry slaughtered at the farms. This subsidy is also available to the Group's beef and pork processing facilities. As of the date these consolidated financial statements were authorized for issue, the regulations as to the amounts of grants on processing of live animals were not issued. Accordingly, there is uncertainty as to the amounts of these grants expected to be received by the Group in 2009.

Government grants on fruits and vine cultivation – In accordance with the Law "On State Budget of Ukraine" two companies of the Group were entitled to receive grants for the years ended 31 December 2008, 2007 and 2006 for creation and cultivating of orchards, vines and berry-fields (these companies were acquired in the second quarter of 2006).

Government grants related to selection and genetics programmes in breeding – Two of the Group companies received grants from the state budget for the purpose of financing selection and genetics programmes in poultry breeding. This subsidy is provided to the Group's breeding farms in the form of compensation of expenses in connection with selection and genetics poultry breeding. The eligibility, application and tender procedures related to the grants are carried out by the Ministry of Agrarian Policy of Ukraine and Ukrainian Agricultural Academy of Sciences.

Other government grants – Other government grants recognised as income during the years ended 31 December 2008, 2007 and 2006 mainly comprise subsidies related to crop growing. In 2006, Starynska and Zernoproduct began receiving subsidies in connection with their crop-growing activities. This subsidy is calculated based on the number of hectares sowed with a particular crop.

In addition to the government grant income recognised by the Group, the Group receives a grant to compensate agricultural producers for costs used to finance the operations. Agricultural producers are entitled to compensation of finance costs incurred on bank borrowings in accordance with the Law "On State Budget of Ukraine" during the years ended 31 December 2008, 2007 and 2006. The eligibility, application and tender procedures related to the grants were defined and controlled by the Ministry of Agrarian Policy of Ukraine.

These grants were recognised as a reduction in the associated finance costs and during the years ended 31 December 2008, 2007 and 2006 were US$2,406 thousand, US$2,141 thousand and US$449 thousand, respectively (Note 32).

26 CONTINGENCIES AND CONTRACTUAL COMMITMENTS

Recent volatility in global and Ukrainian financial markets – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Ukraine, notwithstanding any potential economic stabilisation measures that may be put into place by the Ukrainian government and the National Bank of Ukraine, there exists as of the date these financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties, and the potential for economic uncertainties to continue in the foreseeable future. As a consequence, the potential exists that assets may not be recovered at their carrying amounts in the ordinary course of business, which would have a corresponding impact on the entity's profitability.

During the year ended 31 December 2008, the National Bank of Ukraine imposed restrictions as to the early withdrawal of bank deposits placed by the entities and individuals with Ukrainian banks and Ukrainian subsidiaries of foreign banks. The estimated maximum exposure to the Group, as measured by reference to the carrying value of short-term bank deposits included in cash and cash equivalents (Note 18) and short-term bank deposits (Note 17) as of 31 December 2008 comprised US$60,439 thousand. The Group's management believes that the Group will be able to substantially recover the carrying amount of the deposits.

Operating environment – The principal business activities of the Group are within Ukraine. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes and the Group's assets and operations could be at risk if there are any adverse changes in the political and business environment.

Taxation – Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukraine laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Group believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

Legal issues – The Group is involved in litigations and other claims that are in the ordinary course of its business activities. Management believes that the resolution of such matters will not have a material impact on its financial position or operating results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

26 CONTINGENCIES AND CONTRACTUAL COMMITMENTS CONTINUED

Contractual commitments on purchase of raw materials and biological asset – During the year ended 31 December 2008, the Group became a party to several forward contracts for the purchase of sunflower seeds and biological assets with specified period, quantity, and price.

As of 31 December 2008, purchase commitments on forward contracts amounted to US$1,833 thousand (2007: US$108,094 thousand; 2006: US$9,451 thousand).

As of 31 December 2008, purchase commitments on acquisition of biological assets from a foreign supplier amounted to US$1,416 thousand (2007: US$8,734 thousand; 2006: US$83 thousand).

Contractual commitments on purchase of property, plant and equipment – During the years ended 31 December 2008, 2007 and 2006, 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 2008, purchase commitments on such contracts amounted to US$20,927 thousand (2007: US$3,851 thousand; 2006: US$28,263 thousand).

Contractual commitments on sales of sunflower oil – As of 31 December 2008, commitments of the Group on sunflower oil sales to a foreign customer comprised US$6,854 thousand (2007: US$12,869 thousand; 2006: US$8,307 thousand).

Contractual commitments on purchase of additional shares – In April 2007, the Group entered into an agreement to acquire minority shareholders' interest in Zernoproduct-Lypivka. As of 31 December 2008 the transaction was subject to registration with Ukrainian state authorities. The Group committed to purchase additional shares in Zernoproduct-Lypivka valued at US$283 thousand. Completion of the transaction is expected to result in an increase of the Group's effective interest in Zernoproduct-Lypivka to 92.8%.

Commitments on operating lease of land – The Group has the following non-cancelable contractual obligations as to the operating lease of land as of 31 December 2008, 2007 and 2006:

	2008 US$000	2007 US$000	2006 US$000
Within one year	**5,264**	5,868	4,697
In the second to the fifth year inclusive	**19,218**	21,749	18,006
Thereafter	**38,193**	46,359	42,726
Total	**62,675**	73,976	65,429

27 RISK MANAGEMENT POLICIES

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 as the issue of new debt or the redemption of existing debt.

The Group's target is to achieve the leverage ratio of not higher than 3.25 up to 31 December 2007, 3.0 up to 31 December 2008, and 2.5 thereafter. It is determined as the proportion of debt to adjusted operating profit. As of 31 December 2008, 2007 and 2006 the leverage ratio was a follows:

	2008 US$000	2007 US$000	2006 US$000
Bank borrowings (Note 20)	**187,697**	139,733	112,042
Bonds issued (Note 21)	**246,903**	283,208	281,503
Finance lease obligations (Note 22)	**69,597**	44,441	27,111
Payables on other financing arrangements (Note 24)	**12,484**	–	–
	516,681	467,382	420,656
Operating profit	**243,506**	112,143	116,435
Adjustments for:			
Depreciation expense	**56,938**	44,207	23,295
Loss on impairment of property, plant and equipment (Note 7)	**11,767**	10,238	–
Gain from change in accounting estimates in respect of valuation of biological assets	**–**	(150)	(6,738)
Adjusted operating profit	**312,211**	166,438	132,992
Debt to adjusted operating profit	**1.65**	2.81	3.16

27 RISK MANAGEMENT POLICIES CONTINUED

Debt is defined as bank borrowings, bonds issued, long-term finance lease and vendor financing obligations, and payables on other financing arrangements. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 23). Adjusted operating profit is defined as operating profit as adjusted for the depreciation expense and losses and gains believed by the management to be non-recurring in nature, as this measure produces results substantially comparable to those reviewed for the purposes of financial covenants under the Group's borrowings.

Major categories of financial instruments

	2008 US$000	2007 US$000	2006 US$000
Financial assets:			
Cash and cash equivalents	**54,072**	10,088	44,415
Trade accounts receivable, net	**31,531**	20,363	17,727
Government grants receivable (Note 14)	**3,397**	4,192	5,331
Short-term bank deposits (Note 17)	**25,342**	10,055	2,000
Loans to employees and related parties (Notes 11 and 14)	**1,486**	1,732	1,352
Other receivables (Note 14)	**2,346**	2,235	709
Total financial assets	**118,174**	48,665	71,534

	2008 US$000	2007 US$000	2006 US$000
Financial liabilities:			
Bank borrowings	**187,697**	139,733	112,042
Bonds issued	**246,903**	283,208	281,503
Finance lease and vendor financing obligations	**69,597**	44,441	27,111
Accounts payable for property, plant and equipment	**8,116**	9,626	11,847
Interest accrued	**3,520**	4,102	3,851
Trade accounts payable	**22,170**	25,116	13,725
Other long-term payables	**400**	2,004	1,474
Other current liabilities (Note 24)	**15,033**	1,454	1,424
Total financial liabilities	**553,436**	509,684	452,977

The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates, potential negative impact of livestock diseases, 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 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 5–21 days; sales to other customers are performed on prepayment terms.

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. No assessment is performed immediately from the date credit period is expired. About 50% of trade receivables comprise amounts due from the large supermarkets, which have the longest contractual receivable settlement period among the customers

Of the trade accounts receivable balance as of 31 December 2008, the Group's five largest customers represent 38% of the outstanding balance.

The Group manages its exposure to the risk of recoverability of bank deposits (Note 26) by placing deposits with the banks in which it has drawn bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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27 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 based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The amounts in the table may not be equal to the balance sheet carrying amounts since the table includes all cash outflows on an undiscounted basis.

2008	Carrying amount US$000	Contractual amounts US$000	Less than 1 year US$000	From 2nd to 5th year US$000	After 5th year US$000
Borrowings	187,697	205,584	141,175	62,075	2,336
Bonds issued	250,000	324,740	25,625	299,115	–
Finance lease obligations	69,597	86,716	28,928	57,104	684
Total	**507,294**	**617,040**	**195,728**	**418,294**	**3,020**

The Group's target is to maintain its current ratio, defined as a proportion of current assets to current liabilities, at the level of 1.1–1.2. As of 31 December 2008, 2007 and 2006, the current ratio was as follows:

	2008 US$000	2007 US$000	2006 US$000
Current assets	337,631	267,337	256,950
Current liabilities	219,453	184,595	104,096
Current ratio	**1.5**	1.4	2.5

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, at the same time the management of the Group sets limits on the level of exposure by currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2008 are as follows:

	US$ denominated	EUR denominated
Assets		
Trade accounts receivable	3,987	2
Short-term bank deposits	24,094	–
Cash and cash equivalents	40,357	12
Total assets	**68,438**	**14**
Liabilities		
Trade accounts payable	1,694	4,591
Accounts payable for property, plant and equipment	6	5,790
Bank borrowings	109,000	78,697
Bonds issued	250,000	–
Finance lease and vendor financing obligations	8,536	61,061
Total liabilities	**369,236**	**150,139**

27 RISK MANAGEMENT POLICIES CONTINUED

The below details the Group's sensitivity to strengthening of the Ukrainian hryvna against US$ and EUR by 5% and weakening of the Ukrainian hryvna against US$ and EUR by 15%. This sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% and 15% change in foreign currency rates.

	US$ denominated	EUR denominated
Profit/(loss)	15,040/(45,120)	7,506/(22,519)

The effect of foreign currency sensitivity on shareholders' equity is equal to that on profit or loss.

During the year ended 31 December 2008, the Ukrainian Hryvnia depreciated against the EUR by 46.3% and against the US$ by 52.5%. As a result, the Group recognised foreign exchange losses in the amount of US$187,127 thousand in the consolidated income statement.

The Group's management believes that the currency risk is mitigated by existence of US$-denominated proceeds from sunflower oil sales, which are substantially sufficient for servicing the Group's US$-denominated liabilities.

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group borrows on both a fixed and variable rate basis. The primary sources of the Group's funds are loans tied to LIBOR and EURIBOR.

The below details the Group's sensitivity to increase or decrease of floating rate by 10%. The analysis was applied to interest-bearing liabilities (bank borrowings, finance lease obligations and accounts payable under grain purchase financing arrangements) based on the assumptions that the amount of liability outstanding as of the balance sheet date was outstanding for the whole year.

	LIBOR	EURIBOR	Total
Profit/(loss)	12,209/(12,209)	6,496/(6,496)	18,705/(18,705)

The effect of foreign currency sensitivity on shareholders' equity is equal to that on profit or loss.

Livestock diseases risk – The Group's agro-industrial business is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of disease 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 minimise 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.

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 accumulates sufficient commodity stock at each balance sheet date to support at least one quarter of operations, and uses commodity forward purchase contracts.

28 REVENUE

Revenue for the years ended 31 December 2008, 2007 and 2006 was as follows:

	2008 US$000	2007 US$000	2006 US$000
Poultry and related operations segment			
Revenue from sales of chicken meat	**501,013**	283,835	210,555
Revenue from sunflower oil sales	**109,974**	67,028	38,312
Revenue from other poultry related sales	**49,044**	34,002	16,756
	660,031	384,865	265,623
Other agricultural operations segment			
Revenue from sales of other meat	**66,122**	34,523	21,174
Other agricultural sales	**26,980**	16,559	6,886
	93,102	51,082	28,060
Grain growing segment			
Revenue from sales of grains and sugar beets	**49,777**	38,490	17,314
Total revenue from continuing operations	**802,910**	474,437	310,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

29 COST OF SALES

Cost of sales for the years ended 31 December 2008, 2007 and 2006 was as follows:

	2008 US$000	2007 US$000	2006 US$000
Poultry and related operations	**437,865**	285,008	167,689
Other agricultural operations	**91,492**	55,665	26,032
Grain growing operations	**42,353**	24,345	16,275
Total	**571,710**	365,018	209,996

For the years ended 31 December 2008, 2007 and 2006, cost of sales comprised the following:

	2008 US$000	2007 US$000	2006 US$000
Costs of raw materials and other inventory used	**390,421**	239,004	142,908
Payroll and related expenses	**86,440**	58,310	30,942
Depreciation expense	**51,541**	40,397	20,913
Other costs	**43,308**	27,307	15,233
Total	**571,710**	365,018	209,996

By-products arising from the agricultural production process are measured at net realisable value, and this value is deducted from the cost of the main product.

30 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Payroll and related expenses	**37,820**	16,306	10,178
Services	**11,069**	6,905	4,547
Advertising expenses	**8,361**	9,626	7,288
Representative costs and business trips	**8,319**	7,912	6,244
Fuel and other materials used	**8,045**	4,470	3,214
Depreciation expense	**5,397**	3,810	2,382
Insurance expenses	**580**	1,130	444
Bank services and conversion fees	**477**	824	370
Other	**427**	616	407
Total	**80,495**	51,599	35,074

31 OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Change in allowance for irrecoverable amounts and direct write-offs	**1,052**	2,777	824
Change in allowance for irrecoverable VAT and direct write-offs	**4,821**	2,438	1,826
Non-production materials write-off	**995**	817	1,283
Loss/(gain) on disposal of property, plant and equipment	**1,145**	(660)	426
Non-recurring legal and accounting fees	**–**	–	1,140
Other	**2,009**	1,903	906
Total	**10,022**	7,275	6,405

32 FINANCE COSTS, NET

Finance costs for the years ended 31 December 2008, 2007 and 2006 were as follows:

	2008 US$000	2007 US$000	2006 US$000
Interest on corporate bonds	**31,300**	32,781	4,432
Interest on bank borrowings	**11,332**	10,405	16,752
Interest on obligations under finance leases	**5,584**	4,256	2,097
Interest on grain purchases financing arrangements	**3,456**	2,533	741
Bank commissions and other charges	**2,397**	1,648	2,596
Early repayment fine on IFC loans	**–**	–	10,347
Government grants as compensation of the finance costs for agricultural producers (Note 25)	**(2,406)**	(2,141)	(449)
Total	**51,663**	49,482	36,516

In December 2006, MHP repaid all amounts outstanding under its loan agreements with IFC ahead of schedule with a portion of the proceeds from the offering of the Senior Notes in November 2006 (Note 21). During the year ended 31 December 2006, the Group paid early repayment fine to IFC in the amount of US$10,347 thousand.

Interest on corporate bonds for the years ended 31 December 2008, 2007 and 2006 includes amortisation of premium and debt issue costs on bonds issued in the amounts of US$1,611 thousand, US$1,705 thousand and US$152 thousand, respectively.

33 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 are recorded in the income statement on the accrual basis. The Group companies are not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses. During the years ended 31 December 2008, 2007 and 2006 the Group companies remitted 33.2% and 19.9% for CIT and FAT payers, respectively, of the aggregate employees' salaries to the State Pension Fund subject to the following limits:

Period	Limit per employee per month US$
1 January 2006 – 31 March 2006	304
1 April 2006 – 30 September 2006	312
1 October 2006 – 31 December 2006	318
1 January 2007 – 31 March 2007	518
1 April 2007 – 30 September 2007	553
1 October 2007 – 31 December 2007	560
1 January 2008 – 31 March 2008	624
1 April 2008 – 30 June 2008	649
1 July 2008 – 30 September 2008	667
1 October 2008 – 31 December 2008	536

The Group's contributions to the State Pension Fund during the year ended 31 December 2008 amounted to US$22,820 thousand (2007: US$10,152 thousand; 2006: US$6,793 thousand).

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosure of financial instruments is made in accordance with the requirements of International Financial Reporting Standard 7 "Financial Instruments: Disclosure". 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 realise in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2008, 2007 and 2006, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

The fair value is estimated to be the same as the carrying value for cash and cash equivalents, trade and other accounts receivable (including promissory notes receivable), and trade and other accounts payable, short-term finance lease obligations and short-term borrowings due to the short-term nature of the financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2008, 2007 AND 2006

34 FAIR VALUE OF FINANCIAL INSTRUMENTS CONTINUED

The fair value of bank borrowings as of 31 December 2008 is estimated at US$164,335 thousand compared to carrying amount of US$187,697 thousand. The fair value of finance lease obligations as of 31 December 2008 is estimated at US$62,470 thousand compared to carrying amount of US$69,597 thousand. Fair value of these liabilities was estimated by discounting the expected future cash outflows by a market rate of interest.

The fair value of bonds is estimated at US$120,875 thousand compared to the carrying value of US$250,000 thousand. The fair value was estimated based on market quotations.

35 EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in calculation of earnings per share are as follows:

	2008 US$000	2007 US$000	2006 US$000
Profit for the year attributable to equity holders of the Parent	**1,518**	40,870	100,549
Loss/(profit) for the year from discontinued operations used in calculation of earnings per share from discontinued operations	**9,722**	3,601	(5,409)
Earnings used in calculation of earnings per share from continuing operations	**11,240**	44,471	95,140

	2008	2007	2006
Weighted average number of shares outstanding	**106,738,750**	100,020,000	100,020,000

During the years ended 31 December 2008, 2007 and 2006 the results from discontinued operations were attributable to equity holders of the Parent.

Due to the change in the capital structure resulting from the Corporate Reorganisation, the earnings per share for the year ended 31 December 2006 has been based on the weighted average number of shares after the Corporate Reorganisation. The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

36 SUPPLEMENTAL CASH FLOW INFORMATION

Operating, investing and financing transactions that did not require the use of cash or cash equivalents were as follows in the years ended 31 December:

	2008 US$000	2007 US$000	2006 US$000
Additions of property, plant and equipment under finance leases and vendor financing arrangements	**47,616**	28,417	20,231
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor	**16,313**	27,849	51,314
Contributions of fixed assets to share capital	**–**	–	478
Property, plant and equipment purchased for credit	**8,116**	9,626	11,847
Transaction costs accrued but not paid	**–**	–	2,106

37 SUBSEQUENT EVENTS

Extension of benefits for agricultural producers

In March 2009 the newly enacted laws extended the effective period for the FAT regime and VAT refunds for the agricultural producers for an indefinite period.

Increase in ownership share in Starynska

On 2 April 2009 the Group increased the share capital of Starynska by US$2,594 thousand. As a result, the Group's effective ownership interest increased to 94.9%. The amount of contribution, payable in cash, was outstanding as of the date these consolidated financial statements were authorised for issue.

Refinancing of existing bank borrowings

In January 2009 the Group refinanced bank borrowings with OTP Bank for the total amount of US$20,000 thousand with maturity in January 2010.

38 AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue by the Board of Directors of MHP SA on 9 April 2009.

CORPORATE INFORMATION

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