MYRONIVSKY HLIBOPRODUCT / ANNUAL REPORT 2009

ACHIEVING OUR OBJECTIVES

THE FULL LAUNCH OF OUR MYRONIVKA POULTRY FARM HAS STRENGTHENED OUR MARKET-LEADING POSITION

WHO WE ARE

MHP (Myronivsky Hliboproduct) is Ukraine's leading producer of poultry and poultry products. We command a 43% share of the market for industrially-produced chicken while our "Nasha Ryaba" brand leads the market for chilled-chicken products. One of Ukraine's leading agro-industrial companies, we also produce a number of national and regional brands of processed meat.

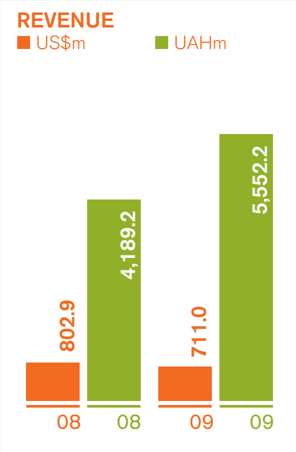
The completion of phase 2 of our newest facility, the Myronivka chicken farm, in June 2009 was a major step in achieving our objective of producing 330,000 tonnes of chicken a year. Myronivka has an annual production capacity of around 200,000 tonnes and, with the full launch of this facility it enabled us to increase total output by 27% in 2009, to 285,000 tonnes.

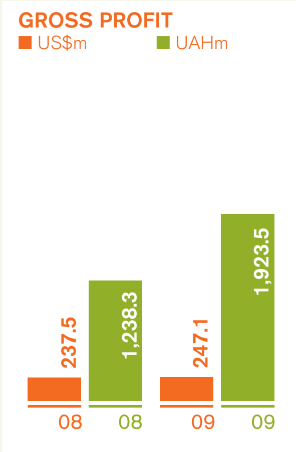
MHP – which employs around 21,000 people – is a truly vertically-integrated enterprise. We own and operate each stage in the chicken-production process, from growing grain to producing feed, and from hatching eggs to distribution and sales. Our products are sold through our own franchised outlets, supermarkets and the hotel restaurant and catering sector (HoReCa). We are confident that this business model will enable us to continue to deliver high-quality and reasonably priced protein to our domestic market and, as a result, will enable us to continue to prosper.

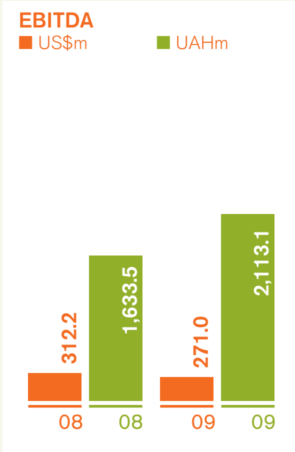
OUR VALUES

- **Efficiency**: our vertically-integrated system ensures that we maximise our production potential while, at the same time, minimising cost
- **Quality**: we focus on quality throughout our operations, from livestock to feed and from equipment to finished product
- **Affordability**: our products are produced and priced to meet market need
- **Responsibility**: we operate responsibly to the benefit of the environment, our livestock, our land, our employees and our customers
- **Market leadership**: we are determined to lead the markets in which we choose to compete
- **Profitability**: our focus on quality, affordability, efficiency, responsibility, and market leadership enables us to maintain, and increase, our profitability to the benefit of our shareholders

HIGHLIGHTS OF THE YEAR







PERCENTAGE INCREASE
IN UAH – 2008-2009

+33%

PERCENTAGE INCREASE
IN UAH – 2008-2009

+55%

PERCENTAGE INCREASE
IN UAH – 2008-2009

+29%

These results were achieved without the benefit of direct subsidies which, in 2008, totalled US$46.1 million (2007: US$29.6 million).

FINANCIAL HIGHLIGHTS

- Significant depreciation of UAH to US dollars in Q4 2008 resulted in 48% depreciation of the 2009 average exchange rate of UAH/US dollar against 2008 average exchange rate
- Revenue increased by **33%** in UAH terms, but decreased by 11% in US$
- EBITDA* was up by **29%** in UAH terms, but fell by 13% in US$
- Consolidated EBITDA margin remained high and stable at **38%** (2008: 39%) despite cancellation of direct government grants
- Income before tax increased significantly to **US$153.5 million** (2008: US$16.2 million); **UAH1,194.6 million** (2008: UAH(144.3) million)

* A definition of EBITDA is on page 33.

OPERATIONAL HIGHLIGHTS

Poultry

- Phase 2 of the Myronivka poultry farm, launched in June, resulted in the project reaching full capacity in Q3 2009
- Sales of sunflower oil increased by approximately **50%**, to **140,400 tonnes** (2008: 93,300 tonnes), after we opened a new sunflower-seed crushing plant at Katerynopilsky in September as part of the Myronivka project
- Monthly chicken production increased by **47%**
- Annual sales volume of chicken to third parties increased by **27%**
- Demand for chicken was high throughout the year as consumers continued to substitute locally-produced chicken for other meat
- MHP sold close to **100%** of its production

Grain Growing

- Good growing conditions for crops resulted in yields of corn at **9.0 tonnes** per hectare, sunflower at **3.3 tonnes** per hectare, wheat at **5.8 tonnes** per hectare, and rape at **2.7 tonnes** per hectare. These are significantly higher than Ukraine's average

Other Agricultural

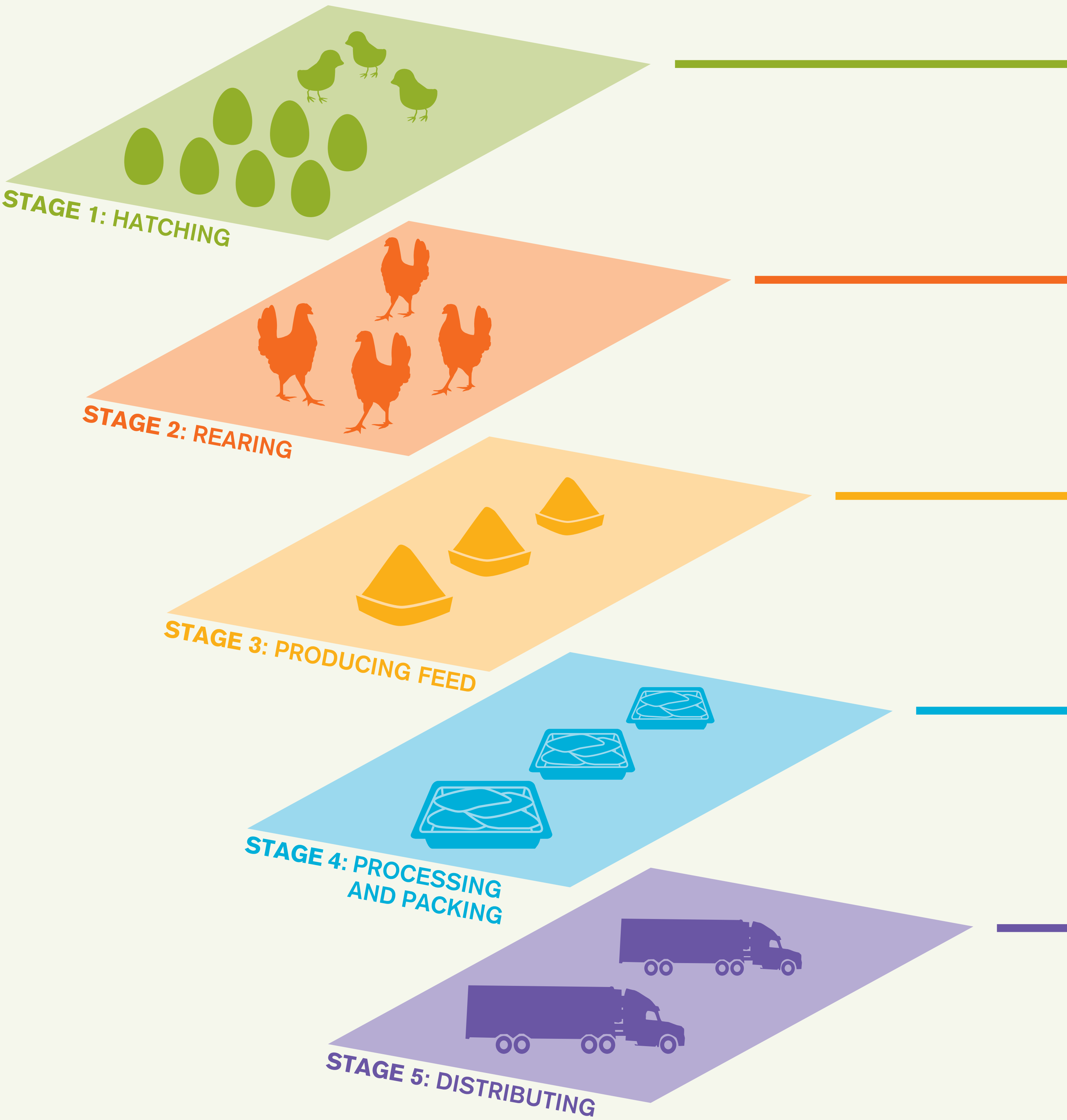
- Sales of sausages and cooked meat increased by **54%**

GROUP STRATEGY

- To build more full-cycle poultry complexes; including the use of co-generation and alternative energy
- To increase our arable farms' efficiency by introducing the most up-to-date farming techniques
- To increase our land bank in the next two or three years to close to 300,000 hectares
- To strengthen our leading position and market share in Ukraine's highly-fragmented meat-processing, value-added and convenience food sectors
- To promote our brands and to increase our output of products which are packed and sold in portions
- To expand our distribution network to cover the majority of Ukraine's regions
- To increase the number of our franchised outlets

KEY HIGHLIGHT OF THE YEAR

LAUNCHING
MYRONIVKA POULTRY FARM



In June 2009, we achieved our principal objective of completing our Myronivka poultry farm. The complex – which includes hatching and rearing units, a feed plant, a crushing plant and a processing plant – reached full capacity during the third quarter of the year. On this page we show the vertically-integrated stages of production at the Myronivka farm.


STAGE 1: HATCHING

Myronivka's hatchery has a capacity of 175 million eggs a year. Eggs, delivered from one of our breeding farms, are kept in incubators – which control temperature, humidity and air circulation – for 21 days. Chicks are vaccinated before being transferred to the rearing unit.


STAGE 2: REARING

In 24 sterilised barns, light, temperature, air circulation, feed and water are carefully controlled to ensure stable growth. Feed contains all the necessary fat, protein, vitamins and minerals – but no chemicals or steroids – for the birds to grow to 2.3-2.5kg within 40 to 45 days.


STAGE 3: PRODUCING FEED

The majority of the feed used at Myronivka, is produced at its own fodder plant. We grow our own feed ingredients – corn, wheat and sunflower seeds – and have been self-sufficient in corn – which comprises 50% of chicken feed – since 2008. We use our unique technology to produce protein from sunflower seeds which we use as a substitute for expensive, imported, soya beans.


STAGE 4: PROCESSING AND PACKING

As many as an average of two million chickens a week are slaughtered, dressed, chilled and packed in Myronivka's processing plant. To preserve flavour and texture, we use the most up-to-date chilling technology and keep packaged chicken at 2°C until it is delivered to customers.


STAGE 5: DISTRIBUTING

Products are taken direct to our distribution centres by our own fleet of refrigerated trucks. From there, they are delivered to our branded franchise shops or to other – wholesale or retail – customers.

DEVELOPING OUR BUSINESS

POULTRY AND POULTRY-RELATED OPERATIONS

SALES IN 2009

UAH4,505.2m

US$577.1m

KEY PRODUCTS

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

BRANDS

Nasha Ryaba
Under this flagship brand, which dominates the market, we sell a wide range of chilled-chicken products

Lehko!
A vast range of innovative convenience food

GRAIN GROWING OPERATIONS

SALES IN 2009

UAH360.3m

US$45.8m

KEY PRODUCTS

- Corn
- Sunflowers
- Rape
- Wheat

TOTAL LAND BANK

180,000 hectares

OTHER AGRICULTURAL OPERATIONS

SALES IN 2009

UAH686.7m

US$88.1m

KEY PRODUCTS

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

BRANDS

Druzhba Narodiv
90 types of pork and beef sausages, frankfurters, smoked and semi-smoked sausages, and ham

Foie gras
A range of goose and foie gras products – sold chilled or frozen – produced at our Snyatynska complex

Baschinsky
A wide range of 40 products, from smoked poultry to pate and from high-quality pork to stuffed pancakes; 23 new products were introduced during the year

Certified Angus
Premium fresh beef from Aberdeen-Angus cattle bred on our Druzhba farm

Europroduct
Our value brand of sausages and cooked meats: 22 types of product

STRATEGY

Expanding our poultry business by:
- building on our leading market position
- constructing new poultry complexes
- increasing exports

KEY FACTS

181 million
hatching eggs produced in 2009 at two breeder farms

155.5 million
birds grown in 2009 at four poultry farms

285,000 tonnes
of chicken produced

876.8 million
tonnes of fodder produced at three mills

11
distribution centres

439
refrigerated trucks

2,331
branded franchise outlets

9,300 tonnes
of convenience food produced

Self-sufficient
MHP grows the majority of its own feed ingredients

Sunflower oil
New sunflower-seed crushing plant opened at Katerynopilsky in September 2009

140,400 tonnes
of sunflower oil sold (2008: 93,300 tonnes)

STRATEGY

Furthering the profitability of our grain business by:
- increasing efficiency through the application of modern farming techniques
- increasing our land bank to close to 300,000 hectares to grow more crops for feed
- maintaining our above-average crop yields
- increasing exports of grain

KEY FACTS

5
arable farms

180,000 hectares
of land under our control

735,000 cubic metres
of grain-storage capacity

960,000 tonnes
of crops harvested in 2009

Fertile land
Ukraine's "black earth" land is extremely fertile

Crop rotation
We rotate crops to protect the quality of the land

Excellent climate
Plenty of rain and sunshine

STRATEGY

Maintaining our leadership in the meat-processing industry by:
- increasing production of sausages and cooked meat
- meeting consumer demand on prices
- shifting our product range to mass-market products

KEY FACTS

53.8%
increase in sales of sausages and cooked meat in 2009

2
meat-processing plants

1
mixed farm – rears cattle and pigs and grows crops

"Certified Angus"
The mixed farm also rears cattle for our "Certified Angus" brand

"Foie Gras"
One farm is dedicated to producing geese for our "Foie Gras" brand

Fruit
One fruit farm primarily grows apples, but also several other types of fruit

OUR MARKETS, STRUCTURE AND WHERE WE OPERATE

OUR MARKETS

CONTINUING DEMAND FOR OUR PRODUCTS

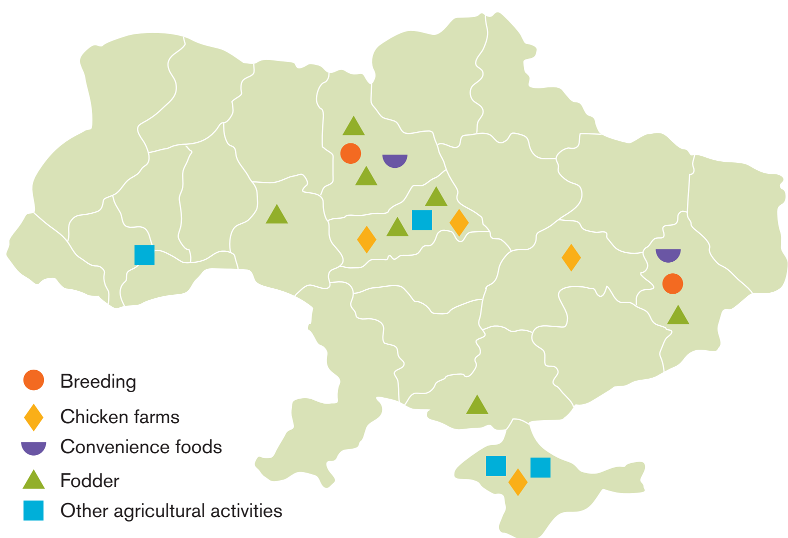
MHP's products are sold throughout Ukraine, with sales being particularly strong in the east and south of the country. We sell through our large franchise network, direct to supermarkets, and to industrial customers. Currently, only about 4% of chicken is sold for export – principally to CIS countries and central Asia.

There is, however, still considerable scope in Ukraine, which has one of the lowest rates of meat consumption per capita in Europe. We expect economic conditions in Ukraine to improve and subsequently total meat consumption is expected to increase and as a result consumption of chicken, which is economical – and healthy – source of protein, will also increase.

OUR STRUCTURE

- **MHP S.A.**
  - **RHL**
    - **OJSC Myronivsky Hliboproduct**
      - **POULTRY-RELATED OPERATIONS**
        - **STARYNSKA** Chicken breeder farm
        - **SHAHTARSKA** Chicken breeder farm
        - **PEREMOGA** Chicken farm
        - **DRUZHBA NOVA** Chicken farm
        - **ORIL LEADER** Chicken farm
        - **CJSC MYRONIVSKA** Chicken farm
        - **MFC** Fodder mill, convenience food
        - **TKZ** Fodder mill
        - **KATERYNOPILSKY ELEVATOR** Fodder mill
      - **GRAIN-GROWING OPERATIONS**
        - **ZERNOPRODUCT** Grain
        - **LYPIVKA** Grain
        - **UROZHAY** Grain
        - **AGROFORT** Grain
        - **STARYNSKA** Grain
        - Grain storage facilities
      - **OTHER AGRICULTURAL OPERATIONS**
        - **DRUZHBA** Beef, pork, meat processing
        - **UKRAINIAN BACON** Sausages, cooked meat
        - **SNYATYNSKA** Geese
        - **CRIMEA FRUITS** Fruit

WE OPERATE THROUGHOUT UKRAINE



Kiev 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
Vinnytsa region	Zernoproduct

CHAIRMAN'S STATEMENT

It is my pleasure to report that, despite a challenging year, MHP made excellent progress in expanding its activities and in consolidating its position as one of Ukraine's leading agro-industrial companies.

The highlight of the year was the June launch of the second stage of our Myronivka chicken farm. By the time the facility reached full capacity in the third quarter of 2009, it was producing an average of 2 million market-ready chickens a week. We expect to reach our target of producing 330,000 tonnes of chicken a year during 2010.

Charles E Adriaenssen

RESULTS

In the local currency – the hryvnia – all our key financial indicators increased by a good, and in some cases an excellent, percentage over the previous year. A significant devaluation of the hryvnia against the dollar at the end of 2008 has, however, had the effect of some of these results declining in dollar terms (the Financial review, which begins on page 29, details the results in both currencies). Despite the cancellation of direct governement subsidies, since January 2009, the profitability of the business remains high and stable (EBITDA margin, 2009: 38%, 2008: 39%).

Gross profit increased so significantly that, even in US dollars it was 4% up, at US$247 million (2008: US$238 million). This was achieved through improved efficiency and greater vertical integration: despite the extra costs of operating a much larger facility at Myronivka, we reduced the cost of sales by 13% to US$499 million (2008: US$572 million), and held selling, general and administrative expenses steady at US$81 million (2008: US$80 million).

THE MARKET

The market continues to be tight. While this is to our advantage in that chicken is a cheaper, and healthier, form of protein than beef and pork, in the past year we have noticed a tendency for people to buy lower-cost products. We met this demand by increasing our output of economically-priced sausages and cooked meat.

Ukraine's economy is expected to return to growth, albeit modest, during the coming year which we expect to result in an upturn in the market. We already sell around 100% of the output of our chicken farms, but in the medium term expect to see a growth in sales of our more specialised convenience foods, as employment increases and time for buying, and preparing, food decreases.

We expect the demand for our high-quality chilled chicken to continue to grow and have plans to build a further large complex, at Vinnytsa, in the future.

FEED SUPPLIES

We control the cost of feed by growing the majority of the ingredients we need. While the launch of Myronivka has increased our consumption, we are determined to continue to be largely self-sufficient. To this end, we plan to increase our land holdings and are constantly improving the efficiency of our arable farms by introducing up-to-date methods and machinery.

In that context, we will also continue to operate our crop-rotation system, which puts nutrients back into the land and also provides us with cereal crops which we sell on the open market.

CORPORATE GOVERNANCE

MHP, registered in Luxembourg, complies with that country's voluntary corporate governance regime, and has adopted a clear and transparent corporate governance framework. Three of our seven directors, including myself, are independent non-executives. Each director has individual skills and makes a valuable contribution to the management of the company.

OUR PEOPLE

We now employ aproximately 21,000 people and maintain our position as the largest employer in Ukraine's agricultural sector. The skill and commitment of our people is an important factor in our success.

Each of the four members of our senior management team brings particular skills and knowledge to their role. I thank them for their continued support and hard work, and look forward to working with them in the coming year.

LOOKING AHEAD

The economic environment in 2009 continued to present challenges; our performance in the face of those challenges was exceptionally good and confirms my belief in our ability to make further progress in better times ahead. I look forward with undiminished confidence.

Charles E Adriaenssen, Chairman

ACHIEVING OUR OBJECTIVES

Yuriy Kosyuk

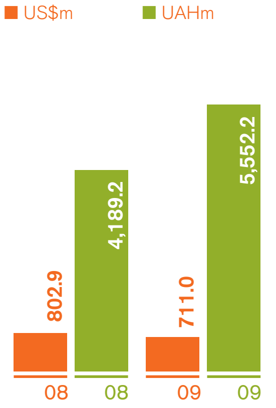
In 2008's annual report, I stated that our objective in raising funds through a listing on the London Stock Exchange was to increase investment in our business and, by doing that, to take advantage of the growing demand for chicken in Ukraine.

We have built Myronivka poultry farm, the biggest poultry facility in Ukraine and one of the biggest in Europe. The final stage of this state-of-the-art facility was launched in the middle of 2009. The new facility enabled us to boost 2009's production of chicken by 27%. In 2010, we expect production to reach 330,000 tonnes.

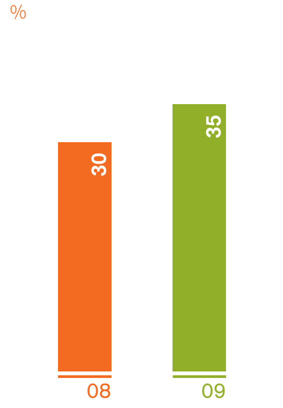
Again, in last year's report, I commented that we had sufficient resources to continue to operate our business profitably, and this continues to be the case despite the much-publicised decline in the value of the hryvnia and a 15% fall in Ukraine's GDP during 2009. Vertical-integration puts us in the fortunate position of being relatively immune to fluctuations in the value of the hryvnia.

KEY PERFORMANCE INDICATORS (KPIs)

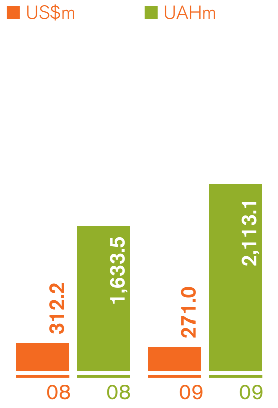
REVENUE*



GROSS MARGIN

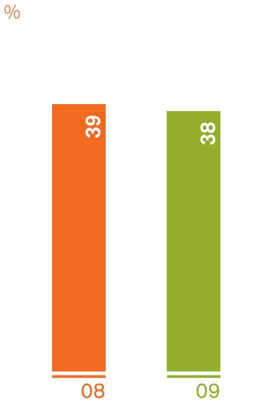


EBITDA

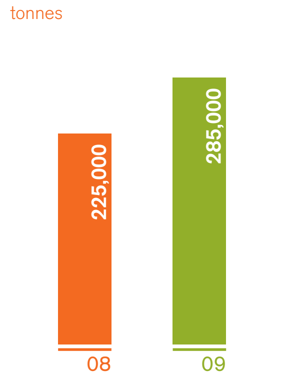


*from continuing operations

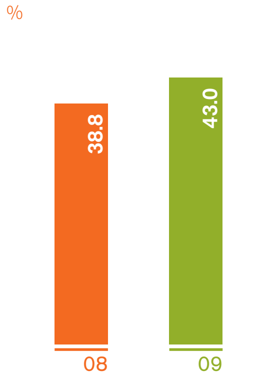
EBITDA MARGIN



POULTRY PRODUCTION BY VOLUME



INDUSTRIALLY-PRODUCED CHICKEN: MARKET SHARE



Source: Company estimates based on Ukrainian Statistics Committee data

With the exception of machinery for new or upgraded facilities and the day-old chicks we buy from Germany, we import very little. We grow all the corn we need to produce chicken feed; we have replaced imported soy protein with domestically-grown sunflower protein, and the sunflower oil which is a by-product of making sunflower cake earns us additional income when it is exported, principally to world traders; we rotate crops to protect the land, and the wheat and rape we produce as a result is sold, to world traders; and to minimise the need to import fertilisers we use chicken manure to fertilise our land.

What the headlines about Ukraine's economy tend to mask is that the agricultural sector continued to be stable and recorded a positive trend in the year, and demand for chicken and chicken products continued to be high. Despite the depreciation in the value of our currency, more than 340,000 tonnes of frozen meat – principally chicken and pork – were imported during 2009. As producers of high-quality chilled chicken, we do not compete with frozen imports, the majority of which go into processed products rather than to stores, but there is clearly still room for growth in our market. I am confident that consumers will continue to choose to replace expensive sources of protein, such as beef and pork, with cheaper – and tastier – locally-produced chicken.

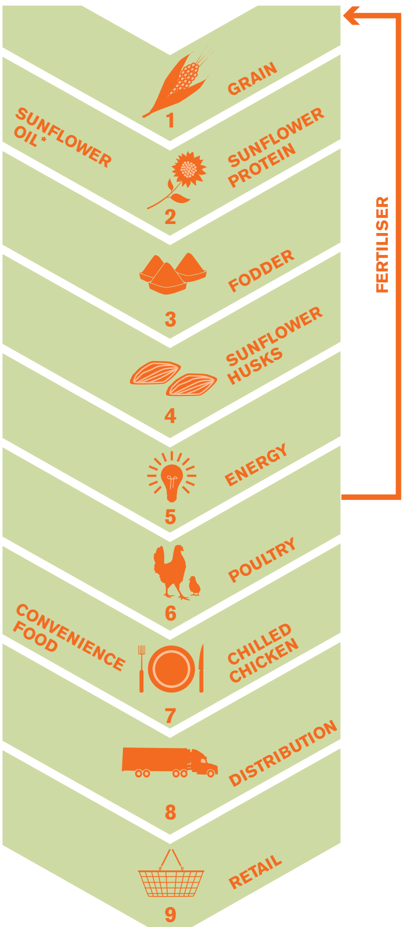
OUR STRATEGY

Since MHP was founded, in 1998, we have made a series of acquisitions and investments to create the business we have today. We have achieved our objective of becoming Ukraine's leading poultry producer and now hold a 43% share of the market for industrially-produced poultry (2000: 5%). Our nearest competitor holds 18%.

Our strategy – to control quality at every stage of production and to produce high-quality products, with low production costs, which we can sell on the Ukrainian market at affordable prices – is unchanged. Our vertically-integrated system enables us to achieve that objective: we rear our own chickens – from eggs to fully-grown birds – feed them with our own fodder, made principally from crops we have grown, distribute the finished products in our own fleet of refrigerated trucks, and sell our products through three main sales channels: our branded franchise network, supermarkets, and the HoReCa (hotel, restaurant and catering industry).

ACHIEVING OUR OBJECTIVES CONTINUED

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.

OUR OBJECTIVES

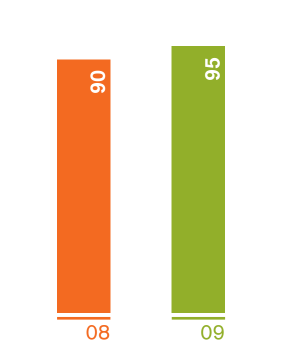
It was our strategy from the outset to grow and expand, and our determination to do that has not diminished. We have a clear objective, to increase our market share in chicken products and meat processing products.

In the future, we are considering launching another fully-integrated chicken complex, at Vinnytsa, on similar lines to that at Myronivka. Our plan is that the complex, which will incorporate its own breeder farm, hatchery, fodder mill, feed store, chicken barns and a processing plant, will produce 400,000 tonnes of chicken a year.

Additional production will, of course, require us to grow more crops for additional feed. To meet that demand, we will not only increase the efficiency of our existing arable farms, but also plan to increase our land bank close to 300,000 hectares. We will continue to manage our land well by rotating crops and using natural fertiliser (we recycle organic waste from our chicken farms) to minimise the use of expensive, imported, chemical fertilisers.

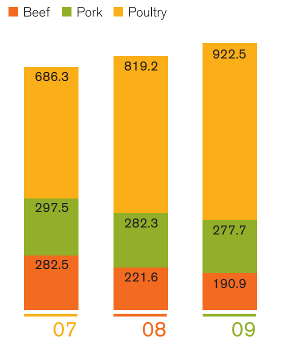
We are conscious of the environmental impact, as well as the cost, of the power we use and already generate heat by burning waste from our sunflower-seed crushing plant. We will continue to use alternative energy, including co-generation technology.

"NASHA RYABA" BRAND RECOGNITION
%



Source: GFK

INDUSTRIAL PRODUCTION OF MEAT IN UKRAINE
tonnes '000 (live weight)



Source: Ukrainian Statistics Committee

We have been quick to respond to the demands of the market by supplying from a wide variety of value-added foods, to pre-cooked convenience foods, and from smoked poultry and pâté to an economical range of sausages and processed meat. The meat we use in our processed products is 50% internally produced chicken. We intend to build on this side of our business and on our position as the leader in Ukraine's meat-processing industry.

The wisdom of promoting our branded products is borne out by the success of our "Nasha Ryaba" brand – the clear leader in the chilled-chicken market – which we restyled in April 2009. A new logo and packaging were supported by redesigned shops and a TV advertising campaign. We will increase our focus on the promotion of our branded products and intend to expand our distribution network to cover even more of the regions of Ukraine. We will also work to ensure that we maintain an equable balance between supermarket sales and sales from our franchised store network. Our franchised stores enable us to make a reasonable return on products while selling them at affordable prices.

We currently export about 4% of our output, but believe opportunities exist in the EU countries. In June 2009 EU representatives visited our three poultry facilities: our Myronivka chicken farm, and our meat-processing plants – Lehko, in the Kiev region and Druzhba Narodiv, in Crimea. We expect to receive a certificate enabling us to export to the EU during 2010.

THE FUTURE

We have achieved those objectives we set ourselves long ago. Now we have set ourselves new ones, which we are confident we will also be able to achieve. MHP is a well-established business and we believe we are the lowest-cost poultry producer in Ukraine. We take immense care to control quality as well as costs, and to ensure that we have the means to invest in our future. Our vertically-integrated operating system makes us relatively insulated from competition and from fluctuations in Ukraine's economy and exchange rate.

We have the skills and resources to continue to build on the success of the business and are firm in our belief that we can win an even greater share of the market. We look ahead with continuing confidence.

Yuriy Kosyuk, Chief Executive Officer

WINNING GREATER MARKET SHARE

MARKET SHARE IN INDUSTRIAL CHICKEN PRODUCTION REACHED 43% IN 2009 IN UKRAINE

WE SOLD CLOSE TO 100% OF THE CHICKEN WE PRODUCED

THE FULL LAUNCH OF THE MYRONIVKA CHICKEN FARM, IN JUNE 2009, STRENGTHENED OUR MARKET-LEADING POSITION. PRODUCTION VOLUMES WERE UP AROUND 27% IN 2009 AND ARE EXPECTED TO INCREASE BY 16% IN 2010

CONSUMER DEMAND FOR CHICKEN CONTINUES TO BE HIGH: IN THE SECOND HALF OF 2009, WE SOLD AROUND 50% MORE EACH MONTH COMPARED WITH 2008

1

2

3

1 Day-old chicks are delivered from Germany and taken to one of our breeding facilities, Shahtarska or Starynska.

2 Hatching eggs are produced on our breeding farms.

3 Eggs are despatched to one of our hatcheries.


4 Eggs are sorted and hatched in our hatcheries.

5 Day-old chicks are vaccinated against diseases before being despatched to chicken barns.

WINNING GREATER MARKET SHARE

CONTINUED

1 The chicks arrive for their first days in a chicken barn.

2 Our chicken barns conform with EU standards and veterinary requirements.

Our poultry farms continued to operate at full capacity during 2009. We completed our Myronivka project which now has an annual capacity of 200,000 tonnes.

Our vertical integration system, particularly our ability to grow all the corn and some of the sunflower we needed for feed (we bought the rest of the sunflower on the domestic market), enabled us to keep costs per 1kg of chicken very close to those of the previous year. Average sales prices, however, increased by 6.3%.

AN EFFICIENT PROCESS

BREEDING

We begin the production process when we buy day-old Cobb chicks from a specialist breeder in Germany. The chicks are grown for approximately 20 weeks at one of our breeder farms, Starynska or Shahtarska, before they are transferred to a rearing unit to produce eggs.

Starynska, in the Kiev region, supplies Myronivka, Peremoga and Oril-Leader. It has 14 rearing sites – six for young birds and eight for older birds which are laying eggs – and can simultaneously house more than 1.7 million hens and roosters. The farm was expanded in 2008 to supply the Myronivka complex and, in 2009, produced around 135 million hatching eggs.

Shahtarska, in the Donetsk region, supplies Oril-Leader and Druzhba Nova. It has nine rearing sites – three for young birds and six for laying hens. At any one time it houses 510,000 birds. In 2009, it produced around 46 million eggs.

The full launch of our Myronivka chicken farm required us to increase our breeding capacity. As a result, we increased production of hatching eggs by 15% to 181.0 million (2008: 157.0 million)

HATCHING

The eggs, which are certified by the State veterinary authorities, are transported from the breeder farms in temperature-controlled trucks to a closed hatchery at one of our chicken farms. There they are kept in incubators, which control temperature, humidity and air circulation, for 21 days until they hatch. The newly-hatched chicks are vaccinated against Newcastle Disease and bronchitis before they are transferred to sterilised barns at the same farm.

GROWING

In 2009, our four efficient farms reared a total of 155.5 million chickens: 80.6 million at our largest farm, Myronivka, in the Cherkasy region; 14.9 million at Peremoga, also in the Cherkasy region; 26.3 million at Oril-Leader, in the Dnipropetrovsk region; and 33.7 million at Druzhba Nova, in Crimea. Each farm consists of a number of independent units and each incorporates a hatchery, chicken barns, and a processing unit.

The population of our chicken barns complies with EU standards. Light, temperature, air circulation, feed and water are all carefully controlled to ensure stable growth, but we do not use any chemicals or steroids in the production process. We take great care to ensure that the feed contains all the fat, protein, vitamins and minerals the chicks need and adjust it regularly as they grow. Within 40 to 45 days, the birds have reached a weight of 2.3-2.5kgs and are ready for processing.

3 Chickens are processed at the same site at which they were reared.

4 Chicken is packed – whole or in portions – also at the site where it was reared. We use the most up-to-date chilling process to preserve flavour.

SURVIVAL RATE
%

FODDER CONVERSION RATE
kgs fodder to produce 1kg increase in live weight

CLOSE TO 43% MARKET SHARE IN 2009

AVERAGE SALE PRICE INCREASED BY 6.3%

GROSS MARGIN INCREASED BY 5% IN 2009

A VERTICALLY-INTEGRATED SYSTEM

INGREDIENTS FOR FEED

The greatest potential for fluctuation in the overheads of our operation is the price of materials for feed. We have achieved our objective of overcoming this factor by growing all the corn and around 15% of the sunflower we need.

The launching of the second phase of our Myronivka complex increased our need for fodder and, in turn, for the protein content which we derive from sunflower seeds. As a result, in September 2009, we opened a new sunflower-seed crushing plant at Katerynopilsky. The plant, which has a full production capacity of 620 tonnes of seeds a day, is already operating at full capacity and has enabled us to increase our total sunflower processing capacity by 50%, to 550,000 tonnes a year.

In addition, we expect the plant to produce an additional 5,800 tonnes of sunflower oil – a by-product of the crushing process – each month. We plan to continue to use the proceeds of selling the oil on the international markets to service our US$-denominated debt.

FEED PRODUCTION AND STORAGE

We operate three feed production facilities, MFC near Kiev, TKZ in southern Ukraine, and Katerynopilsky in the Cherkasy region, and five storage facilities, MFC, Novomoskovsky, Rakita, Katerynopilsky and Dobropilsky, which together have a capacity of approximately 735,000 cubic metres. The mills are strategically positioned to minimise transportation time and cost: MFC supplies Myronivka, Starynska and Shakhtarska, TKZ supplies Druzhba Nova, and Katerynopilsky supplies Myronivka, Oril Leader and Peremoga.

MFC, which produced 383,500 tonnes of feed in 2009, comprises a fodder mill, a protein mill, five grain stores and a cereals mill. Each of its two production lines is able to 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, which has a capacity of 220,000 tonnes a year, produced 96,435 tonnes of fodder in 2009.

Katerynopilsky has two production lines which together have a capacity of approximately 600,000 tonnes a year. In 2009, they produced 396,900 tonnes of fodder – a 52% increase on the previous year as a result of the increased demand from Myronivka.

WINNING GREATER MARKET SHARE

CONTINUED

1 Our own fleet of refrigerated trucks delivers products to our distribution centres.

2 Around 40% of our output is sold through our franchised outlets.

PROCESSING

The chickens are slaughtered, dressed and chilled, either whole or in portions, on the same site at which they are reared. We use the most up-to-date technology in the chilling process to preserve flavour and texture, and packaged chicken is kept at 2°C before being delivered to customers. Any meat which is surplus to immediate requirements is frozen.

Most parts of our chilled chicken is sold under our market-leading "Nasha Ryaba" brand through our network of franchised shops or through supermarkets.

VALUE-ADDED FOOD

MHP is Ukraine's leading producer of innovative convenience food. The products – which range from uncooked marinated meat to pre-cooked recipes – are produced on the modern production lines at our MMPP facility and are blast frozen to protect their flavour. They are sold through franchised stores, supermarkets and the food service trade.

Increasing unemployment in Ukraine in 2009 resulted in consumers having lower disposable incomes and more time to cook from raw ingredients and, in turn, resulted in a decline in the sales of convenience food. We are confident, however, that once the economy improves demand for these labour-saving products will return.

MAINTAINING QUALITY AND BIOSECURITY

We employ a broad range of security measures at all our facilities to minimise the risk, and transmission, of disease. All chickens are reared in indoor barns to EU standards, access to facilities is strictly controlled, employees and vehicles are disinfected before entering production areas, and a team of around 200 vets monitors the health of the flocks. We monitor wild birds in the vicinity of our farms on a weekly basis to detect any potential signs of bird flu.

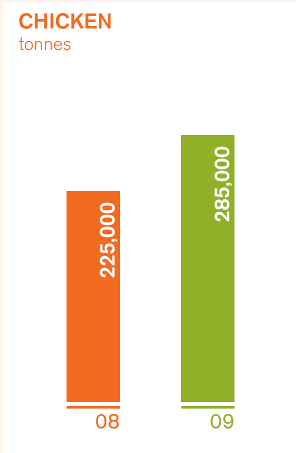
Under our multi-site system, units at each farm are at least 1km distant from one another to prevent the spread of any disease, and individual barns within a unit are approximately 50 metres away from one another. Barns are cleaned thoroughly before a new generation of chickens is introduced and birds of different generations are not mixed together.

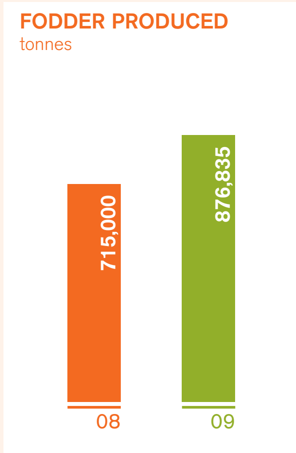
We operate an efficient traceability system. This maintains the quality of our products by enabling us to track the production process from start to finish by linking every batch of chickens to its original facility.

Druzhba Nova, is certified under HACCP (Hazard Analysis and Critical Control Point) methodology and our Food Safety Management System (FSMS). We have implemented a QMS (Quality Management System) at our Myronivsky Meat Processing Plant, which is also certified under our FSMS. Snyatynska received QMS and FSMS in February 2010, and MFC, Katerynopilsky and Myronivka are expected to be certified during 2010. Our QMS system is certified to ISO 9001 standards and our FSMS system to ISO 22000 standards.

3 MHP is Ukraine's leading producer of innovative convenience food.

4 There is a growing market for value-added food.





430+ REFRIGERATED DELIVERY VEHICLES

11 DISTRIBUTION CENTRES IN UKRAINE

2,300+ BRANDED FRANCHISE OUTLETS

DISTRIBUTION AND SALES

Our own fleet of 430+ refrigerated trucks delivers our products from our farms to our 11 distribution centres. From there they deliver the products to our branded franchise outlets, supermarkets and to other customers.

We sell approximately 40% of our output through our franchised stores. This creates a number of advantages: we are able to control products' quality on the shelf, to generate better cash flow (franchisees have to commit to a short payment period), to ensure sufficient products are available to meet demand, and to be flexible in marketing and pricing.

OUR STRATEGIC OBJECTIVES

We have a strategy of expansion. The opening of the second stage of the Myronivka farm – the largest farm in Ukraine and one of the largest in Europe – was a key factor in achieving that. By growing organically, through green-field projects, we achieve lower production costs per kg, and intend to continue with this strategy.

Building further production facilities, which we plan to begin in the near future, should enable us to achieve even greater economies of scale by reducing our operating costs per unit. It would also enable us to continue to meet the increasing demand for high-quality, affordable chicken.

ACHIEVING

GREAT RESULTS ON OUR LAND

1 We are now self-sufficient in corn, the main ingredient for chicken feed.

2 We continue to increase efficiency on our arable farms by employing the most up-to-date equipment.

150,000 HECTARES OF LAND UNDER CULTIVATION IN GRAIN GROWING DIVISION; 30,000 HECTARES IN OTHER AGRICULTURAL DIVISION

YIELD PER HECTARE IS SIGNIFICANTLY HIGHER THAN THE UKRAINIAN AVERAGE

PRINCIPAL CROPS ARE CORN AND SUNFLOWERS; WHEAT AND RAPE ARE ALSO GROWN AS PART OF OUR CROP ROTATION SYSTEM

REVENUE FROM EXPORT SALES AMOUNTS US$30 MILLION (2008: NONE)

3

4

3 We grow rape as part of our crop-rotation system and earn revenue by selling it on the open market.

4 Our five grain storage facilities have a total capacity of 735,000 cubic metres.

ACHIEVING
GREAT RESULTS ON OUR LAND

CONTINUED

1


2


3


4


1 In 2009 our corn crop yielded 9 tonnes a hectare.

2 We grow around 34,000 hectares of wheat.

3 Our sunflower crop yielded 3.3 tonnes a hectare.

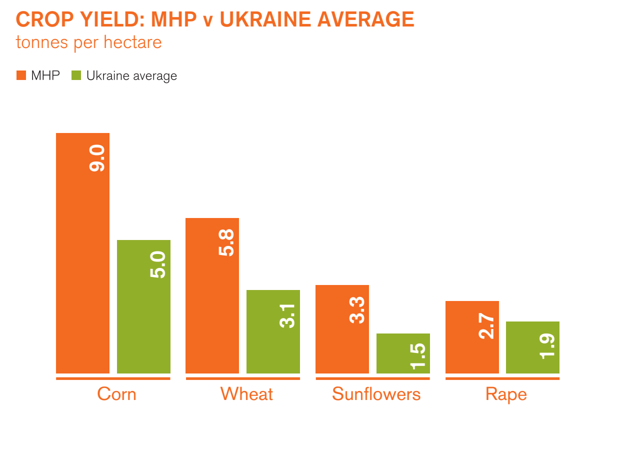
4 We grew rape on 13,500 hectares.

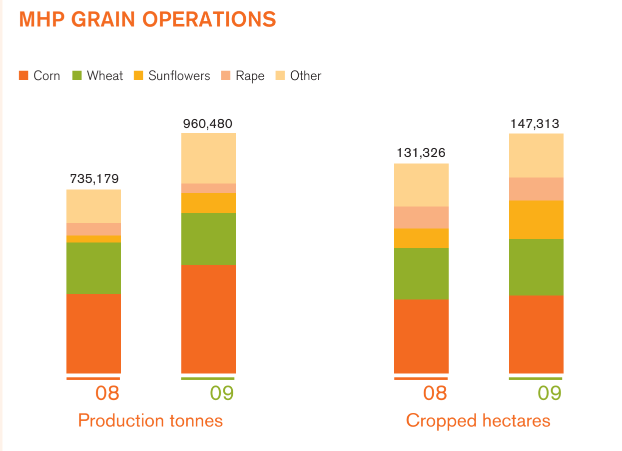
One of the foundations of our vertical integration strategy is our ability to grow our own crops to produce feed. We use the corn and sunflowers we grow to produce fodder for our chickens; we sell the wheat and rape to third parties.

We operate a crop rotation system and use organic waste (bedding and chicken droppings) from our farms to fertilise the land.

We are fortunate in that the Ukrainian climate provides adequate rainfall as well as sunshine. The main benefit of growing our own supplies is that we can optimise our poultry production costs. The crops we do not use for fodder provide additional revenue by being sold on the open market; in 2009, we earned US$45.8 million from sales of grain to third parties.

Our five arable 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 our land holding from 148,500 to 180,000 hectares. Of the approximately 150,000 hectares in our grain growing segment which were under cultivation during the year, 32% was used for growing corn and yielded 9.0 tonnes per hectare; 23% was used for growing wheat and yielded 5.8 tonnes per hectare; 16% was used for growing sunflowers and yielded 3.3 tonnes per hectare; 9% was used for growing rape and yielded 2.7 tonnes per hectare; and 20% was used for other agricultural crops, including barley and buckwheat, which are grown as part of our crop rotation system.





Source: Company estimates based on AgroPerspektiva

YIELD IS HIGHER THAN THE UKRAINIAN AVERAGE

100% OF CORN AND SUNFLOWER HARVEST WILL BE USED FOR POULTRY PRODUCTION

GROSS PROFIT INCREASED FROM US$1.5m TO US$24.9m IN 2009

We store the harvested grain at our Katerynopilsky, MFC and Oril-Leader facilities. Katerynopilsky has a capacity of 283,000 cubic metres, MFC holds 239,000 cubic metres, Novomoskovsky and Rakita hold 80,000 cubic metres each and Dobropilsky holds 53,000 cubic metres.

EXPANDING OUR CAPACITY

Our short-term objective is to increase efficiency, and therefore yield, by introducing up-to-date technology to our farms in the firm belief that this will support our plans to increase chicken production.

The excellent performance of the grain division in 2009 has strengthened our resolve to increase our grain output by bringing more high-yielding land under our control. We intend to increase our land bank up to 300,000 hectares within a few years.

EXPANDING OUR DIVERSIFICATION

SAUSAGE AND COOKED MEAT PRODUCTION INCREASED BY 53.8% TO 24,600 TONNES IN 2009

UKRAINIAN BACON'S PRODUCTS SERVE A MARKET IN WHICH DEMAND IS STILL GROWING

MHP IS No 1 IN THE HIGHLY-FRAGMENTED MEAT PROCESSING MARKET WITH AN APPROXIMATELY 10% MARKET SHARE

1 In 2009, we reared around 45,000 pigs at our Druzhba Narodiv complex, where they are processed into sausage and cooked meat products.

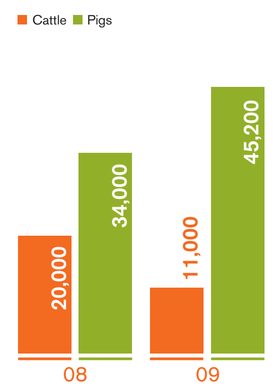
2 The pedigree Aberdeen Angus cattle we rear are used in our "Certified Angus" brand.

3 Around 50% of Crimea Fruits' 2,400 hectares of orchards are devoted to growing apples.

4 We breed Babolna Grey Landes geese at Snyatynska, where we produce foie gras.

EXPANDING
OUR DIVERSIFICATION
CONTINUED

CATTLE AND PIGS REARED



Our Other Agricultural Operations division produce a range of fresh and prepared products, ranging from economically-priced sausages and cooked meat, to top-quality beef and foie gras. The leading producer in what is a highly-fragmented market, we use 50% of internally produced chicken, beef and pork in the production of these products. Meat processing is a core business for us in this division.

Our July 2008 acquisition of Ukrainian Bacon enabled us to increase production and also enabled us to respond to consumer demand by introducing a range of lower-price products.

As the result of a full-year contribution from Ukrainian Bacon, we increased our output by 53.8% to 24,600 tonnes (2008: 16,000 tonnes). We sell the division's products through convenience and local stores, supermarkets, distributors and to the food service industry.

Average sausage and cooked meat prices decreased by 5% during 2009, to UAH17.33 a kg, excluding VAT (2008: UAH18.23 a kg). This was to meet consumer demand and part of our policy of moving towards mass-market products.

SAUSAGES AND COOKED MEAT

We operate two plants which produce sausages and cooked meat: Druzhba Narodiv, in Crimea, and Ukrainian Bacon, in the Donetsk region. Druzhba Narodiv also produces our "Certified Angus" brand of prime beef.

An integrated facility, Druzhba Narodiv – which produces 90 different types of pork and beef sausages, smoked and semi-smoked sausages, and ham – has been fully operational since 2007. In 2009 it reared around 11,000 head of cattle – including pedigree Aberdeen Angus which are used for our "Certified Angus" brand – and around 45,200 pigs (2008: 20,000 cattle and 34,000 pigs). It grows corn, wheat and barley on its land to feed its livestock.

Ukrainian Bacon's processing and production facility produces sausages and cooked meat under the "Baschinsky" and "Europroduct" brands. During the year, we repositioned the company's output to meet the demand for lower-priced products.

1 Crimea Fruits' apple crop is grown for the domestic market.

2 "Certified Angus" being packed at Druzhba Narodiv.

3 Ukrainian Bacon, acquired in 2008, produces a vast range of sausages and cooked meat.

SAUSAGE AND COOKED MEAT PRODUCTION
tonnes

SAUSAGE AND COOKED MEAT AVERAGE PRICES
UAH per kg

24,600 TONNES OF MEAT-PROCESSING PRODUCTS IN 2009

53.8% INCREASE IN PRODUCTION IN 2009

CHICKEN COMPRISES 50% OF RAW MATERIAL USED

BEEF
We sell top-quality beef under our "Certified Angus" brand. The pedigree cattle are reared, and the meat processed, at Druzhba Narodiv.

GOOSE AND FOIE GRAS
Our Snyatynska complex is home to our goose and foie gras operations. Parent stock, which were initially imported from Hungary, are now reared at the farm, which also incorporates a hatchery, 53 geese houses and a processing plant.

We chose to breed Babolna Grey Landes geese because they have a high hatching capacity, feed well and produce high-fat liver. We are looking at the potential for exporting foie gras to the EU.

FRUIT
Approximately 50% of Crimea Fruits' 2,400 hectares of orchards is devoted to growing apples in a climate that is similar to that of northern Italy. On the remaining land, the farm also produces pears, peaches, grapes, strawberries, plums and cherries. The produce is primarily sold to supermarkets.

The majority of the fruit was planted in 2007 and will take between five and seven years to reach maturity and become profitable. We are aware of its importance to the local economy and will continue to support it.

CONTINUING INNOVATION
Our other agricultural activities enable us to monitor the food market as a whole. Our objectives are to continue to increase market share in a highly fragmented market, to continue to introduce innovative products, and to market them at affordable prices, to meet changes in consumer demand.

RISK MANAGEMENT

RISKS AND THEIR MANAGEMENT

Some of the risks the Group faces are common to all commercial operations, some are inherent in farming in general and chicken farming in particular. The principal risks the Group faces are macro-economic, financial, and operating. MHP has effective policies in place to manage and, where possible, to avoid these risks.

RISK	POTENTIAL IMPACT	MITIGATION
MACRO-ECONOMIC RISKS **Conditions in Ukraine** Significant depreciation of UAH to US dollars in Q4 2008 resulted in 48% depreciation of the 2009 average exchange rate of UAH/US dollar against 2008 average exchange rate.	Consumers will have lower disposable income and will reduce spending on food. The hryvnia may continue to depreciate, making imports more expensive.	MHP is Ukraine's largest producer of chicken and chicken products – which retail at 75% of the price of pork and beef. Our vertically-integrated production system enables us to reduce our reliance on imports by producing sunflower protein for feed. Our crop rotation system enables us to export wheat and rape. Combined with sales of sunflower oil (a by-product of processing seed for feed), we are able to offset the majority of the cost of any expenses denominated in foreign currency.
FINANCIAL RISKS **Credit risk**	Debtors fail to make scheduled payments.	No single customer represents more than 8% of total sales. The amount of credit allowed to one customer or group of customers is strictly controlled. Credit to major groups of customers, including supermarkets and franchises, is restricted to between five and 30 days. Management approves and monitors credit limits, and assesses the recoverability of amounts receivable – for poultry, 30 days after the end of the credit period; for other sales, 60 days.
Liquidity risk	Lack of funds to make payments due.	MHP has a detailed budgeting and cash forecasting process to ensure that adequate funds are available. 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	Exposure to fluctuation in exchange rates. Inability to repay US dollar debt.	We do not use derivatives, which are neither available nor routinely used in Ukraine, to manage our exposure. We earn around 20% of our total revenue in US dollars through the sale of sunflower oil, sunflower husk, grain and meat. This represents a hedge against exchange risk and very nearly services our dollar-denominated loans. In addition, our strategy of growing the majority of our own ingredients for feed, rather than relying on imports, helps to reduce our exposure.
Interest rate risk	Changes in interest rates affecting the cost of borrowings, the value of our financial instruments, and our profit and loss and shareholders' equity.	While MHP borrows on both fixed and variable rates, more than 50% of our debt is at fixed rates. 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.

RISK	POTENTIAL IMPACT	MITIGATION
OPERATIONAL RISKS **Fluctuations in demand and market prices**	A fall in demand.	Falls in demand can generally be overcome with modest price reductions. Per capita consumption of meat is still low in comparison with other European countries and demand for chicken will, we believe, continue to increase.
	Lower prices and increased availability of other types of meat.	Some frozen chicken is imported, but compares unfavourably with MHP's fresh or chilled products. Beef and pork are mostly produced by householders and are far more expensive to produce and purchase than chicken, kg for kg.
Avian flu and other livestock diseases	In recent years, avian flu has affected wild birds and poultry flocks in a number of countries. 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	World prices could affect our production costs.	We grow 100% of the corn we need for feed and replace expensive protein from imported soya beans with that from sunflower seeds. We also grow around 15% of the sunflowers we need and buy the rest from domestic growers. We hedge against fluctuating prices by entering into forward contracts for feed ingredients, and for selling our rape and wheat.
Increased cost for, or disruptions in, gas and fuel supplies	Gas and fuel, used for production and distribution, are imported. Uncertainty in supply and fluctuating prices could affect production and costs.	Gas and fuel represent only about 8% of our overall costs. We are increasing our use of co-generation and alternative energy technology. When we process sunflower seeds we are left with a huge amount of husks; we burn some to generate steam heat for our processing plant; a proportion is converted into briquettes for generating energy and these are exported.
Weather	Inclement weather could affect crop yield.	Ukraine's weather is generally temperate, with plenty of sunshine in summer and adequate rainfall; this combines with extremely fertile earth to create excellent growing conditions. In addition, our management of our land and the use of modern technology enable us to achieve a yield which is significantly higher than the average for Ukraine.

CORPORATE RESPONSIBILITY

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, processed meat products, and on growing grain. As the leading poultry producer in Ukraine, according to the State Customs Service of Ukraine (SCSU), MHP accounted for approximately 43% of all chicken commercially produced in the country in 2009.

We also have one of the country's largest portfolios of agricultural land: we have approximately 180,000 hectares under control, of which approximately 150,000 hectares is under cultivation in our Grain Growing segment, and 30,000 in our Other Agricultural segment. In addition, we produce and sell sunflower oil as a by-product of producing chicken feed, as well as sausages, cooked meat, convenience food, beef, goose and other agricultural products.

OPERATIONS

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

Our Poultry and Related Operations segment produces and sells chicken and chicken products, sunflower oil, convenience food, mixed fodder and other related products. In 2009 it accounted for 81.2% of sales (2008: 82.2%).

Our Grain Growing Operations segment, produces feed grain for our own operations; a proportion is also sold to third parties. In 2009, grain sold to third parties was responsible for 6.4% of MHP's total revenues (2008: 6.2%).

Our Other Agricultural Operations segment produces and sells sausages and cooked meat, produced by Druzhba and Ukrainian Bacon, as goose, foie gras, and other agricultural products. It accounted for 12.4% of 2009 sales (2008: 11.6%).

RESULTS

All the key financial indicators during 2009 increased year-on-year as reported in local currency (hryvnia – UAH). When translated into US dollars, however, as a result of the hryvnia's 48% depreciation against the US dollar as compared to the 2008 average exchange rate UAH/US dollar (2008: UAH5.3 to one US dollar, 2009: UAH7.8), some of the key financial indicators were down year-on-year.

In 2009, MHP's consolidated revenues from continuing operations in UAH increased by 33% to UAH5,552.2 million (2008: UAH4,189.2 million) – a reflection of the strong performance of the company's poultry segment and growth in chicken sales volumes. In US dollars it decreased by 11% to US$711.0 million (2008: US$802.9 million). Gross profit from continuing operations in hryvnia increased by 55% to UAH1,923.5 million (2008: UAH1,238.3 million) and in US dollars it increased by 4% to US$247.1 million (2008: US$237.5 million); gross margin increased from 30% in 2008 to 35% in 2009.

Continuing operations	**2009 US$000**	2008 US$000	Change %
REVENUE	**711,004**	802,910	(11)
NET CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE	**35,236**	6,327	457
Cost of sales	**(499,163)**	(571,710)	(13)
GROSS PROFIT	**247,077**	237,527	4
GROSS MARGIN	**35%**	30%	17
Selling, general and administrative expenses	**(80,972)**	(80,495)	1
Government grants recognised as income	**67,812**	107,663	(37)
Other operating expenses	**(15,209)**	(10,022)	52
Other operating income	**576**	600	(4)
OPERATING PROFIT BEFORE LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**219,284**	255,273	(14)
EBITDA	**270,961**	312,211	(13)
EBITDA MARGIN	**38%**	39%	(2)
Loss on impairment of property, plant and equipment	**(1,304)**	(11,767)	(89)
OPERATING PROFIT	**217,980**	243,506	(10)
Finance costs, net	**(50,817)**	(51,663)	(2)
Finance income	**3,823**	6,695	(43)
Foreign exchange losses, net	**(23,580)**	(187,127)	(87)
Other expenses	**(712)**	(784)	(9)
Gain realised from acquisitions and changes in minority interests	**5,413**	4,482	21
Other income	**1,408**	1,085	30
PROFIT BEFORE TAX	**153,515**	16,194	848
Income tax benefit/(expense)	**6,488**	(1,279)	(N/A)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**160,003**	14,915	973
Net income margin	**23%**	2%	1,111

The relevant exchange rates were:

	As of 31 Dec 2009	**Average for 2009**	As of 31 Dec 2008	Average for 2008	As of 31 Dec 2007	Average for 2007
UAH/US$	**7.985**	**7.7916**	7.7	5.2693	5.05	5.05
UAH/EUR	**11.4489**	**10.8736**	10.8555	7.7114	7.4195	6.9192

FINANCIAL REVIEW

EBITDA in local currency increased by 29% to UAH2,113.1 million (2008: UAH1,633.5 million); in US dollars it decreased by 13% to US$271.0 million (2008: US$312.2 million). EBITDA margin remained stable at 38% (2008: 39%), despite cancellation of direct government subsidies.

Net profit for the year from continuing operations increased significantly to UAH1,245.1 million (2008: loss of UAH151.0 million) or US$160.0 million (2008: US$14.9 million). In 2008 the net profit was adversely affected by non-cash foreign exchange losses of US$187.1 million, principally as a result of the significant depreciation of the hryvnia during 2008 and a subsequent revaluation of the company's balance sheet, mainly debt denominated in foreign currencies.

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 2009, State support was provided in the form of special tax regimes and tax privileges.

In 2009 MHP benefited from various forms of State support, which resulted in significant tax savings, but did not receive any direct subsidies from the government, whereas in 2008 an aggregate of US$46.1 million was received in direct government support.

On 4 February 2009, The Verkhovna Rada of Ukraine adopted Law No 5922-VI (which came into effect on 17 March 2009), which does not restrict the duration of VAT and profit tax benefits for agricultural producers. It will be in effect indefinitely.

FOREIGN CURRENCY EXCHANGE RATES AND FUNCTIONAL CURRENCY

MHP's operating assets are located in Ukraine and its revenues and costs are principally denominated in hryvnias. Approximately 20% of our revenue and all financial costs are denominated in foreign currencies, primarily US dollars. 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, sunflower husks, grain and poultry. In total, during 2009, the company generated US$153 million of revenue in foreign currencies.

The functional currency for the Group's companies is the Ukrainian hryvnia (UAH); however, for the convenience of users of the financial statements, MHP presents its financial statements in US dollars (US$).

Translation to the presentation currency has been conducted according to 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 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 quarterly average rates of exchange, if such translations reasonably approximate to the results of transactions translated at historical currency rates.

INCOME STATEMENT 2009 BY SEGMENT

	Poultry US$000	Other agricultural US$000	Grain US$000	Unallocated US$000	Total US$000
REVENUE					
Total revenue	599,581	89,605	83,425	–	772,611
Inter-segment eliminations	(22,438)	(1,496)	(37,673)	–	(61,607)
Sales to external customers	577,143	88,109	45,752	–	711,004
CoGS*	(375,100)	(85,352)	(38,711)	–	(499,163)
Net change in fair value of biological assets and agricultural produce	16,670	704	17,862	–	35,236
GROSS PROFIT	218,713	3,461	24,903	–	247,077
Selling, general and administrative expenses	(58,479)	(6,456)	–	(16,037)	(80,972)
Government grants,recognised as income	50,506	6,726	10,580	–	67,812
Other operating income/expenses	(14,146)	(497)	(182)	192	(14,633)
SEGMENT RESULT/OPERATION PROFIT BEFORE LOSS ON IMPAIRMENT	196,594	3,234	35,301	(15,845)	219,284
EBITDA	233,787	8,707	44,312	(15,845)	270,961
Loss on impairment	–	(1,304)	–	–	(1,304)
OPERATING PROFIT	196,594	1,930	35,301	(15,845)	217,980
Finance cost	–	–	–	–	(50,817)
Finance income	–	–	–	–	3,823
Foreign exchange losses	–	–	–	–	(23,580)
Gain realised from acquisitions and changes in minority interests	–	–	–	–	5,413
Other income/expenses	–	–	–	–	696
PROFIT BEFORE TAX	–	–	–	–	153,515
Income tax expenses	–	–	–	–	6,488
Net profit from continuing operations	–	–	–	–	160,003

* CoGS to external customers as adjusted for inter segment sales results.

POULTRY AND RELATED OPERATIONS

MHP's revenue in its poultry and related operations is principally generated from sales of chicken and, to a lesser extent, of sunflower oil (a by-product of its sunflower protein production), mixed fodder and convenience food. The division's revenue accounted for 81.2% of MHP's total revenue from continuing operations (2008: 82.2%), 86.3% in US$, and 86.2% in UAH of its EBITDA (2008: 94.9% in US$ and 95.4% in UAH).

Revenue from sales of chicken is primarily from sales of chilled chicken, whole or in portions, ancillary products (such as hearts and livers), frozen chicken.

In 2009, MHP's poultry and poultry-related operations segment performed strongly, despite the challenging economic conditions in Ukraine. Consumer demand for chicken remained high as consumers continued to substitute other meats with locally-produced chicken. All the company's existing poultry production facilities operated at their full capacity during the year and the company was able to sell close to 100% of the chicken produced.

In accordance with previously announced plans, MHP successfully launched phase 2 of the Myronivka poultry farm, the company's new state-of-the-art production facility in Q2 2009 and it reached its full production capacity in Q3 2009.

Chicken sales to the third parties on an adjusted-weight basis increased by 26.9% to 272,900 tonnes. 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 6.3%, to UAH12.79 per kg, compared with 2008.

Revenue from sales of chicken and other related operations in UAH increased by 31% to UAH3,606.2 million (2008: UAH2,754.7 million) as a result of greater volumes being sold and increased prices. In US dollars it decreased by 13% to US$462.3 million (2008: US$529.4 million).

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. Revenues from the sale of sunflower oil decreased by 8% to US$101.3 million (2008: US$110.0 million). In 2009 we sold 140,400 tonnes of sunflower oil (2008: 93,300 tonnes).

Divisional costs consist of price of feed grain, payroll, utilities and depreciation. Most of the feed grain used in poultry production, such as sunflower seeds and corn, is produced by the company's grain growing division, and is consumed by the poultry division at a market price set at the time it is harvested.

	2009 US$000	2008 US$000	Growth rate %
POULTRY AND RELATED OPERATIONS			
REVENUE	**577,143**	660,031	(13)
Chicken meat	**443,654**	501,013	(11)
Sunflower oil	**101,274**	109,974	(8)
Convenience food	**13,613**	20,696	(34)
Other poultry related poultry	**18,602**	28,348	(34)
CoGS*	**(375,100)**	(442,326)	(15)
IAS 41 standard gains	**16,670**	17,854	(7)
GROSS PROFIT	**218,713**	235,559	(7)
Gross margin	**37.9%**	35.7%	6
EBITDA	**233,787**	296,395	(21)
EBITDA margin	**40.5%**	44.9%	(10)
GRAIN GROWING OPERATIONS			
REVENUE	**45,752**	49,777	(8)
CoGS*	**(38,711)**	(37,892)	2
IAS 41 standard gains	**17,862**	(10,390)	272
GROSS PROFIT	**24,903**	1,495	1,566
Gross margin	**54.4%**	3.0%	1,712
EBITDA	**44,312**	19,064	132
EBITDA margin	**96.9%**	38.3%	153
OTHER AGRICULTURAL OPERATIONS			
REVENUE	**88,109**	93,102	(5)
Meat processing	**60,116**	66,122	(9)
Other	**27,993**	26,980	4
CoGS*	**(85,352)**	(91,492)	(7)
IAS 41 standard gains	**704**	(1,137)	162
GROSS PROFIT	**3,461**	473	632
Gross margin	**3.9%**	0.5%	673
EBITDA	**8,707**	7,567	15
EBITDA margin	**9.9%**	8.1%	22

* CoGS to external customers as adjusted for inter segment sales results.

FINANCIAL REVIEW

In UAH the division's revenue increased by 30.8% in 2009 while the cost of sales increased by 29.1% to UAH2,934.4 million (2008: UAH2,272.4 million). This was principally a result of the efficiency of our Myronivka operations and the benefits of vertical integration, as well as of increased chicken prices. In US dollars the division's revenue decreased by 13% to US$577.1 million (2008: US$660.0 million) and cost of sales decreased by 14% to US$375.5 million (2008: US$437.9 million).

Increases in sales volumes and prices, together with stable production costs, resulted in gross profit in UAH increasing by 37% year-on-year to UAH1,702.8 million (2008: UAH1,242.8 million); in US dollars gross profit decreased by 7% to US$218.7 million (2008: US$235.6 million). Gross profit margin improved by 5% from 36% in 2008 to 38% in 2009.

An increase in the average price of chicken, combined with stable costs, resulted in the division's EBITDA increasing in UAH by 17% to UAH1,821.7 million (2008: UAH1,559.0 million); in US dollars it decreased by 21%, from US$296.4 million to US$233.8 million. EBITDA margin remained high at 41% (2008: 45%) despite cancellation of direct government grants.

GRAIN GROWING

MHP grows four major crops: corn and sunflowers, which are used in its own operations; and rape and wheat, which are sold to third parties. In 2009, the division harvested 150,000 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, including exports was US$45.8 million in 2009 (2008: US$49.8 million) and included the sale of rape, wheat and barley. Revenue from export sales in 2009 amounted to US$30.1 million (no export in 2008). In UAH terms revenue was UAH360.3 million (2008: UAH255.2 million).

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 increased significantly from UAH(1.7) million to UAH 193.8 million, US$1.5 million to US$24.9 million, as a result of high crop yields and, therefore, a reduction in production costs per tonne. The market price for sunflower and corn was high at harvest time – which is when we calculate fair value of harvest. As a result, there was a concomitant increase in divisional EBITDA by 243% to UAH348.5 million (2008: UAH101.7 million) and in dollar terms by 132%, to US$44.3 million (2008: US$19.1 million).

OTHER AGRICULTURAL OPERATIONS

MHP's revenue in its Other Agricultural Operations division is generated from the sale of sausages, cooked meat, foie gras, fruit and other agricultural products, produced by Druzhba and Ukrainian Bacon, Snyatynska, and Crimea Fruit.

Revenue from Other Agricultural Operations was UAH686.7 million (2008: UAH491.0 million), an increase of 40%, and in US dollar terms US$88.1 million (2008: US$93.1 million), a 5% decrease year-on-year. This was primarily attributable to an increase in sales volumes and a shift in the product range towards mass market products. Sausage and cooked meat sales increased by 54% to 24,600 tonnes (2008: 16,000 tonnes). More than 60% of this growth resulted from the acquisition of Ukrainian Bacon in June 2008.

The 5% decrease in the average price of sausages and cooked meat, to UAH17.33 per kg (2008: UAH18.23 kg) – US$2.2 per kg (2008: US$3.3 per kg) – was a reflection of the market situation.

Divisional costs primarily consist of meat for meat processing (including chicken meat internally produced), utilities, payroll and depreciation.

CASH FLOW

	2009 US$000	2008 US$000	Growth rate %	2007 US$000
FUNDS FROM OPERATIONS	**200,786**	263,274	(24)	107,826
Increase in working capital	**(77,724)**	(140,556)		(9,261)
CASH FROM OPERATING ACTIVITIES	**123,062**	122,718	0	98,565
CAPEX	**(170,913)**	(265,206)	(36)	(171,311)
including non-cash investments	**26,607**	63,929		56,266
Asset sales and other	**717**	3,238		15,689
Deposits	**17,722**	(15,581)		(8,055)
CASH FROM INVESTING ACTIVITIES	**(125,867)**	(213,620)	(41)	(107,411)
CASH FROM FINANCING ACTIVITIES	**(28,176)**	141,866		(25,481)
Effects of exchange rates on cash	**(843)**	(6,980)		–
TOTAL CHANGE IN CASH	**(31,824)**	43,984	(172)	(34,327)

Divisional costs in UAH increased by 37% to UAH666.0 million (2008: UAH485.4 million). In dollar terms, divisional costs decreased by 7% to US$85.4 million (2008: US$91.5 million) as a result of the shift in the product mix and an increase in production of products produced from chicken.

Divisional gross profit increased to UAH26.8 million (2008: UAH(2.8) million), and in dollar terms to US$3.5 million in 2009 (2008: US$0.5 million). Divisional EBITDA increased by 119% to UAH67.9 million (2008: UAH31.0 million), and in dollar terms by 15% to US$8.7 million (2008: US$7.6 million). EBITDA margin increased to 10% (2008: 8%).

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$123.1 million (2008: US$122.7 million).

In 2009, the total in working capital was US$77.7 million.

The main contributors to working capital were:

- an increase in biological assets and inventories following the launch of Myronivka phase 2;
- an increase in trade receivables as the result of an increase in monthly sales and prices resulting from the full launch of our Myronivka project; and
- an increase in VAT tax recoverable, which is related to 2009 CAPEX.

In 2009 our total capital expenditure, of US$170.9 million was mostly related to the launch of the second phase of the Myronovka poultry farm facility.

As at 31 December 2009, the company's total debt was approximately US$519 million, most of which was denominated in US dollars. The average weighted cost of debt was below 10%. US$250 million of the debt is in Eurobonds, which are not redeemable until November 2011. The total debt/EBITDA ratio at the end of the period was 1.92 (Eurobond covenant: 2.5). As a hedge for currency risks, revenue from exports of sunflower oil, sunflower husks, wheat, rape and poultry is used fully to cover debt service expenses.

US$82 million of our long-term debt is principally represented by finance agreements with vendors of equipment; it matures at various times up to the end of 2018.

US$69 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 2014.

The increase in company debt during 2009 was as a result of additional short-term loans to support an increase in working capital and an additional finance lease for agricultural machinery.

At the end of the reporting period MHP had US$29.9 million in cash and deposits.

CURRENT TRADING

Consumer demand for poultry continues to be high and the company's production facilities are all operating at full capacity.

In 2010, we expect that output from Myronivka complex will enable us to increase production by 16%, to 330,000 tonnes of chicken.

In Q1 2010 production of chicken meat increased by around 50% compared to Q1 2009.

In Q1 2010 we have increased production and sales of meat processing products and convenience food. 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.

DEBT

	2009 US$000	2008 US$000	2007 US$000
TOTAL DEBT	**519,253**	516,681	467,382
Eurobond	**248,046**	246,903	243,604
Ukrainian bonds	**–**	–	39,604
Loans covered ECA	**81,873**	78,697	86,597
Financial leases and vendor financing	**69,004**	69,597	44,441
ST loans	**113,960**	109,000	53,136
Other debt	**6,370**	12,484	–
Cash at bank and deposits	**29,880**	79,414	20,143
NET DEBT	**489,373**	437,267	447,239
EBITDA from continuing operations	**270,961**	312,211	166,438
Debt/EBITDA	**1.92**	1.65	2.81
Net Debt/EBITDA	**1.81**	1.40	2.69

BOARD OF DIRECTORS

CHARLES E ADRIAENSSEN, AGE 53
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 member of the Board of Eurochem. He was between 2000 and 2004 a director of INTERBREW and, since 2004, a director of Rayuax SA, a holding company of 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 41
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 40
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 40
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 34
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 58
NON-EXECUTIVE DIRECTOR

Dr Rich joined the board in 2006. He is 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 64
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE AUDIT COMMITTEE

Mr Grant is Chairman of Torotrak plc, Gas Turbine Efficiency plc and Surion Energy 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, Hasgo Group Limited and 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. The term of office of each member of the Board of Directors will expire at the annual general meeting stating on the annual accounts as of 31 December 2011. 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 non-binding principles on corporate governance of the Luxembourg Stock Exchange. The Audit Committee is responsible for overseeing internal control and risk management, and for monitoring its effectiveness.

CORPORATE GOVERNANCE

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$6.5 million (2008: US$9.3 million). Total compensation consists of contractual salary and performance bonuses.

Key management personnel totalled 35 (2008: 32).

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 MHP's senior management or employees. MHP is currently considering various compensation structures and may consider establishing such a plan 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 2009.

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 150,000 hectares of land. It incorporates a number of arable farms and grain storage facilities.

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

More information about the operations of the business is set out in the Chairman's Statement on page 7, the Chief Executive Officer's review on pages 8-9, and the Business review on pages 12-25.

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 300,000 hectares 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; and
- to continue to develop its distribution network and customer base.

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 2010 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.

DIRECTORS IN THE YEAR

The following served as directors of the company during the year ended 31 December 2009.

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 34 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 page 36 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 2010.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each director is aware, all information which is relevant to the audit of the group's financial statements has been supplied to the group's auditors. 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 2009, 2008 AND 2007

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 39, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of MHP S.A. 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 2009, 2008 and 2007, the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management, within its competencies, is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2009, 2008 and 2007 were authorised for issue by the Board of Directors on 30 March 2010.

On behalf of the Board

Yuriy Kosyuk, Chief Executive Officer

Viktoria Kapelyushnaya, Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the shareholders of
MHP S.A.
5, rue Guillaume Kroll
L-1882 Luxembourg

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Following our appointment by the General Meeting of the Shareholders, we have audited the consolidated financial statements of MHP S.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2009, the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows 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 31 December 2009 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

30 March 2010

CONSOLIDATED BALANCE SHEETS

AS OF 31 DECEMBER 2009, 2008 AND 2007

	Notes	2009 US$000	2008 US$000	2007 US$000
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment, net	8	**627,678**	517,564	624,756
Prepayments for property, plant and equipment		**6,591**	22,269	5,883
Deferred tax assets	9	**10,183**	2,047	2,705
Long-term VAT recoverable, net	10	**20,670**	9,112	1,742
Non-current biological assets	11	**36,235**	29,480	42,096
Other non-current assets	12	**9,571**	6,458	8,013
TOTAL NON-CURRENT ASSETS		**710,928**	586,930	685,195
CURRENT ASSETS				
Inventories	13	**92,260**	38,118	42,645
Biological assets	11	**112,978**	84,095	90,785
Agricultural produce	14	**66,227**	42,765	31,680
Other current assets, net	15	**15,297**	15,370	16,321
Taxes recoverable and prepaid, net	16	**66,958**	46,338	45,400
Trade accounts receivable, net	17	**43,377**	31,531	20,363
Short-term bank deposits	18	**7,632**	25,342	10,055
Cash and cash equivalents	19	**22,248**	54,072	10,088
TOTAL CURRENT ASSETS		**426,977**	337,631	267,337
TOTAL ASSETS		**1,137,905**	924,561	952,532
LIABILITIES AND SHAREHOLDERS' EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Share capital	20	**284,505**	284,505	251,311
Additional paid-in capital		**178,815**	178,815	60,059
Revaluation reserve		**18,781**	9,410	9,410
Cumulative translation differences		**(238,521)**	(222,699)	6,292
Retained earnings		**231,044**	82,480	80,962
		474,624	332,511	408,034
MINORITY INTEREST		**19,784**	13,706	11,372
TOTAL EQUITY		**494,408**	346,217	419,406
NON-CURRENT LIABILITIES				
Long-term bank borrowings	21	**56,043**	57,456	65,878
Bonds issued	22	**248,046**	246,903	243,604
Long-term finance lease and vendor financing obligations	23	**44,546**	47,972	30,538
Other long-term payables		**310**	400	2,005
Deferred tax liabilities	9	**8,970**	6,160	6,506
TOTAL NON-CURRENT LIABILITIES		**357,915**	358,891	348,531
CURRENT LIABILITIES				
Trade accounts payable	24	**72,380**	22,170	25,116
Accounts payable for property, plant and equipment	23	**6,340**	8,116	9,626
Other current liabilities	25	**39,088**	32,992	18,085
Short-term bank borrowings and current portion of long-term bank borrowings	21	**139,790**	130,241	73,855
Current portion of bonds issued	22	**–**	–	39,604
Interest accrued		**3,526**	3,520	4,102
Current portion of finance lease obligations	23	**24,458**	21,625	13,903
Deferred income	26	**–**	789	304
TOTAL CURRENT LIABILITIES		**285,582**	219,453	184,595
TOTAL LIABILITIES		**643,497**	578,344	533,126
CONTINGENCIES AND CONTRACTUAL COMMITMENTS	27			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,137,905**	924,561	952,532

On behalf of the Board

Yuriy Kosyuk, Chief Executive Officer

Viktoria Kapelyushnaya, Chief Financial Officer

The notes on pages 45 to 83 form an integral part of these consolidated financial statements. The independent auditors' report is on page 39.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

	Notes	**2009 US$000**	2008 US$000	2007 US$000
CONTINUING OPERATIONS				
REVENUE	29, 5	**711,004**	802,910	474,437
Net change in fair value of biological assets and agricultural produce	5	**35,236**	6,327	14,241
COST OF SALES	30	**(499,163)**	(571,710)	(365,018)
GROSS PROFIT		**247,077**	237,527	123,660
Selling, general and administrative expenses	31	**(80,972)**	(80,495)	(51,599)
Government grants recognised as income	26	**67,812**	107,663	56,289
Other operating expenses	32	**(15,209)**	(10,022)	(7,275)
Other operating income		**576**	600	1,306
OPERATING PROFIT BEFORE LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT		**219,284**	255,273	122,381
Loss on impairment of property, plant and equipment	8	**(1,304)**	(11,767)	(10,238)
OPERATING PROFIT		**217,980**	243,506	112,143
Finance costs, net	33	**(50,817)**	(51,663)	(49,482)
Finance income		**3,823**	6,695	–
Foreign exchange losses, net	28	**(23,580)**	(187,127)	(13,059)
Other expenses		**(712)**	(784)	(734)
Gain realised from acquisitions and changes in minority interest in subsidiaries, net	2	**5,413**	4,482	1,285
Other income		**1,408**	1,085	669
OTHER EXPENSES, NET		**(64,465)**	(227,312)	(61,321)
PROFIT BEFORE TAX		**153,515**	16,194	50,822
Income tax benefit/(expense)	9	**6,488**	(1,279)	(428)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**160,003**	14,915	50,394
DISCONTINUED OPERATIONS				
Loss for the year from discontinued operations, net of income tax	6	**–**	(9,722)	(3,601)
PROFIT FOR THE YEAR		**160,003**	5,193	46,793
OTHER COMPREHENSIVE INCOME				
Effect of revaluation of property, plant and equipment		**11,912**	–	11,124
Deferred tax charged directly to revaluation reserve		**(2,541)**	–	(2,250)
Cumulative translation difference		**(15,822)**	(228,991)	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(6,451)**	(228,991)	8,874
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**153,552**	(223,798)	55,667
PROFIT ATTRIBUTABLE TO:				
Equity holders of the Parent		**148,564**	1,518	40,870
Minority interest		**11,439**	3,675	5,923
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:				
Equity holders of the Parent		**142,113**	(227,473)	49,744
Minority interest		**11,439**	3,675	5,923
EARNINGS PER SHARE	36			
From continuing operations (US dollars per share):				
Basic and diluted		**1.34**	0.11	0.44
From continuing and discontinued operations (US dollars per share):				
Basic and diluted		**1.34**	0.01	0.41

On behalf of the Board

Yuriy Kosyuk, Chief Executive Officer

Viktoria Kapelyushnaya, Chief Financial Officer

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

	Attributable to Equity Holders of the Parent							
	Share capital US$000	Additional paid-in capital US$000	Revaluation reserve US$000	Cumulative translation difference US$000	Retained earnings US$000	Total US$000	Minority interest US$000	Total equity US$000
1 JANUARY 2007	**251,311**	**56,973**	**536**	**6,292**	**39,425**	**354,537**	**12,331**	**366,868**
Profit for the year	–	–	–	–	40,870	40,870	5,923	46,793
Other comprehensive income	–	–	8,874	–	–	8,874	–	8,874
Total comprehensive income for the year	–	–	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 7)	–	405	–	–	–	405	–	405
Acquisition and changes in minority 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**	**6,292**	**80,962**	**408,034**	**11,372**	**419,406**
Profit for the year	–	–	–	–	1,518	1,518	3,675	5,193
Other comprehensive income	–	–	–	(228,991)	–	(228,991)	–	(228,991)
Total comprehensive income for the year	–	–	–	(228,991)	1,518	(227,473)	3,675	(223,798)
Increase in share capital (net of issue costs) (Note 20)	33,194	118,756	–	–	–	151,950	–	151,950
Acquisition and changes in minority interest in subsidiaries (Note 2)	–	–	–	–	–	–	(1,341)	(1,341)
31 DECEMBER 2008	**284,505**	**178,815**	**9,410**	**(222,699)**	**82,480**	**332,511**	**13,706**	**346,217**
Profit for the year	–	–	–	–	148,564	148,564	11,439	160,003
Other comprehensive income	–	–	9,371	(15,822)	–	(6,451)	–	(6,451)
Total comprehensive income for the year	–	–	9,371	(15,822)	148,564	142,113	11,439	153,552
Acquisition and changes in minority interest in subsidiaries (Note 2)	–	–	–	–	–	–	(5,361)	(5,361)
31 DECEMBER 2009	**284,505**	**178,815**	**18,781**	**(238,521)**	**231,044**	**474,624**	**19,784**	**494,408**

On behalf of the Board

Yuriy Kosyuk, Chief Executive Officer

Viktoria Kapelyushnaya, Chief Financial Officer

The notes on pages 45 to 83 form an integral part of these consolidated financial statements. The independent auditors' report is on page 39.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

	2009 US$000	2008 US$000	2007 US$000
OPERATING ACTIVITIES:			
Profit before tax from continuing and discontinued operations	**153,515**	6,472	47,187
Adjustments to reconcile profit to net cash provided by operations			
Depreciation of property, plant and equipment	**51,677**	57,394	44,814
Finance costs, net	**50,817**	51,663	49,482
Finance income	**(3,823)**	(6,695)	–
Net change in fair value of biological assets and agricultural produce	**(35,236)**	(4,945)	(11,095)
Loss on disposal of discontinued operation	**–**	6,193	–
Gain realised from acquisitions and changes in minority interest in subsidiaries, net	**(5,413)**	(4,482)	(1,285)
Non-operating foreign exchange loss, net	**23,580**	187,127	13,059
Change in allowance for irrecoverable amounts and direct write-offs	**9,594**	5,873	5,215
Impairment of property, plant and equipment	**1,304**	11,767	10,238
(Gain)/loss on disposal of property, plant and equipment	**(8)**	1,145	(660)
Other non-cash items	**–**	–	(777)
Operating profit before working capital changes	**246,007**	311,512	156,178
(Increase)/decrease in inventories	**(55,679)**	(12,106)	14,446
Increase in biological assets	**(17,160)**	(23,066)	(34,138)
Increase in agricultural produce	**(8,767)**	(44,603)	(8,879)
Decrease in natural gas stock	**–**	–	3,675
Decrease/(increase) in other current assets	**439**	(726)	(3,422)
Increase in taxes recoverable and prepaid	**(42,340)**	(39,759)	(150)
Increase in trade accounts receivable	**(14,459)**	(25,480)	(3,862)
(Decrease)/increase in other long-term payables	**(66)**	(2,523)	531
Increase/(decrease) in trade accounts payable	**48,051**	(976)	11,391
Increase in other current liabilities	**13,049**	6,278	11,491
(Decrease)/increase in deferred income	**(792)**	2,405	(344)
Cash generated by operations	**168,283**	170,956	146,917
Finance costs paid	**(47,494)**	(51,861)	(47,633)
Interest received	**3,737**	5,976	769
Income tax paid	**(1,464)**	(2,353)	(1,488)
Net cash generated by operating activities	**123,062**	122,718	98,565
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	**(135,257)**	(179,695)	(100,149)
Purchases of other non-current assets	**(3,445)**	(2,688)	(3,398)
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	**1,545**	3,957	6,529
Purchases of non-current biological assets	**(5,604)**	(1,462)	(11,498)
Financial aid provided in relation to acquisition of subsidiaries and acquisition of minority interest in subsidiaries	**–**	(17,432)	–
Investments in short-term deposits	**(7,608)**	(57,711)	(11,442)
Withdrawals of short-term deposits	**25,330**	42,130	3,387
Loans provided to employees, net	**(758)**	(1,022)	(1,053)
Loans (provided to)/repaid by related parties, net	**(70)**	(136)	673
Contributions to share capital of subsidiaries by minority shareholders	**–**	–	737
Acquisition of subsidiaries, net of cash acquired	**–**	456	–
Net cash used in investing activities	**(125,867)**	(213,620)	(107,411)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 (CONTINUED)

	2009 US$000	2008 US$000	2007 US$000
FINANCING ACTIVITIES:			
Proceeds from loans received	**447,037**	274,618	156,084
Repayment of bank loans	**(446,068)**	(238,716)	(166,284)
Repayments of corporate bonds issued	**–**	(41,288)	–
Transaction costs related to corporate bonds issued	**–**	–	(2,106)
Finance lease payments	**(22,957)**	(18,544)	(13,175)
Proceeds from other financing received	**6,366**	13,846	–
Repayment of other financing	**(12,554)**	–	–
Issue of share capital, net of issue costs	**–**	151,950	–
Net cash (used in)/generated by financing activities	**(28,176)**	141,866	(25,481)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(30,981)**	50,964	(34,327)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**54,072**	10,088	44,415
Effect of translation to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**(843)**	(6,980)	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**22,248**	54,072	10,088

On behalf of the Board

Yuriy Kosyuk, Chief Executive Officer

Viktoria Kapelyushnaya, Chief Financial Officer

The notes on pages 45 to 83 form an integral part of these consolidated financial statements. The independent auditors' report is on page 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

1 DESCRIPTION OF THE BUSINESS

MHP S.A. (the "Parent" or "MHP S.A."), a limited liability company registered under the laws of Luxembourg, was formed on 30 May 2006. MHP S.A. was formed to serve as the ultimate holding company of OJSC "Myronivsky Hliboproduct" ("MHP") and its subsidiaries (the "Group"). The registered address of MHP S.A. is 5, rue Guillaume Kroll, L-1822 Luxembourg.

The controlling shareholder of the Group is the Chief Executive Officer of MHP S.A. Mr Yuriy Kosyuk ("Principal Shareholder"), who owns 100% of the shares of WTI Trading Limited ("WTI"), which is the immediate majority shareholder of MHP S.A.

The principal business activities of the Group are agricultural operations (poultry and related operations), grain growing , as well as meat processing, cultivation and selling fruits and producing beef and meat products ready for consumption (other agricultural operations).
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. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, beef, goose meat, foie gras, fruits and feed grains.

The Group has been undertaking a large-scale investment programme on expansion of its poultry and related operations, with the first launch in 2007 of a major poultry meat production complex, Myronivska poultry farm. In June 2009, the Group completed the stage two of Myronivska poultry complex, and it reached full production capacity during the third quarter of the year, which contributed to the increased production of the poultry meat and related products.

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 6).

The primary subsidiaries and the principal activities of the companies forming the Group as of 31 December 2009, 2008 and 2007 were as follows (for details of changes see Note 2):

Operating entity	Country of registration	Year established/ acquired	Principal activity	Effective ownership interest*, % **2009**	2008	2007
MHP S.A.	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**	99.9	99.8
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv ("MZVKK")	Ukraine	1998	Fodder and sunflower oil production	**88.5**	88.5	84.7
Peremoga Nova ("Peremoga")	Ukraine	1999	Chicken farm	**99.9**	99.9	99.8
Druzhba Narodiv Nova ("Druzhba Nova")	Ukraine	2002	Chicken farm	**99.9**	99.9	99.8
Oril-Leader ("Oril")	Ukraine	2003	Chicken farm	**99.9**	99.9	99.8
Tavriysky Kombikormovy Zavod ("TKZ")	Ukraine	2004	Fodder production	**99.9**	99.9	99.9
Ptahofabryka Shahtarska Nova ("Shahtarska")	Ukraine	2003	Breeder farm	**99.9**	99.9	99.8
Myronivska Pticefabrica ("Myronivska")	Ukraine	2004	Chicken farm	**99.9**	99.9	99.8
Starynska Ptahofabryka ("Starynska")	Ukraine	2003	Breeder farm	**94.9**	84.9	84.8
Ptahofabryka Snyatynska Nova ("Snyatynska")	Ukraine	2005	Geese breeder farm	**99.9**	99.9	99.8
Zernoproduct	Ukraine	2005	Fodder grain cultivation	**89.9**	89.9	89.8
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage	**99.9**	99.9	99.8
Druzhba Narodiv ("Druzhba")	Ukraine	2006	Cattle breeding and plant cultivation	**99.9**	99.0	95.3
Agrofirma Kyivska ("Kyivska")	Ukraine	2006	Cattle breeding	**N/A**	N/A	75.8
Crimean Fruit Company ("Crimean Fruit")	Ukraine	2006	Fruits and fodder grain cultivation	**81.9**	81.9	81.8
NPF Urozhay ("Urozhay")	Ukraine	2006	Fodder grain cultivation	**89.9**	89.9	89.8
Agrofort ("AGF")	Ukraine	2006	Fodder grain cultivation	**86.1**	86.1	86.0
Zernoproduct-Lypivka ("ZPL")	Ukraine	2006	Fodder grain cultivation	**63.0**	63.0	62.9
Ukrainian Bacon	Ukraine	2008	Meat processing	**79.9**	79.9	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.

2 CHANGES IN THE GROUP STRUCTURE

Detailed below is the information on acquisitions and disposals of subsidiaries, as well as changes in minority interests in subsidiaries of the Group during the years ended 31 December 2009, 2008 and 2007.

ACQUISITIONS

UKRAINIAN BACON

In July 2008, the Group acquired from a third party an 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 2009 and 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 minority interest in subsidiaries* for the year ended 31 December 2008.

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 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.

2 CHANGES IN THE GROUP STRUCTURE CONTINUED

DISPOSAL OF SUBSIDIARIES

KYIVSKA

In December 2008, prior to the sale of its interest, the Group increased the share capital of Kyivska, a cattle breeding farm, 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.

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 6). 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, net of income tax.*

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

2 CHANGES IN THE GROUP STRUCTURE CONTINUED

ZZG

In April 2007, the Group sold its shares in ZZG, a company engaged in minks production, 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 year ended 31 December 2007 were insignificant. ZZG assets and liabilities were presented in these consolidated financial statements within the other agricultural business segment.

CHANGES IN MINORITY INTERESTS IN SUBSIDIARIES

TKZ

Prior to April 2007, the Group's ownership interest in TKZ was 29.4%. Even so, the Group consolidated TKZ as the Group exercised the power to govern the financial and operating policies of TKZ and obtained the benefits of TKZ's activities.

Subsequently, in April 2007 a subsidiary of the Group acquired 70.6% of the participatory interests in TKZ from Allied Tech LLC (Note 7) for cash consideration of US$200 thousand. The acquisition of an additional 70.6% ownership interest in TKZ 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.

DRUZHBA

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 and changes in minority interest in subsidiaries.*

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 99.0%. Consideration payable to the minority shareholders in exchange for the shares in the amount of US$1,744 thousand 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 minority interest in subsidiaries.*

In September 2009, as a result of transfer of treasury shares held by Druzhba to MHP, the Group increased its effective ownership in Druzhba to 99.9%. The gain on the transfer in the amount of US$304 thousand was recognised in these consolidated financial statements in *Gain realised from acquisitions and changes in minority interest in subsidiaries.*

MHP

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 and changes in minority interest in subsidiaries.*

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 and changes in minority interest in subsidiaries.*

2 CHANGES IN THE GROUP STRUCTURE CONTINUED

STARYNSKA

In April 2009 the Group increased the share capital of Starynska by US$2,594 thousand, which resulted in dilution of the minority interest. As a result, the Group's effective ownership interest increased to 94.9%. The resulting effect of change in minority interest in the amount of US$5,107 thousand was recognised in these consolidated financial statements in *Gain realised from acquisitions and changes in minority interest in subsidiaries.*

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.

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"). 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 – The following new and revised Standards and Interpretations have been adopted in the current year:

- IAS 1 "Presentation of Financial Statements" (Revised 2007);
- IAS 23 "Borrowing Costs" (Revised 2007);
- IFRS 8 "Operating Segments";
- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 15 "Agreements for the Construction of Real Estate";
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
- IFRIC 18 "Transfers of Assets from Customers"
- Amendment to IFRS 7 "Financial Instruments: Disclosures" (March 2009); and
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation.

In the current year, the Group also adopted amendments to a number of Standards resulting from annual improvements to IFRS that are effective for annual periods beginning on or after 1 January 2009.

IAS 1 "Presentation of Financial Statements" (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

IAS 23 "Borrowing Costs" (Revised 2007) eliminated the option to expense all borrowing costs when incurred. Adoption of this Standard resulted in a change in the Group accounting policy on borrowing costs (see below), which is applied to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving as the starting point for the identification of such segments. Adoption of this Standard did not result in a change in the Group's reportable segments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Adoption of other Standards and Interpretations did not have any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions and arrangements.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT EFFECTIVE – 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:
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 9 "Financial Instruments: Classification and Measurement"	1 January 2013*
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010*
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
Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"	30 June 2009
Amendments to IAS 24 "Related Party Disclosures" (2009)	1 January 2011*

* Standards and Interpretations not endorsed by the European Union.

As of the date of authorisation of these consolidated financial statements, there were also amendments to other Standards and Interpretation issued resulting from annual improvements to IFRS that are effective in future periods.

The management is currently evaluating the impact of the adoption of IAS 27 "Consolidated and Separate Financial Statements" and IFRS 3 "Business Combinations" (Revised January 2008) and IFRS 9 "Financial Instruments: Classification and Measurement". 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.

FUNCTIONAL AND PRESENTATION CURRENCY – The functional currency of the Group 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 statement of comprehensive income for the period.

These consolidated financial statements are presented in US dollars ("US$"), which is the Group's presentation currency.

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 statement of comprehensive income are translated at exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognised as a separate component of equity.

The relevant exchange rates were:

	As of 31 December 2009	**Average for 2009**	As of 31 December 2008	Average for 2008	As of 31 December 2007	Average for 2007
UAH/US$	**7.9850**	**7.7916**	7.7000	5.2693	5.0500	5.0500
UAH/EUR	**11.4489**	**10.8736**	10.8555	7.7114	7.4195	6.9192

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 intercompany 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.

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 statement of comprehensive income.

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.

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

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

Any gain or loss on disposals to entities under common control are 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are carried at historical cost, or at 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, (d) the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period; and (e) for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy

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 statement of comprehensive income as incurred.

For grain storage facilities 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 profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the profit or loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in the profit or loss. However, such decrease is debited directly to the revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Depreciation on revalued assets is charged to the profit or loss. 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 prospectively 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 profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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 profit or loss unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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 profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when:

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

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 9).

INVENTORIES – Inventories 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE – Agricultural activity is defined as a biological transformation of biological assets for sale into agricultural produce or into additional biological assets. The Group classifies hatchery eggs, live poultry and other animals and plantations as biological assets.

The Group 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 costs to sell at both initial recognition and as of the balance sheet date, with any resulting gain or loss recognised in the consolidated profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each 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 profit or loss.

Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in the profit or loss.

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 raised for milk and beef and pork meat production. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. Cattle, for which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable, are measured using the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate.

IV) 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 AND FRUITS The fair value of fodder grain and fruits is determined by reference to market prices at the point of harvest.

The Group's biological assets are classified into bearer and consumable biological assets depending upon the function of a particular group of biological assets in the Group's production process. Consumable biological assets are those that are to be harvested as agricultural produce, and include hatchery eggs and live broiler poultry intended for the production of meat, as well as pork and meat cows. Bearer biological assets include poultry held for hatchery eggs production, orchards, milk cows and breeding bulls.

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 profit or loss 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 statement of comprehensive income 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 Group. 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 profit or loss and classified as finance costs.

Rental income or expenses under operating leases are recognised in the consolidated statement of comprehensive income 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.

When goods are exchanged or swapped for goods which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold in exchange of dissimilar goods, the exchange is regarded as a transaction which generates revenue, and revenue is measured at the fair value of the goods received, adjusted by the amount of any cash or cash equivalents transferred.

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

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

- Poultry and related operations
- Grain growing
- Other agricultural operations

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

BORROWING COSTS – Borrowing costs include interest expenses, finance charges on finance leases and other interest-bearing long-term payables and debt service costs.

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

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

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

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 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations (see below), that 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 financial statements.

REVENUE RECOGNITION – In the normal course of business, the Group engages in sale and purchase transactions with the purpose to exchange crops in various locations to fulfill the Group's production requirements. In accordance with the Group's accounting policy, revenue is not recognised with respect to the exchange transactions involving goods of similar nature and value. The Group's management applies judgement to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgement, management considers whether the underlying crops are of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying crops indicates that the substance of the transaction is an exchange of similar goods.

RECOGNITION OF INVENTORIES – During the year ended 31 December 2009, the Group acquired components for mixed fodder production from a local supplier under grain purchase financing arrangements. According to the contractual terms, legal ownership to goods passes to the Group on physical delivery to the Group's grain storage facilities, which is generally the date when inventories are recognised in the Group's financial statements. However, based on the analysis of the nature of the arrangement, management applied judgement to determine the date on which control over these goods passed to the Group. In making this judgement, management considered the relevant significance of risks and rewards associated with ownership of grains, in particular date of transfer of physical damage risk, as well as commercial risks and benefits associated with ownership of grains, in particular date of transfer of physical damage risk, as well as commercial risks and benefits associated with ownership. Based on this assessment, management concluded that the Group assumed risk of physical damage and obtained commercial benefits prior to obtaining legal ownership over these inventories and as such, that these inventories should be recognised on the Group's financial statements from the date when they are acquired by the supplier.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

REVALUATION OF PROPERTY, PLANT AND EQUIPMENT – As described in Note 8, the Group applies revaluation model to measurement of grain storage facilities. At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether carrying amount differs materially from the fair value. The Group carries out such review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period.

Based on the results of this review, the Group concluded that grain storage facilities had to be revalued based on fair value assessment by independent appraisers as of 31 December 2009 and 2007. The valuation was determined by reference to market-based evidence.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

FAIR VALUE LESS COSTS TO SELL OF BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE – Biological assets are recorded at fair values less costs to sell. The Group estimates fair values of biological assets based on the following key assumptions:

- Average meat output for broilers and livestock for meat production
- Average productive life of breeders and cattle held for regeneration and milk production
- Expected crops output
- Projected orchards output
- Estimated changes in future sales prices
- Projected production costs and costs to sell
- Discount rate

Although some of these assumptions are obtained from published market data, a majority of these assumptions are estimated based on the Group's historical and projected results.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT – The estimation of the useful life of an item of property, plant and equipment is a matter of management estimate based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT – As described in Note 8, during the periods presented, the Group identified indicators of impairment 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 administrative office premises, and assessed the assets' recoverable amount. In determining the recoverable amount of these assets, the Group management referred to the assets' value in use due to lack of reliable basis of estimates of the amounts obtainable from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties.

The value in use calculation requires management to estimate future cash inflows expected to arise from each group of assets and a suitable discount rate in order to calculate present value. In estimating the appropriate discount rates, the Group used the weighted average cost of capital, as adjusted for currency denomination of expected future cash flows and different levels of business risks assessed for each group of assets. Details of the impairment loss calculation are set out in Note 8.

VAT RECOVERABLE – Note 10 describes long-term VAT recoverable accumulated by the Group on its capital expenditures and investments in working capital. The balance of VAT recoverable may be realised by the Group either through a cash refund from the state budget or by set off against VAT liabilities with the state budget in future periods. Management classified VAT recoverable balance as current or non-current based on expectations as to whether it will be realised within twelve months from the reporting date.

In making this assessment, management considered past history of receiving VAT refunds from the state budget. For VAT recoverable expected to be set off against VAT liabilities in future periods, management based its estimates on detailed projections of expected excess of VAT output over VAT input in the normal course of the business.

5 SEGMENT INFORMATION

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

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 are therefore as follows:

Poultry and related operations segment	– sales of chicken meat – sales of sunflower oil – other poultry related sales
Other agricultural operations segment	– sales of meat processing products and other meat – other agricultural sales
Grain growing segment	– sales of grains

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Sales between segments are carried out at market prices. Segment result represents operating profit before loss on impairment of property, plant and equipment, as adjusted for unallocated corporate expenses. Unallocated corporate expenses include management remuneration, representative expenses, and expenses on maintenance of office premises. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than cash and cash equivalents and short-term deposits, administrative office premises, and income tax assets.
- All liabilities are allocated to reportable segments other than bonds issued, bank borrowings, finance leases, and income tax liabilities.

Natural gas operations discontinued during the year ended 31 December 2007 were reported as separate segments under IAS 14. This segment no longer exists under the new segment reporting under IFRS 8. In addition, during the year ended 31 December 2008 the Group disposed of its shareholding in Kyivska, which was reported in Other agricultural operations segment. The segment information reported below does not include any amounts of these discontinued operations, which are described in more detail in Note 6.

The following table presents revenue, results of operations and certain assets and liabilities information regarding segments for the year ended 31 December 2009. Unallocated corporate assets comprise of assets that are not directly attributable to particular segment. Unallocated corporate liabilities comprise of interest-bearing liabilities and liabilities that are not directly attributable to a particular segment.

	Poultry and related operations US$000	Other agricultural operations US$000	Grain growing US$000	Eliminations US$000	Consolidated US$000
External sales	577,143	88,109	45,752	–	711,004
Sales between business segments	22,438	1,496	37,673	(61,607)	–
Total revenue	599,581	89,605	83,425	(61,607)	711,004
SEGMENT RESULTS	196,594	3,234	35,301		235,129
Unallocated corporate expenses					(15,845)
Loss on impairment of property, plant and equipment					(1,304)
Other expenses, net					(64,465)
PROFIT BEFORE TAX					**153,515**
OTHER INFORMATION:					
Segment assets	770,376	134,310	135,909		1,040,595
Unallocated corporate assets					97,310
CONSOLIDATED TOTAL ASSETS					**1,137,905**
Segment liabilities	(96,609)	(8,089)	(4,076)		(108,774)
Unallocated corporate liabilities					(534,723)
CONSOLIDATED TOTAL LIABILITIES					**(643,497)**
Additions to property, plant and equipment*	125,892	9,864	6,162		141,918
Depreciation	37,193	5,473	9,011		51,677
Net change in fair value of biological assets and agricultural produce	16,670	704	17,862		35,236

* Additions to property, plant and equipment in 2009 (Note 8) include unallocated additions to property, plant and equipment in the amount of US$31,887 thousand.

5 SEGMENT INFORMATION CONTINUED

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the years ended 31 December 2008 and 2007:

	2008					2007				
	Poultry and related operations US$000	Other agricultural operations US$000	Grain growing US$000	Eliminations US$000	Consolidated US$000	Poultry and related operations US$000	Other agricultural operations US$000	Grain growing US$000	Eliminations US$000	Consolidated US$000
External sales	660,031	93,102	49,777	–	802,910	384,865	51,082	38,490	–	474,437
Sales between business segments	20,362	1,268	17,653	(39,283)	–	10,756	573	30,182	(41,511)	–
Total revenue	680,393	94,370	67,430	(39,283)	802,910	395,621	51,655	68,672	(41,511)	474,437
SEGMENT RESULTS	255,165	184	10,739	–	266,088	98,159	3,995	28,725	–	130,879
Unallocated corporate expenses					(10,815)					(8,498)
Loss on impairment of property, plant and equipment					(11,767)					(10,238)
Other expenses, net					(227,312)					(61,321)
PROFIT BEFORE TAX					16,194					50,822
OTHER INFORMATION										
Segment assets	562,485	122,430	120,287		805,202	684,952	158,434	80,207		923,593
Unallocated corporate assets					119,359					28,939
CONSOLIDATED TOTAL ASSETS					**924,561**					**952,532**
Segment liabilities	(32,565)	(9,696)	(5,202)		(47,463)	(27,882)	(8,965)	(9,715)		(46,562)
Unallocated corporate liabilities					(530,881)					(486,564)
CONSOLIDATED TOTAL LIABILITIES					**(578,344)**					**(533,126)**
Additions to property, plant and equipment	159,659	23,764	48,468		231,891	165,564	13,633	14,707		193,904
Depreciation	41,230	7,383	8,325		56,938	33,201	5,721	5,285		44,207
Net change in fair value of biological assets and agricultural produce	17,854	(1,137)	(10,390)		6,327	7,754	4,153	2,334		14,241

The Group's revenue from external customers by regions from which the revenue is derived was as follows during the years ended 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Ukraine	**558,112**	682,151	397,043
Europe	**121,841**	109,705	71,548
CIS	**15,919**	10,182	5,495
Asia	**15,132**	872	351
Total	**711,004**	802,910	474,437

6 DISCONTINUED OPERATIONS

NATURAL GAS During the year ended 31 December 2007, the Group ceased its natural gas operations.

The results of the natural gas operations segment for the year ended 31 December were as follows:

	2007 US$000
Revenue	8,872
Net change in fair value of natural gas in stock less estimated point-of-sale costs	(1,166)
Cost of sales	(7,842)
Gross loss	(136)
Other operating income	–
Operating loss	(136)
Income tax benefit (Note 9)	34
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	(102)

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. No cash flows related to financing or investing activities from natural gas operations were incurred by the Group during the year ended 31 December 2007.

The carrying values of assets and liabilities associated with discontinued operation were nil as of 31 December 2007.

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

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

	2008 US$000	2007 US$000
Revenue	3,922	3,213
Net change in fair value of biological assets and agricultural produce	(1,382)	(1,980)
Cost of sales	(5,796)	(5,229)
Gross loss	(3,256)	(3,996)
Other operating (expenses)/income	(114)	564
Operating loss	(3,370)	(3,432)
Other expenses, net	(159)	(67)
Income tax expense (Note 8)	–	–
	(3,529)	(3,499)
Loss on disposal of operation	(6,193)	–
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	**(9,722)**	**(3,499)**

During the years ended 31 December 2008 and 2007, 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
Total assets	16,603	30,126
Total liabilities	10,056	48,342

The net cash flows incurred by the Group in relation to Kyivska for the years ended 31 December 2008 and 2007 were as follows:

	2008 US$000	2007 US$000
Operating activities	(3,019)	(1,535)
Investing activities	(867)	(1,265)
Financing activities	3,893	2,453
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**7**	**(347)**

7 RELATED PARTY BALANCES AND TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party controls, is controlled by, or is under common control with the other party, or exercises significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms and conditions as transactions between unrelated parties.

The following companies and individuals are considered to be related parties to the Group:

Name of the related party	Nature of relations with the Group
Mr Yuriy Kosyuk	Chief Executive Officer of MHP S.A. 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) LLC Zolotoniske Zvirogospodarstvo ULL 15 (FÜNFZEHN) Beteiligungs und Management Roda Realizatsiyna Baza Merkaba LLC	Companies owned or controlled by Mr Yuriy Kosyuk
Spector Agrofirma Berezanska Ptahofabryka	Companies owned by Merkaba LLC

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 October 2008 Allied Tech LLC (USA) was liquidated.

OPERATING AND FINANCING ACTIVITIES

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements to and from entities under common control.

The revenues from sales to related parties for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Agrofirma Berezanska Ptahofabryka	**6,856**	9,630	8,430
Other related parties	**81**	573	122
TOTAL	**6,937**	10,203	8,552

During the years ended 31 December 2009, 2008 and 2007, the Group's sales to Agrofirma Berezanska Ptahofabryka mainly consisted of sales of mixed fodder and its components.

Terms and conditions of sales to related parties are determined based on arrangements, specific to each contract of 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 purchases from related parties for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Spector	**107**	1,474	11
Agrofirma Berezanska Ptahofabryka	**5**	418	358
Other related parties	**–**	–	–
TOTAL	**112**	1,892	369

The balances of trade accounts receivable due from related parties (Note 17) were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Agrofirma Berezanska Ptahofabryka	**2,725**	2,316	1,235
Other related parties	**451**	475	80
TOTAL	**3,176**	2,791	1,315

7 RELATED PARTY BALANCES AND TRANSACTIONS CONTINUED

The balances of advances received from related parties were as follows (Note 25) as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Allied Tech LLC	**–**	120	116
Allied Tech LLP	**200**	218	213
TOTAL	**200**	338	329

The balances of short-term advances, finance aid to and promissory notes from related parties (Note 15) as of 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Merkaba LLC	**606**	190	193
Agrofirma Berezanska Ptahofabryka	**351**	670	408
Spector	**48**	16	656
Other related parties	**56**	100	166
TOTAL	**1,061**	976	1,423

OTHER RELATED PARTY TRANSACTIONS

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).

During the year ended 31 December 2007, the Group sold property, plant and equipment for US$3,465 thousand to Agrofirma Berezanska Ptahofabryka.

As of 31 December 2009, 2008 and 2007, the Group leased property, plant and equipment with the carrying value of US$116 thousand, US$150 thousand and US$3,092 thousand, respectively, to its related parties under operating lease arrangements (Note 8).

For the years ended 31 December 2009, 2008 and 2007, lease payments received from the related parties under the operating lease agreements amounted to US$35 thousand, US$53 thousand and US$116 thousand, respectively.

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 statements of comprehensive income amounted to US$6,459 thousand, US$9,281 thousand and US$2,245 thousand for the years ended 31 December 2009, 2008 and 2007, respectively. Compensation to key management personnel consists of contractual salary and performance bonuses.

Key management personnel totaled 35, 32 and 29 individuals as of 31 December 2009, 2008 and 2007, respectively.

The aggregate amount of remuneration paid by the Group to the Chief Executive Officer Mr Yuriy Kosyuk during the years ended 31 December 2009, 2008 and 2007 was US$1,822 thousand, US$1,804 thousand and US$1,620 thousand, respectively, in the form of salary.

As of 31 December 2009, 2008 and 2007, Mr and Mrs Kosyuk received benefits in kind by use of certain assets with the carrying value of US$287 thousand, US$223 thousand and US$3,014 thousand, respectively. Included in assets used by Mr and Mrs Kosyuk as of 31 December 2007 were vehicles with the carrying value of US$2,807 thousand.

8 PROPERTY, PLANT AND EQUIPMENT, NET

The following table represents movements in property, plant and equipment for the year ended 31 December 2009:

	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 2009	137,697	21,060	174,310	26,043	125,081	4,438	131,148	619,777
Additions	48,026	–	57,579	3,118	35,888	9,600	19,594	173,805
Disposals	(117)	–	(844)	(2)	(2,749)	(54)	(544)	(4,310)
Transfers	38,164	–	21,859	25,189	1,870	300	(87,382)	–
Increase from revaluation	–	10,739	–	–	–	–	–	10,739
Impairment loss	(941)	–	(153)	–	(210)	–	–	(1,304)
Translation difference	(5,473)	(870)	(8,053)	(1,591)	(5,310)	(387)	(3,085)	(24,769)
AS OF 31 DECEMBER 2009	217,356	30,929	244,698	52,757	154,570	13,897	59,731	773,938
Accumulated depreciation								
As of 1 January 2009	19,250	445	41,377	6,488	32,728	1,925	–	102,213
Depreciation charge for the year	5,040	734	20,492	3,418	20,740	1,925	–	52,349
Eliminated on disposal	(40)	–	(285)	(2)	(1,966)	(45)	–	(2,338)
Eliminated on revaluation	–	(1,173)	–	–	–	–	–	(1,173)
Translation difference	(803)	(6)	(1,950)	(311)	(1,606)	(115)	–	(4,791)
AS OF 31 DECEMBER 2009	23,447	–	59,634	9,593	49,896	3,690	–	146,260
NET BOOK VALUE								
31 DECEMBER 2009	**193,909**	**30,929**	**185,064**	**43,164**	**104,674**	**10,207**	**59,731**	**627,678**
1 JANUARY 2009	**118,447**	**20,615**	**132,933**	**19,555**	**92,353**	**2,513**	**131,148**	**517,564**

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**

8 PROPERTY, PLANT AND EQUIPMENT, NET CONTINUED

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**

As of 31 December 2009, included within property, plant and equipment were fully depreciated assets with the cost of US$5,243 thousand (2008: US$5,276 thousand; 2007: US$5,123 thousand).

As of 31 December 2009, the Group's machinery and equipment with the carrying amount of US$5,813 thousand (2008: US$6,674 thousand, 2007: US$11,274 thousand) were pledged as collateral to secure its banks borrowings (Note 21). As of 31 December 2009, vehicles and agricultural machinery with the carrying amount of US$1,276 thousand (2008: US$786 thousand, 2007: US$2,121 thousand) were pledged to secure vendor-financing arrangements with foreign companies (Note 23).

As of 31 December 2009, 2008 and 2007 the net carrying amount of fixed assets held under finance lease agreements were US$61,554 thousand, US$57,476 thousand and US$57,389 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 2009, 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 2009 the Group has recognised impairment losses of US$1,304 thousand (2008: US$11,767 thousand, 2007: US$10,238 thousand) for the difference in these amounts.

8 PROPERTY, PLANT AND EQUIPMENT, NET CONTINUED

The additional impairment losses recognised in respect to assets used in goose meat and foie gras production during the year ended 31 December 2009 are attributable to reassessment of expected returns to this production line. In 2008 and 2007, the impairment losses recognised were in respect to assets used in the production of goose meat and foie gras and convenience foods under the "Legko!" brand, as well as to administrative office premises. These impairments were due 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 is as follows:

	2009		2008		2007	
	Discount rate used %	**Loss on impairment US$000**	Discount rate used %	Loss on impairment US$000	Discount rate used %	Loss on impairment US$000
Convenience foods	**23.1**	**–**	25.5	–	19.6	5,683
Goose meat and foie gras	**31.1**	**1,304**	33.5	2,653	22.0	4,555
Administrative office premises	**14.4**	**–**	15.25	9,114	N/A	–
Total		**1, 304**		11,767		10,238

Assets used in convenience foods production and production of goose meat and foie gras belong to poultry and related operations and other agricultural segments, respectively. Administrative office premises are not allocated to reportable segments.

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.

REVALUATION OF GRAIN STORAGE FACILITIES – During the years ended 31 December 2009 and 2007, the Group engaged independent appraisers to revalue its grain storage facilities. The effective dates of revaluations were 1 December 2009 and 2007, respectively. The valuations, which conformed to the International Valuation Standards, were determined by reference to observable prices in an active market and recent market transactions. During revaluation as of 1 December 2007, the Group identified certain assets which related to the grain storage facilities, but were included into different groups. The related cost and accumulated depreciation of such assets in the amount of US$4,610 thousand and US$118 thousand, respectively, were transferred to the grain storage facilities group during the year ended 31 December 2007.

Due to economic instability, lack of transactions with similar assets in the market and, accordingly, a high degree of uncertainty surrounding the determination of fair values, no revaluation of grain storage facilities was performed as of 31 December 2008.

If the grain storage facilities were carried at cost, their net book value as of 31 December 2009 would be US$12,549 thousand (2008: US$13,321 thousand, 2007: US$19,809 thousand).

LEASED ASSETS – As of 31 December 2009, 2008 and 2007, the Group leased property, plant and equipment (primarily, vehicles and agricultural machinery) with the carrying value of US$116 thousand, US$150 thousand and US$3,092 thousand, respectively, to its related parties under operating lease arrangements (Note 7).

9 TAXATION

The majority of the Group companies that are involved in agricultural production 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, Municipal Tax, Natural Resources Usage Duty, Geological Survey Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely.

During the years ended 31 December 2009, 2008 and 2007, 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 2009, 2008 and 2007.

The components of income tax (benefit)/expense were as follows for the years ended 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Current income tax expense	**933**	1,739	1,132
Deferred tax benefit	**(7,421)**	(460)	(738)
Income tax (benefit)/expense	**(6,488)**	1,279	394
ATTRIBUTABLE TO:			
Continuing operations	**(6,488)**	1,279	428
Discontinued operations (Note 6)	**–**	–	(34)
	(6,488)	1,279	394

Reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2009, 2008 and 2007 was as follows:

	2009 US$000	2008 US$000	2007 US$000
Profit before tax from continuing operations	**153,515**	16,194	50,822
Loss before tax from discontinued operations (Note 6)	**–**	(9,722)	(3,635)
Profit before income tax	**153,515**	6,472	47,187
Income tax expense at statutory tax rate of 25%	**38,379**	1,618	11,797
TAX EFFECT OF:			
Income generated by FAT payers (exempt from income tax)	**(58,770)**	(44,987)	(24,475)
Non-deductible expenses	**10,419**	12,286	5,952
Expenses not deducted for tax purposes	**3,484**	32,362	7,120
INCOME TAX (BENEFIT)/EXPENSE	**(6,488)**	1,279	394

As of 31 December 2009, 2008 and 2007, the Group did not recognise deferred tax assets arising from temporary differences of US$13,936 thousand, US$129,448 thousand and US$28,480 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.

9 **TAXATION** CONTINUED

As of 31 December 2009, 2008 and 2007, deferred tax assets and liabilities comprised the following:

	2009 US$000	2008 US$000	2007 US$000
DEFERRED TAX ASSETS ARISING FROM:			
Advances received and other payables	**5,736**	2,099	2,209
Other current liabilities	**5,168**	1,030	310
Inventories	**897**	473	–
Expenses deferred in tax books	**6,795**	4,994	3,647
Other	**–**	–	64
TOTAL DEFERRED TAX ASSETS	**18,596**	8,596	6,230
DEFERRED TAX LIABILITIES ARISING FROM:			
Property, plant and equipment	**(13,999)**	(12,312)	(9,339)
Prepayments to suppliers	**(3,384)**	(241)	–
Inventories	**–**	(156)	(692)
TOTAL DEFERRED TAX LIABILITIES	**(17,383)**	(12,709)	(10,031)
NET DEFERRED TAX ASSET/(LIABILITY)	**1,213**	(4,113)	(3,801)

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 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Deferred tax assets	**10,183**	2,047	2,705
Deferred tax liabilities	**(8,970)**	(6,160)	(6,506)
	1,213	(4,113)	(3,801)

The movements in net deferred tax assets/(liabilities) for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Net deferred tax liabilities as of beginning of the year	**(4,113)**	(3,801)	(2,289)
Deferred tax benefit	**7,421**	460	738
Deferred tax on property, plant and equipment charged directly to revaluation reserve	**(2,541)**	–	(2,250)
Deferred tax liabilities arising on acquisition of subsidiaries (Note 2)	**–**	(2,630)	–
Translation difference	**446**	1,858	–
NET DEFERRED TAX ASSETS/(LIABILITIES) AS OF THE END OF THE YEAR	**1,213**	(4,113)	(3,801)

10 LONG-TERM VAT RECOVERABLE, NET

As of 31 December 2009, 2008 and 2007 the balance of long-term VAT recoverable was accumulated on continuing capital expenditures and increased investments in working capital. The management expects that these balances will not be recovered within the twelve months after the balance sheet date.

As of 31 December 2009, an allowance for estimated irrecoverable amount of US$4,537 thousand was recorded by the Group for the balance of long-term VAT recoverable (2008: US$1,437 thousand).

11 BIOLOGICAL ASSETS

The balances of non-current biological assets were as follows as of 31 December 2009, 2008 and 2007:

	2009		2008		2007	
	Thousand units	**Carrying amount US$000**	Thousand units	Carrying amount US$000	Thousand units	Carrying amount US$000
Milk cows, boars, sows, units	**11.5**	**9,560**	10.2	6,033	12.7	8,305
Orchards, hectare	**2.4**	**23,478**	2.11	19,934	2.11	27,100
Other non-current bearer biological assets		**530**		526		200
Total bearer non-current biological assets		**33,568**		26,493		35,605
Non-current cattle and pigs, units	**6.6**	**2,667**	8.6	2,987	10.7	6,491
Total consumable non-current biological assets		**2,667**		2,987		6,491
TOTAL NON-CURRENT BIOLOGICAL ASSETS		**36,235**		29,480		42,096

The balances of current biological assets were as follows as of 31 December 2009, 2008 and 2007:

	2009		2008		2007	
	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	**1,886**	**35,845**	1,420	19,323	1,481	23,710
Total bearer current biological assets		**35,845**		19,323		23,710
Broiler poultry, units	**24,258**	**36,957**	14,297	23,126	12,830	22,798
Hatchery eggs, units	**19,334**	**6,310**	12,690	3,866	12,841	5,786
Crops in fields, hectare	**58**	**26,260**	70	26,840	59	26,229
Cattle and pigs, units	**44**	**6,714**	43	10,386	48	10,538
Other current consumable biological assets		**892**		554		1,724
Total consumable current biological assets		**77,133**		64,772		67,075
TOTAL CURRENT BIOLOGICAL ASSETS		**112,978**		84,095		90,785

Other current consumable biological assets include geese and other livestock.

11 BIOLOGICAL ASSETS CONTINUED

The following table represents the changes in the carrying amounts of major biological assets during the years ended 31 December 2009, 2008 and 2007:

	Crops in fields US$000	Orchards US$000	Breeders held for hatchery eggs production US$000	Broiler poultry US$000	Milk cows, boars, sows US$000	Non-current cattle and pigs US$000	Cattle, pigs US$000
AS OF 1 JANUARY 2007	10,980	11,840	12,501	18,270	4,753	9,872	4,245
Increase due to purchases	5,392	6,274	4,801	432	430	45	4,518
Gains/(losses) arising from change in fair value of biological assets less costs to sell	77,538	15,615	64,818	196,943	1,860	(3,530)	31,195
Transfer to consumable biological assets	–	–	(54,422)	54,422	(713)	(120)	833
Transfer to bearing non-current biological assets	–	–	–	–	2,341	562	(2,903)
Decrease due to harvest	(67,681)	(6,629)	(3,988)	(247,269)	(366)	(338)	(27,350)
AS OF 31 DECEMBER 2007	26,229	27,100	23,710	22,798	8,305	6,491	10,538
Increase due to purchases	7,431	185	5,238	26	655	23	5,642
Gains arising from change in fair value of biological assets less costs to sell	92,705	15,239	80,106	353,078	41	1,240	36,091
Transfer to consumable biological assets	–	–	(72,914)	72,914	(953)	(63)	1,016
Transfer to bearing non-current biological assets	–	–	–	–	4,475	859	(5,334)
Decrease due to harvest	(93,553)	(13,335)	(6,917)	(414,073)	(3,361)	(3,916)	(32,336)
Translation difference	(5,972)	(9,255)	(9,900)	(11,617)	(3,129)	(1,647)	(5,231)
AS OF 31 DECEMBER 2008	26,840	19,934	19,323	23,126	6,033	2,987	10,386
Increase due to purchases	7,323	1,434	6,635	14,720	265	672	1,710
Gains/(losses) arising from change in fair value of biological assets less costs to sell	118,257	8,578	66,934	216,613	3,127	(106)	19,801
Transfer to consumable biological assets	–	–	(50,617)	50,615	(825)	(59)	884
Transfer to bearing non-current biological assets	–	–	–	–	2,617	816	(2,983)
Decrease due to harvest	(125,193)	(5,631)	(5,313)	(266,928)	(899)	(1,542)	(22,796)
Translation difference	(967)	(837)	(1,117)	(1,189)	(308)	(101)	(288)
AS OF 31 DECEMBER 2009	**26,260**	**23,478**	**35,845**	**36,957**	**9,560**	**2,667**	**6,714**

12 OTHER NON-CURRENT ASSETS

The balances of other non-current assets were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Packaging and containers	**5,592**	3,458	4,227
Land lease rights	**854**	572	872
Long-term loans to employees and related parties	**708**	95	265
Other investments	**273**	283	578
Other non-current assets	**2,144**	2,050	2,071
TOTAL	**9,571**	6,458	8,013

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

13 INVENTORIES

The balances of inventories were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Components for mixed fodder production	**70,568**	21,748	20,793
Other raw materials	**9,099**	6,998	7,557
Spare parts	**3,558**	2,780	4,500
Packaging materials	**3,283**	3,437	3,185
Mixed fodder	**2,156**	1,590	2,785
Sunflower oil	**2,020**	510	793
Other inventories	**1,576**	1,055	3,032
TOTAL	**92,260**	38,118	42,645

14 AGRICULTURAL PRODUCE

The balances of agricultural produce were as follows as of 31 December 2009, 2008 and 2007:

	2009		2008		2007	
	Thousand tonnes	**Carrying amount US$000**	Thousand tonnes	Carrying amount US$000	Thousand tonnes	Carrying amount US$000
Chicken meat	**5.531**	**7,405**	4.887	7,881	5.807	9,333
Other meat	**N/A**	**3,167**	N/A	3,394	N/A	1,460
Grain	**396**	**48,641**	306	24,695	67	12,394
Fruits, vegetables and other crops	**N/A**	**7,014**	N/A	6,795	N/A	8,493
TOTAL AGRICULTURAL PRODUCE		**66,227**		42,765		31,680

15 OTHER CURRENT ASSETS, NET

The balances of other current assets were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Prepayments to suppliers and prepaid expenses	**10,585**	7,867	8,707
Short-term advances, finance aid to and promissory notes from related parties (Note 7)	**1,061**	976	1,423
Loans to employees	**941**	1,391	1,467
Government grants receivable (Note 26)	**29**	3,397	4,192
Other receivables	**3,418**	2,346	2,235
Less: allowance for irrecoverable amounts	**(737)**	(607)	(1,703)
TOTAL	**15,297**	15,370	16,321

As of 31 December 2009, 2008 and 2007, government grants receivable were mainly represented by amounts due from the state for poultry and cattle processed during the last months of 2009, 2008 and 2007, respectively.

16 TAXES RECOVERABLE AND PREPAID, NET

Taxes recoverable and prepaid were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
VAT recoverable	**69,890**	49,736	47,726
Miscellaneous taxes prepaid	**1,889**	777	540
Less: allowance for irrecoverable VAT	**(4,821)**	(4,175)	(2,866)
TOTAL	**66,958**	46,338	45,400

17 TRADE ACCOUNTS RECEIVABLE, NET

The balances of trade accounts receivable were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Agricultural operations	**37,481**	26,663	19,941
Sunflower oil sales	**3,432**	2,957	180
Due from related parties (Note 7)	**3,176**	2,791	1,315
Less: allowance for irrecoverable amounts	**(712)**	(880)	(1,073)
TOTAL	**43,377**	31,531	20,363

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 Group also performs specific analysis of trade accounts receivable due from individual customers to determine whether any further adjustments are required to the allowance for irrecoverable amounts assessed on the percentages disclosed above. Based on results of such review as of 31 December 2009 the Group determined that trade accounts receivable on sales of poultry meat of US$364 thousand were overdue (aged over 30 days) but do not require allowance for irrecoverable amounts.

The aging of trade accounts receivable that were impaired as of 31 December 2009, 2008 and 2007 was as follows:

	Trade accounts receivable			Allowance for irrecoverable amounts		
	2009 US$000	2008 US$000	2007 US$000	**2009 US$000**	2008 US$000	2007 US$000
TRADE ACCOUNTS RECEIVABLE ON SALES OF POULTRY MEAT:						
Over 30 but less than 270 days	**546**	280	21	**(137)**	(70)	(5)
Over 270 days	**139**	561	417	**(139)**	(561)	(417)
Total trade accounts receivable on sales of poultry meat	**685**	841	438	**(276)**	(631)	(422)
TRADE ACCOUNTS RECEIVABLE ON OTHER SALES:						
Over 60 but less than 360 days	**397**	268	418	**(99)**	(67)	(262)
Over 360 days	**337**	182	389	**(337)**	(182)	(389)
Total trade accounts receivable on other sales	**734**	450	807	**(436)**	(249)	(651)
TOTAL	**1,419**	1,291	1,245	**(712)**	(880)	(1,073)

18 SHORT-TERM BANK DEPOSITS

Short-term bank deposits were as follows as of 31 December 2009, 2008 and 2007:

Currency	**Effective rate %**	**2009**	Effective rate %	2008	Effective rate %	2007
UAH	**16.14**	**7,632**	16.69	1,248	9.77	10,055
US$	**–**	**–**	10.98	24,094	–	–
TOTAL		**7,632**		25,342		10,055

As of 31 December 2009, the balances of short-term deposits with UniCreditBank for the total amount of US$7,619 thousand represented security for bank guarantees issued against the Group's liabilities under grain financing arrangements (Note 24, 25).

19 CASH AND CASH EQUIVALENTS

The balances of cash and cash equivalents were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Cash in hand and with banks	**22,248**	18,975	10,088
Short-term deposits with banks	**–**	35,097	–
TOTAL	**22,248**	54,072	10,088

The balances of term deposits included in cash equivalents were as follows as of 31 December 2008:

Currency	Effective rate %	2008
US$	11.71%	32,500
UAH	18.00%	2,597
		35,097

20 SHARE CAPITAL

As of 31 December the authorised, issued and fully paid share capital of MHP S.A. comprised the following number of shares:

	2009	2008	2007
Number of shares authorised for issue	**170,000,000**	170,000,000	170,000,000
Number of shares issued and fully paid	**110,770,000**	110,770,000	100,020,000

The authorised share capital as of 31 December 2009, 2008 and 2007 was EUR 340,000 thousand represented by 170,000,000 shares with par value of EUR 2 each.

As of 31 December 2007, the issued share capital of MHP S.A. was EUR 200,040 thousand (US$251,311 thousand) and consisted of 100,020,000 ordinary shares. The share capital contributions as of 31 December 2007 were fully paid in cash for US$50 thousand and by exchange of 100% shareholding in RHL. The fair value of the exchange was US$251,261 thousand, determined by an independent appraiser as of the date of the contribution.

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

All shares have equal voting rights and rights to receive dividends, which are payable at the discretion of the Group.

21 BANK BORROWINGS

The following table summarises bank loans and credit lines outstanding as of 31 December 2009, 2008 and 2007:

Bank	Currency	**Weighted average interest rate %**	**2009**	Weighted average interest rate %	2008	Weighted average interest rate %	2007
Foreign banks	EUR	**3.24**	**81,873**	5.43	78,697	4.77	86,597
Ukrainian banks	US$	**8.86**	**94,000**	6.78	109,000	8.71	10,799
Ukrainian banks	UAH	**23.82**	**19,960**	–	–	12.51	42,337
			113,960		109,000		53,136
TOTAL BANK BORROWINGS			**195,833**		187,697		139,733
Less: Short-term bank borrowings and current portion of long-term bank borrowings			**(139,790)**		(130,241)		(73,855)
TOTAL LONG-TERM BANK BORROWINGS			**56,043**		57,456		65,878

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. The interest on the borrowings drawn with 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 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Credit lines	**129,103**	132,560	84,973
Term loans	**66,730**	55,137	54,760
TOTAL BANK BORROWINGS	**195,833**	187,697	139,733

The following table summarises fixed and floating interest rates bank loans and credit lines held by the Group as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Floating interest rate	**148,447**	147,941	102,348
Fixed interest rate	**47,386**	39,756	37,385
TOTAL	**195,833**	187,697	139,733

Bank loans and credit lines outstanding as of 31 December 2009 were repayable as follows:

		2009	
	Foreign	**Ukrainian**	**Total**
Within one year	**25,830**	**113,960**	**139,790**
In the second year	**25,090**	**–**	**25,090**
In the third to fifth year inclusive	**23,958**	**–**	**23,958**
After five years	**6,995**	**–**	**6,995**
TOTAL	**81,873**	**113,960**	**195,883**

As of 31 December 2009, the Group had available undrawn facilities of US$6,413 thousand. These undrawn facilities expire during the period from January 2010 until October 2010.

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 2009, the Group had borrowings of US$9,980 thousand that were secured. These borrowings were secured by property, plant and equipment with the carrying amount of US$5,813 thousand (Note 8).

22 BONDS ISSUED

Bonds issued and outstanding as of 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
10.25% Senior Notes due in 2011	**250,000**	250,000	250,000
14% Druzhba Nova Bonds due in 2008	**–**	–	39,604
Unamortised premium on bonds issued	**–**	–	116
Unamortised debt issue cost	**(1,954)**	(3,097)	(6,512)
TOTAL	**248,046**	246,903	283,208
Less: Current portion of bonds issued	**–**	–	(39,604)
TOTAL LONG-TERM PORTION OF BONDS ISSUED	**248,046**	246,903	243,604

10.25% SENIOR NOTES

In November 2006, MHP S.A. 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. Up to 30 November 2009, the Group had the right to redeem up to 35% of the aggregate principal amount of the Senior Notes with the net proceeds of any offering of MHP S.A. common equity at a redemption price of 110.25% of the principal amount, plus accrued and unpaid interest up to the redemption date. This option was not exercised by the Group.

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 2009, the fair value of the Senior Notes issued by the Group was equal to US$228,875 thousand (2008: US$120,875 thousand; 2007: US$252,500 thousand).

14% DRUZHBA NOVA BONDS

In September 2006, Druzhba Nova issued 200,000 of 14% 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. 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.

23 LONG-TERM FINANCE LEASE AND VENDOR FINANCING OBLIGATIONS

Long-term finance lease and vendor financing obligations as of 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Finance lease obligations, long-term portion	**44,546**	47,972	30,018
Long-term payables for property, plant and equipment under vendor financing arrangements	**–**	–	520
TOTAL	**44,546**	47,972	30,538

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 2009, the weighted average interest rates on finance lease obligations were 8.61% and 7.81% for finance lease obligations denominated in EUR and US dollars, respectively.

As of 31 December 2009, 2008 and 2007, 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:

	2009 US$000	2008 US$000	2007 US$000
Long-term payables for property, plant and equipment	**–**	–	1,534
Short-term payables for property, plant and equipment	**6,340**	8,116	8,612
Less:			
Long-term portion of payables for property, plant and equipment	**–**	–	(520)
TOTAL	**6,340**	8,116	9,626

23 LONG-TERM FINANCE LEASE AND VENDOR FINANCING OBLIGATIONS CONTINUED

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 11.0% and 9.9% for payables denominated in EUR and UAH, respectively.

As of 31 December 2009, the Group's property, plant and equipment with net book value of US$1,276 thousand (2008: US$786 thousand, 2007: US$2,121 thousand) were pledged as collateral under vendor financing arrangements with foreign companies (Note 8).

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2009, 2008 and 2007:

	Minimum lease payments			Present value of minimum lease payments		
	2009 US$000	2008 US$000	2007 US$000	**2009 US$000**	2008 US$000	2007 US$000
Payable within one year	**31,094**	28,928	18,266	**24,458**	21,625	13,903
Payable in the second year	**25,535**	24,697	14,931	**21,309**	19,632	11,685
Payable in the third to fifth year inclusive	**26,187**	32,408	21,810	**23,237**	27,776	18,333
Payable after fifth year	**–**	684	–	**–**	564	–
	82,816	86,717	55,007	**69,004**	69,597	43,921
Less:						
Future finance charges	**(13,812)**	(17,120)	(11,086)	**–**	–	–
PRESENT VALUE OF LEASE OBLIGATIONS	**69,004**	69,597	43,921	**69,004**	69,597	43,921
Less:						
Current portion				**(24,458)**	(21,625)	(13,903)
FINANCE LEASE OBLIGATIONS, LONG-TERM PORTION				**44,546**	47,972	30,018

24 TRADE ACCOUNTS PAYABLE

Trade accounts payable were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Trade accounts payable to third parties	**72,361**	22,145	25,077
Payables due to related parties	**19**	25	39
TOTAL	**72,380**	22,170	25,116

As of 31 December 2009 trade accounts payable included liabilities that bear a floating rate of interest under grain purchase financing arrangements in the amount of US$51,970 thousand and accrued interest of US$1,932 thousand (2008: liabilities of US$6,205 thousand and accrued interest of US$136 thousand).

25 OTHER CURRENT LIABILITIES

Other current liabilities were as follows as of 31 December 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Accrued payroll and payroll related taxes	**25,268**	15,151	11,940
Advances from and other payables due to third parties	**3,629**	2,470	4,362
Advances from related parties (Note 7)	**200**	338	329
Payables on other financing arrangements	**6,370**	12,484	–
Other payables	**3,621**	2,549	1,454
TOTAL	**39,088**	32,992	18,085

As of 31 December 2009 payables on other financing arrangements represented short-term credit facility received from a grain supplier at LIBOR+3.27%. As of 31 December 2008 payables on other financing arrangements represented credit facility received at a fixed rate of 8.75% with maturity on 30 June 2009.

26 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 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
VAT refunds	**65,606**	59,338	21,365
Fruits and vine cultivation	**1,145**	468	2,417
Processing of live animals	**780**	46,146	29,641
Selection and genetic programmes in breeding	**12**	293	1,198
Other government grants	**269**	1,418	1,668
Total	**67,812**	107,663	56,289

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).

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 2009, 2008 and 2007 for creation and cultivating of orchards, vines and berry-fields.

GOVERNMENT GRANTS ON PROCESSING OF LIVE ANIMALS – During the years ended 31 December 2008 and 2007, 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 was provided to the Group's chicken farms in the form of payment for each item of poultry slaughtered at the farms. This subsidy was also available to the Group's beef and pork processing facilities. Starting from 1 January 2009, the Group did not receive these subsidies due to the government suspended this type of subsidies.

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 2009, 2008 and 2007 mainly comprised of subsidies related to crop growing.

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 2009, 2008 and 2007. 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 2009, 2008 and 2007 were US$900 thousand, US$2,406 thousand and US$2,141 thousand, respectively (Note 33).

27 CONTINGENCIES AND CONTRACTUAL COMMITMENTS

ONGOING GLOBAL FINANCIAL CRISIS – The financial markets, both globally and in Ukraine, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

While due to the nature of the Group's business the Group's revenues and margins were not affected by these factors, the Group's financial results were impacted by the significant depreciation of Ukrainian currency during the year ended 31 December 2008. The Ukrainian currency remained relatively stable in 2009; however, any further weakening of the exchange rate may adversely impact the Group's financial results in future periods.

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 Ukrainian 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.

CONTRACTUAL COMMITMENTS ON PURCHASE OF PROPERTY, PLANT AND EQUIPMENT – During the years ended 31 December 2009, 2008 and 2007, 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 2009, purchase commitments on such contracts amounted to US$2,307 thousand (2008: US$20,927 thousand; 2007: US$3,851 thousand).

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 2009, 2008 and 2007:

	2009 US$000	2008 US$000	2007 US$000
Within one year	**6,886**	5,264	5,868
In the second to the fifth year inclusive	**23,868**	19,218	21,749
Thereafter	**38,256**	38,193	46,359
Total	**69,010**	62,675	73,976

28 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 was 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. The Group determines its leverage ratio as the proportion of debt to adjusted operating profit. As of 31 December 2009, 2008 and 2007, the leverage ratio was as follows:

	2009 US$000	2008 US$000	2007 US$000
Bank borrowings (Note 21)	**195,833**	187,697	139,733
Bonds issued (Note 22)	**248,046**	246,903	283,208
Finance lease and vendor financing obligations (Note 23)	**69,004**	69,597	44,441
Payables on other financing arrangements (Note 25)	**6,370**	12,484	–
	519,253	516,681	467,382
Operating profit	**217,980**	243,506	112,143
Adjustments for:			
Depreciation expense (Note 30, 31)	**51,677**	56,938	44,207
Loss on impairment of property, plant and equipment (Note 8)	**1,304**	11,767	10,238
Gain from change in accounting estimates in respect of valuation of biological assets	**–**	–	(150)
ADJUSTED OPERATING PROFIT	**270,961**	312,211	166,438
DEBT TO ADJUSTED OPERATING PROFIT	**1.92**	1.65	2.81

Debt is defined as bank borrowings, bonds issued, finance lease 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 24). Adjusted operating profit is defined as operating profit 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

	2009 US$000	2008 US$000	2007 US$000
FINANCIAL ASSETS:			
Cash and cash equivalents	**22,248**	54,072	10,088
Trade accounts receivable, net	**43,377**	31,531	20,363
Government grants receivable (Note 15)	**29**	3,397	4,192
Short-term bank deposits	**7,632**	25,342	10,055
Loans to employees and related parties (Notes 12 and 15)	**1,649**	1,486	1,732
Other receivables (Note 15)	**3,418**	2,346	2,235
TOTAL FINANCIAL ASSETS	**78,353**	118,174	48,665

	2009 US$000	2008 US$000	2007 US$000
FINANCIAL LIABILITIES:			
Bank borrowings (Note 21)	**195,833**	187,697	139,733
Bonds issued	**248,046**	246,903	283,208
Finance lease and vendor financing obligations	**69,004**	69,597	44,441
Accounts payable for property, plant and equipment	**6,340**	8,116	9,626
Interest accrued	**3,526**	3,520	4,102
Trade accounts payable	**72,380**	22,170	25,116
Other long-term payables	**310**	400	2,004
Other current liabilities (Note 25)	**9,991**	15,033	1,454
TOTAL FINANCIAL LIABILITIES	**605,430**	553,436	509,684

The main risks inherent to the Group's operations are those related to credit risk exposures, liquidity risk, market movements in interest rates and foreign exchange rates, potential negative impact of livestock diseases, and commodity price and procurement risk.

28 RISK MANAGEMENT POLICIES CONTINUED

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 large supermarkets, which have the longest contractual receivable settlement period among customers.

Of the trade accounts receivable balance as of 31 December 2009, the Group's five largest customers represent 34% of the outstanding balance.

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 as of 31 December 2009. 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.

2009	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	**195,833**	**204,711**	**146,133**	**51,210**	**7,368**
Bonds issued	**248,046**	**299,115**	**25,625**	**273,490**	**–**
Finance lease obligations	**69,004**	**82,816**	**31,094**	**51,722**	**–**
TOTAL	**512,883**	**586,642**	**202,852**	**376,422**	**7,368**

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 2009, 2008 and 2007, the current ratio was as follows:

	2009 US$000	2008 US$000	2007 US$000
Current assets	**426,977**	337,631	267,337
Current liabilities	**285,582**	219,453	184,595
CURRENT RATIO	**1.5**	1.5	1.4

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 2009 were as follows:

	US$ denominated	EUR denominated
ASSETS		
Trade accounts receivable	3,910	–
Cash and cash equivalents	17,088	37
TOTAL ASSETS	**20,998**	**37**
LIABILITIES		
Trade accounts payable	54,482	4,127
Payables on other financing arrangements	6,370	–
Accounts payable for property, plant and equipment	15	4,232
Interest accrued	2,686	591
Long-term bank borrowings	–	56,043
Short-term bank borrowings	94,000	25,830
Bonds issued	250,000	–
Long-term finance lease and vendor financing obligations	15,797	28,750
Short-term finance lease and vendor financing obligations	5,447	19,010
TOTAL LIABILITIES	**428,797**	**138,583**

28 RISK MANAGEMENT POLICIES CONTINUED

The below details the Group's sensitivity to strengthening of the Ukrainian hryvnia against US dollar and EUR by 5% and weakening of the Ukrainian hryvnia against US dollar 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	**2009**	2008	2007
Profit/(loss)	**20,390/(61,170)**	15,040/(45,120)	12,756/(38,268)

EUR-denominated	**2009**	2008	2007
Profit/(loss)	**6,927/(20,781)**	7,506/(22,519)	5,860/(17,580)

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

During the year ended 31 December 2009, the Ukrainian hryvnia depreciated against EUR by 5.5%, against US dollar by 3.7% (2008: against EUR by 46.3%, against US dollar by 52.5%). As a result, the Group recognised foreign exchange losses in the amount of US$23,580 thousand (2008: US$187,127 thousand) in the consolidated statement of comprehensive income.

The Group's management believes that the currency risk is mitigated by existence of US dollar-denominated proceeds from sunflower oil sales, which are substantially sufficient for servicing the Group's US dollar-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 assumption that the amount of liability outstanding as of the balance sheet date was outstanding for the whole year.

	2009		2008		2007		
	LIBOR	**EURIBOR**	LIBOR	EURIBOR	LIBOR	EURIBOR	NBU discount rate
Profit/(loss)	**9,741/(9,741)**	**6,490/(6,490)**	12,209/(12,209)	6,496/(6,496)	1,080/(1,080)	959/(959)	500/(500)

The effect of interest rate 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 diseases, which are highly contagious and destructive to susceptible livestock, such as avian influenza or bird flu for its poultry operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to 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.

29 REVENUE

Revenue for the years ended 31 December 2009, 2008 and 2007 was as follows:

	2009 US$000	2008 US$000	2007 US$000
POULTRY AND RELATED OPERATIONS SEGMENT			
Revenue from sales of chicken meat	**443,654**	501,013	283,835
Revenue from sunflower oil sales	**101,274**	109,974	67,028
Revenue from other poultry related sales	**32,215**	49,044	34,002
	577,143	660,031	384,865
OTHER AGRICULTURAL OPERATIONS SEGMENT			
Revenue from sales of other meat	**60,116**	66,122	34,523
Other agricultural sales	**27,993**	26,980	16,559
	88,109	93,102	51,082
GRAIN GROWING SEGMENT			
Revenue from sales of grains	**45,752**	49,777	38,490
TOTAL REVENUE FROM CONTINUING OPERATIONS	**711,004**	802,910	474,437

30 COST OF SALES

Cost of sales for the years ended 31 December 2009, 2008 and 2007 was as follows:

	2009 US$000	2008 US$000	2007 US$000
Poultry and related operations	**375,525**	437,865	285,008
Other agricultural operations	**85,352**	91,492	55,665
Grain growing operations	**38,286**	42,353	24,345
TOTAL	**499,163**	571,710	365,018

For the years ended 31 December 2009, 2008 and 2007, cost of sales comprised the following:

	2009 US$000	2008 US$000	2007 US$000
Costs of raw materials and other inventory used	**338,114**	390,421	239,004
Payroll and related expenses	**79,746**	86,440	58,310
Depreciation expense	**43,479**	51,541	40,397
Other costs	**37,824**	43,308	27,307
TOTAL	**499,163**	571,710	365,018

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.

31 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Payroll and related expenses	**30,062**	37,820	16,306
Services	**13,992**	11,069	6,905
Advertising expenses	**10,562**	8,361	9,626
Representative costs and business trips	**8,807**	8,319	7,912
Depreciation expense	**8,198**	5,397	3,810
Fuel and other materials used	**6,454**	8,045	4,470
Insurance expenses	**1,349**	580	1,130
Bank services and conversion fees	**476**	477	824
Other	**1,072**	427	616
TOTAL	**80,972**	80,495	51,599

32 OTHER OPERATING EXPENSES

Other operating expenses for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Change in allowance for irrecoverable VAT and direct write-offs	**7,803**	4,821	2,438
Change in allowance for irrecoverable amounts and direct write-offs	**1,791**	1,052	2,777
Non-production materials write-off	**160**	995	817
(Gain)/loss on disposal of property, plant and equipment	**(8)**	1,145	(660)
Other	**5,463**	2,009	1,903
TOTAL	**15,209**	10,022	7,275

33 FINANCE COSTS, NET

Finance costs for the years ended 31 December 2009, 2008 and 2007 were as follows:

	2009 US$000	2008 US$000	2007 US$000
Interest on corporate bonds	**26,822**	31,300	32,781
Interest on bank borrowings	**12,996**	11,332	10,405
Interest on obligations under finance leases	**7,279**	5,584	4,256
Interest on grain purchases financing arrangements	**3,463**	3,456	2,533
Bank commissions and other charges	**1,301**	2,397	1,648
Government grants as compensation of the finance costs for agricultural producers (Note 26)	**(900)**	(2,406)	(2,141)
Total finance costs	**50,961**	51,663	49,482
Less:			
Finance costs included in cost of qualifying assets	**(144)**	–	–
TOTAL	**50,817**	51,663	49,482

For qualifying assets, the weighted average capitalisation rate on funds borrowed generally during the year ended 31 December 2009 was 9.87%.

Interest on corporate bonds for the years ended 31 December 2009, 2008 and 2007 includes amortisation of premium and debt issue costs on bonds issued in the amounts of US$1,197 thousand, US$1,611 thousand and US$1,705 thousand, respectively.

34 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 statement of comprehensive income 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 2009, 2008 and 2007 the Group companies remitted 33.2% and 26.56% 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 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
1 January 2009 – 31 October 2009	430
1 November 2009 – 31 December 2009	464

The Group's contributions to the State Pension Fund during the year ended 31 December 2009 amounted to US$23,840 thousand (2008: US$22,820 thousand; 2007: US$10,152 thousand).

35 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.

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 due to the short-term nature of the financial instruments.

The fair value of bank borrowings as of 31 December 2009 is estimated at US$180,765 thousand compared to carrying amount of US$195,833 thousand. The fair value of finance lease obligations as of 31 December 2009 is estimated at US$63,407 thousand compared to carrying amount of US$69,004 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$228,875 thousand compared to the carrying value of US$248,046 thousand. The fair value was estimated based on market quotations.

36 EARNINGS PER SHARE

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

	2009 US$000	2008 US$000	2007 US$000
Profit for the year attributable to equity holders of the Parent	**148,564**	1,518	40,870
Loss/(profit) for the year from discontinued operations used in calculation of earnings per share from discontinued operations	**–**	9,722	3,601
EARNINGS USED IN CALCULATION OF EARNINGS PER SHARE FROM CONTINUING OPERATIONS	**148,564**	11,240	44,471

	2009	2008	2007
Weighted average number of shares outstanding	**110,770,000**	106,738,750	100,020,000

During the years ended 31 December 2008 and 2007 the results from discontinued operations were attributable to equity holders of the Parent. The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

37 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:

	2009 US$000	2008 US$000	2007 US$000
Additions of property, plant and equipment under finance leases and vendor financing arrangements	**22,118**	47,616	28,417
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor	**4,489**	16,313	27,849
Property, plant and equipment purchased for credit	**6,340**	8,116	9,626

38 AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorised for issue by the Board of Directors of MHP S.A. on 30 March 2010.

CORPORATE INFORMATION

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