Myronivsky Hliboproduct

Annual report 2010

A year of expansion

Contents

MHP (Myronivsky Hliboproduct) is Ukraine's leading producer of poultry and poultry products. We command around 50% share of the market for industrially-produced chicken while our "Nasha Riaba" brand leads the market for chilled-chicken products. Being one of Ukraine's leading agro-industrial companies, we also produce a number of national and regional brands of processed meat.

We are a truly vertically-integrated enterprise owning and operating each stage in the chicken-production process, from growing grain to producing feed, and from hatching eggs to distribution and sales.

Taking into account Ukraine's market potential, the Company is expanding its poultry production capacities with the Vinnytsia poultry farm, coming on-stream at the beginning of 2013.

During 2010 the Company continued to execute its stated strategy of gradually increasing its land bank and at the end of the period it had around 280,000 hectares of land under control.

We are increasing our capacity >>

Ukrainian demand for high quality processed chicken meat is growing strongly. Since the 1990s MHP's share of the industrially produced chicken market has grown to around 50% of an expanding market. In that period, per capita income in Ukraine grew rapidly, fuelling a rise in demand for high quality products. We have extensively grown the business and increased capacity in order to meet this rise in demand – and to move towards our ambition to become Europe's premier poultry producer.

In 2010 the Myronivka poultry farm successfully achieved its first full year at full capacity, reaching the production target of 220,000 tonnes. The Vinnytsia complex, now under construction, will add a further 440,000 tonnes when complete. Our retail outlet network is expanding, too.

Today, MHP is one of the biggest producers in Europe. Tomorrow, we will be significantly larger.

Poultry

+26%

Percentage increase 2009-2010

Volumes, tonnes

2010	360,000
2009	285,000
2008	225,000

Land

+56%

Overall percentage increase 2009-2010

Hectares under control

2010	280,000
2009	180,000
2008	180,000

Meat processing products

+34%

Percentage increase 2009-2010

Volumes, tonnes

2010	32,900
2009	24,600
2008	16,000

Market overview

Leaders in our markets >>

MHP enjoys a leading position in the markets it competes in – and the Company is growing all the time. What are the key factors lying behind this success? Simply that, through constant innovation and development, we offer consumers an ever widening range of attractive, nutritional poultry and meat products of consistently premium quality at prices which represent value for money.

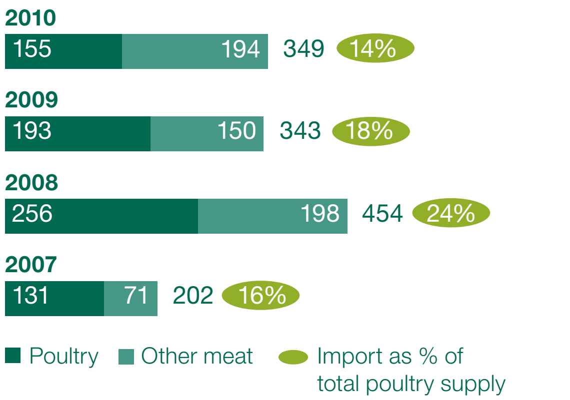
Today, MHP is Ukraine's most successful agricultural business. Over the past 12 years, a multi-million dollar investment programme, a clear business strategy, a professional management team and a highly trained, dedicated workforce has created a company which not only dominates its markets, but is a considerable asset in the economic development of Ukraine.

So, shoppers can buy with confidence every time. Not rocket science, perhaps, but a company's ability to provide these things day in, day out over the long term depends on its underlying structures to enable it to go on providing the products people want to buy for their families.

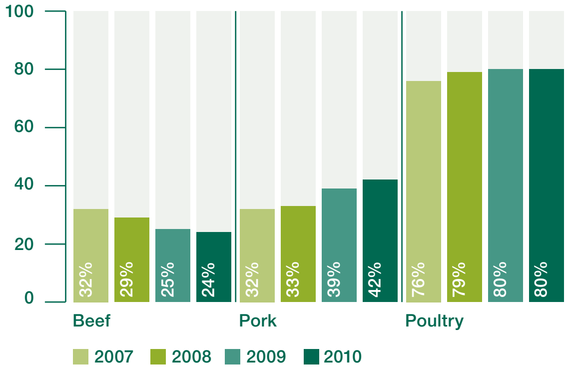
Key Market Drivers
Since the Company was founded in 1998, the key driver for growth has been the rapid increase in demand for meat products in the Ukrainian domestic market. Since the 1990's, the market was overloaded with imported frozen chicken meat while, at the same time, domestic production was underdeveloped. Data for this period on meat consumption in Ukraine demonstrates that it is generally lower than the European average; nevertheless, consumption has increased by an impressive 53% over the past seven years and shows, driven by poultry, every sign on continuing to grow.

Interestingly, overall meat consumption per capita in Ukraine is still lower than the European and Russian average and below biological norm. In the future and now, only chicken has a great potential for overall meat consumption growth. Two principal factors lie behind this; firstly, production of chicken is industrialised compared to other kinds of meat production and, secondly, one of the lowest levels of per capita income in Ukraine makes poultry the cheapest source of protein and the most affordable meat option for consumers. MHP has seized this opportunity to present its range of modern, high quality products to eager families the length and breadth of the country.

Imported Meat
'000 tonnes



Industrially produced meat in Ukraine, 2009-2010
Percentage of total domestic meat production



MHP's market share is growing year on year. From entering the market, in just under ten years, by 2009, it had grown to 43% of a significantly enlarged market. In 2010, we achieved the milestone of capturing over half the market around 50% – whilst other manufacturers in the sector remained relatively static or left the market altogether.

Vertical Integration guarantees Quality and Value-for-Money

Fundamental to our market dominance is our tried and tested vertically integrated business model which makes us almost entirely self-sufficient. By growing or rearing all the raw materials we need, carrying out all meat processing on our own sites and distributing the end products through our own distribution and retail networks, we can control production costs, guarantee quality levels and maintain value for money at every stage from farm to fork. And, by controlling costs, we also ensure that our margins are one of the highest in the business, another foundation to long term growth.

By its very nature, poultry is the easiest meat to use in modern technological processing and production. It currently represents almost 50% of all meat consumed by Ukrainians, something further explained by the fact that beef and pork production remains relatively underdeveloped in Ukraine and such products are significantly more expensive than poultry.

The Right Products

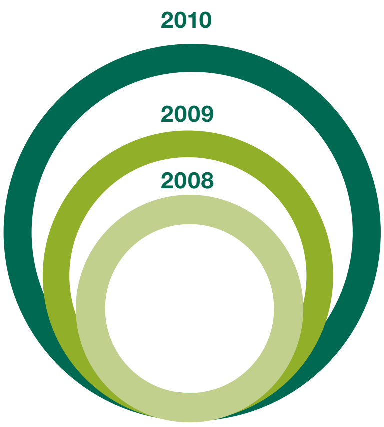
We are proud of our reputation for excellence – a reputation we have worked hard to achieve and are determined to maintain. Market surveys demonstrate that our brand names are amongst the most recognised and trusted in Ukraine. But we do not take people for granted: we continually seek to improve our products where we can, and to regularly introduce new lines designed to appeal to the end buyer.

Our aim is to earn and maintain the respect and trust of consumers. In addition to the consistent levels of quality at the right prices referred to above, that also means offering them a wide range of attractive, nutritious, easy-to-cook food products which fit in with modern lifestyles. This is particularly true as general economic conditions improve in Ukraine and employment levels rise leaving the typical family with rather less time to prepare meals.

The Right Retailing Balance

The demand is overwhelmingly high for fresh meat products sold in local shops which consumers can visit several times per week. 40% of our products are sold through a network of around 2,600 "Nasha Riaba" branded franchise stores. Over the next few years, we intend to expand the number and quality of these bright, highly popular stores which play an important role in maintaining our market leadership.

Industrial poultry production in Ukraine



'000 tonnes processed weight

2010
772

2009
712

2008
632

Ukraine poultry market share evolution

2010

1. MHP	49%
2. Agromars	16%
3. Dniprovski	7%
4. Volynska	3%
5. Others	25%

2009

1. MHP	43%
2. Agromars	18%
3. Dniprovski	7%
4. Ruby Rose	4%
5. Others	28%

A vertical integration business model

Grain	Sunflower Protein	Fodder	Sunflower Husks	Hatching Eggs
Own grain production satisfies 100% of the Company's corn and 15% of sunflower needs	Replace of expensive imported soybean meal by own produced protein from sunflower seeds	100% self-sufficient in fodder Own grain storage facilities	Efficient operations – waste recycling	100% self-sufficient in hatching eggs
280,000 hectares of land under control	576,000 tonnes of sunflower seeds (about 200.000 tonnes of sunflower oil)	3 fodder mills – more than 1 million tonnes fodder Grain storage facilities 735,000 m³	Increased self-sufficiency in energy supplies to ensure lower costs	2 breeder farms, 254 million hatching eggs per year
Further increase of land bank as per Company's plan	540,000 tonnes of sunflower seeds	550,000 tonnes fodder per year Grain storage facilities 920.000 m³	Biomass heating facility recycles waste	160 million hatching eggs per year

Existing capacities: 360.000 tonnes of chicken meat **Future capacities**: Vinnytsia project (Phase 1 = 220,000 tonnes of chicken meat)

A high degree of vertical integration >>

Robust business model of vertical integration – our poultry business is substantially supported by the grain growing segment

Poultry	Processing Plants	Convenience food, processed meat and sausages	Distribution	Retail
100% of poultry grow out and processed at own facilities		Growing share of processed meat and sausages	100% of poultry delivered to customers within 12 hours by dedicated fleet	2,600 dedicated outlets
4 broiler farms, 360,000 tones of chicken meat per year	Fully automated processing plants, 3.6 million chickens per week	Over 60,000 tonnes of convenience foods, sausages and cooked meat per year	Fleet of more than 450 vehicles	40% of poultry is sold via franchise network
12 broiler zones, 220,000 tones of chicken meat per year	2 lines, each 12,000 heads per hour	Further capacity for meat processing and production increase of convenience food.	Plus more than 200 new vehicles	Plus more than 1,500 new outlets

BioSecurity – towards best practice
Biosecurity is a top priority right across our operations. We employ a range of stringent measures at all our facilities designed to minimise the risk and transmission of disease. All chickens are reared in indoor barns to EU standards, access to our facilities is strictly controlled, employees and vehicles are disinfected before entering production areas and a team of 200 vets constantly monitors the health of the flocks.

Units at each breeding and rearing farm are at least 1km apart – and individual barns are approximately 50 metres apart – to prevent any spread of disease. All barns are thoroughly cleaned to international standards before a new generation of chickens is introduced. Birds of different generations are not mixed together.

We operate a highly effective traceability system, enabling us to maintain the quality of our products by tracking the production process from start to finish by linking every batch of chickens to its original facility.

The majority of our sites complies with the most stringent current international standards, having both ISO9001 (Quality Management System) and ISO22000 (Food Safety Management System) certification. In addition to ISO22000, the Druzhba Narodiv Nova plant has HACCP (Hazard Analysis & Critical Control Point) certification. We have made good progress with this rolling programme over the past 5 years. Our goal is to continue certifying the rest of our enterprises to the above standards by 2012 and after. Further progress was made during 2010 with the certification of the Snyatynska, MFC, Katerynopilsky and Myronivka plants.

Product portfolio >>

Poultry and poultry related operations

Sales in 2010

UAH6,349m

US$800m

Key products and brands

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

Nasha Riaba
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 2010

UAH282.2m

US$35.6m

Key products

— Corn
— Sunflowers
— Wheat
— Rape

Total land bank

280,000

hectares by end of 2010

Other agricultural operations

Sales in 2010

UAH859.3m

US$108.3m

Key products and brands

— Sausages
— Cooked meat
— Premium fresh beef
— Foie gras
— Goose meat
— Fruit
— Milk

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

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

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

Certified Angus
Premium fresh beef from Aberdeen-Angus cattle, 36 types bred on our Druzhba farm

Europroduct
Our value brand of sausages and cooked meats: 20 types of product

A self-sufficient business model which gives us control over all aspects of our operations "from farm to fork". Vertical integration reduces MHP's dependence on suppliers and its exposure to risks such as fluctuations in raw material prices.

STRATEGY

Expanding our poultry business by:

— strengthening on our leading market position
— constructing new poultry complexes
— increasing and diversifying exports

KEY FACTS

254 million
hatching eggs produced in 2010 at two breeder farms

192 million
birds grown in 2010 at four poultry farms

360,000 tonnes
of chicken produced

1,100 million
tonnes of fodder produced at three mills

11
distribution centres

450
refrigerated trucks

2,600
branded franchise outlets

21,000 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

195,800 tonnes
of sunflower oil sold (2009: 140,400 tonnes)

STRATEGY

Furthering the profitability of our grain business by:

— increasing efficiency through the application of modern farming techniques
— further increasing our land bank in forthcoming years to grow more crops for feed
— maintaining our above-average crop yields
— increasing exports of grain

KEY FACTS

8
arable farms

735,000 cubic metres
of grain-storage capacity

913,000 tonnes
of crops harvested from land that was under control at the beginning of 2010 (180,000 hectares including 150,000 hectares grain growing)

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

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

Excellent climate
With a beneficial mixture of sun and rain, Ukraine's climate is perfect for growing arable crops.

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

34%
increase in sales of sausages and cooked meat in 2010

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

Chairman's statement

Growth >>

2010 was a year in which we successfully reaped the rewards for strategic growth decisions taken in recent years and laid the foundations for further expansion in the period ahead. I am delighted to report on another year of significant progress for MHP.

Already one of Europe's leading producers of chicken meat, MHP is working at 100% of capacity and now holds approximately 50% of the rapidly growing domestic Ukrainian market for industrially produced meat products. The Myronivka chicken farm, which reached full production on schedule in mid 2009, successfully met its first full year production targets. In addition, construction of the Vinnytsia poultry complex started on what, over the next five years or so, will become one of the world's most advanced chicken processing facilities.

During the year, a number of export licences were granted and we are confident of receiving EU export certification in the near term which would support the sustained, long-term expansion of the Company.

Results

2010 saw a return to economic stability and GDP growth in Ukraine.

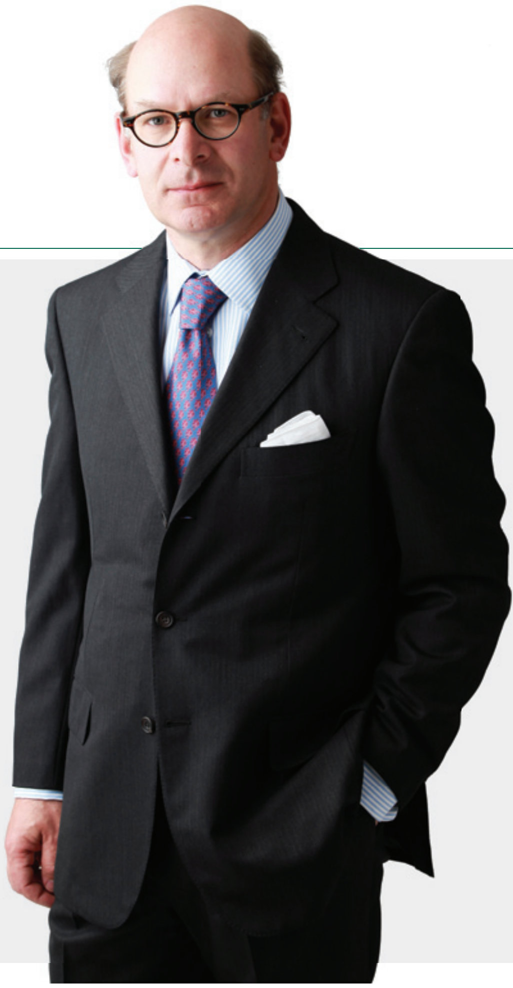
The successful placement of our new Eurobond issue in April and an increase in the free float in December clearly demonstrated market confidence in a steadily growing business underpinned by a robust, vertically-integrated business model which left the Company largely unscathed by the recent macro-economic uncertainties in Ukraine.

Financials

I am pleased to confirm that full year results are in line with expectations. Adjusted EBITDA of US$325 million in 2010 was achieved compared with US$271 million in 2009, a 20% increase. Revenue grew by 33% to US$944 million from last year's US$711 million.

The Market

Chicken represents a cheaper and healthier source of protein than beef and pork. Consumers know it and have come, more and more, to trust the brand names within the MHP range for their dependable quality and value for money. Through its broad range of modern, family-friendly products, MHP has essentially driven the market for high quality, value-for-money chicken products in Ukraine. As economic confidence has returned, so sales of our more specialised, value-added convenience foods have grown, whilst demand for our wide range of sausages and cooked meats led to a 34% increase in production over 2009 figures to 32,900 tonnes.



"MHP is serving a large, attractive and growing market."

Charles E Adriaenssen

Operations
Our robust, vertically-integrated business model aims at maximising our self-sufficiency with most crops. With open-market commodity prices rising dramatically in 2010, MHP's self-sufficiency model confirmed its worth during the year. With the increase in output brought about by the Myronivka and forthcoming Vinnytsia facilities, we have acquired further strategic landholdings which not only increase our vertical integration but will expand our grain sales. It also gives us increased protection from fluctuating grain prices and a distinct competitive advantage. Compared to both Ukrainian domestic and international producers, we have one of the lowest poultry production costs.

We are particularly proud of the way our new Myronivka plant performed during its first full year at full capacity, meeting its production targets without any significant operational problems. This is testament to the maturity and efficiency of the organisation and our staff, and bodes well for Vinnytsia as it comes progressively on-stream in the coming years.

Corporate Governance
MHP is registered in Luxembourg and complies with that country's voluntary corporate governance regime. Three of our seven directors, including myself, are independent non-executives. We have improved the quality of information to Board members and have increased the frequency of the visits we make to our production sites and retail outlets.

Risks
The Company rigorously controls exposure to risk. The programme of investment in new capacity at Vinnytsia is split into two phases, allowing expenditure to be tailored to cash-flow and credit availability. Receipts of foreign currency from the sale of sunflower oil, crops and poultry – around US$240 million in 2010 – provide the Company with a natural hedge against exchange rate fluctuations.

People
MHP continues to be one of the largest employers in Ukraine's agricultural sector. We employ highly trained and motivated people, led by a sector-leading senior management team committed to driving the business forward. On behalf of the Board, I express our thanks to them all for their contribution to our continuing success.

Outlook
Having withstood the challenging times of 2009, in 2010 we improved our market domination in the grain growing, chicken and processed meat sectors and ensured the Company remained in sound financial health. With a new major production facility at Vinnytsia coming on-stream from 2013, we will increasingly be able to satisfy growing domestic demand in Ukraine. Through its vertical integration, effective cost management and modern, highly efficient production facilities, MHP is fast becoming a world leader in the cost-efficient delivery of high quality, high demand food products. With the foundations for further expansion already being laid and the near-term prospects of increasing export opportunities, we can look to the period ahead with confidence with a new production facility coming on-stream in 2013, we will more and more satisfy growing domestic demand.

50%
Industrial chicken production market share

Consumers to trust the brand names within the MHP range.

Revenue US$
944m

Our business model aims at maximising self-sufficiency, we have one of the lowest poultry production costs.

Chief Executive's review

Capacity >>

I am pleased to report on a year which saw MHP once again deliver on promises made. In 2010 the Company performed strongly, both operationally and financially, meeting all the production and monetary targets we had set ourselves. We also achieved significant operational expansion across our three business streams.

This performance reflects the strength of our uniquely self-sufficient business model and puts us in a strong position to continue delivering against our targets in the period ahead. Our objective is to carry on expanding and strengthening our leading position, and achieve sector leading results by focusing on doing what we do best – producing and marketing a range of popular, dependable, high quality, value-added food products.

2010 – Delivering on our Promises
In addition to meeting our profitability and production increase targets, a number of other key achievements during 2010 are worthy of highlight: they demonstrate the underlying strength of the Company and the progress we continue to make as we emerge from a period of challenging economic conditions. In particular, the success we have had in capturing an ever increasing share of the growing Ukrainian market for industrially produced chicken. By any standards, a market share of around 50% is a clear reflection of the quality of our products and represents a major advance since 2000 when we had just 5% of the (much smaller) market. In April 2010 we re-financed our Eurobond 2011 and issued a new one.

In addition, the Myronivka poultry farm successfully achieved its first entire year at the full capacity production target of 220,000 tonnes of chicken meat. In April, the successful re-financing of our Eurobond 2011, and the issuing of a new one, meant construction work on the new Vinnytsia poultry plant could start earlier than would otherwise have been the case. The new plant will now come on-stream during 2013. When two production lines become operational in 2015, it will give MHP an additional 220,000 tonnes of meat per annum. In 2017/18, the completed complex will become one of the largest poultry plants in Europe and one of the most efficient worldwide with an annual production of 440,000 tonnes.

During the year, we increased our land bank by 100,000 hectares to 280,000 hectares, just as we said we would 12 months ago.

"Self-sufficiency is at the heart of our business model."

Yuriy Kosyuk

Strategy & Business Model

From our beginnings, MHP has enjoyed the benefits of a self-sufficient business model which gives us control over all aspects of our operations "from farm to fork". Indeed, I believe that MHP is the most comprehensively vertically-integrated meat production business in the world. Parent birds produce over 250 million eggs per year from which we rear our own chickens to fully grown birds, feed them with our own fodder, made principally from crops we have grown ourselves, distribute the finished range of food products in our own fleet of refrigerated trucks. We have two sales channels: the well known "Nasha Riaba" branded franchised shop network and supermarkets.

Investment in innovative new products plays an important role in creating demand for new-to-Ukraine product lines. By producing exactly the sort of high quality, cost effective, reliable products increasingly demanded by Ukrainian families today, ours is a sustainable and robust business model which enables us to maintain quality at every stage of production whilst controlling costs and achieving sector-leading margins.

Consequently, meat processing production increased by over 30% this year, while production of convenience products rose by over 120%.

Vertical integration reduces MHP's dependence on suppliers and its exposure to risks such as fluctuations in raw material prices. By combining two business segments – poultry and grain growing – MHP was not affected by the steep rise in grain prices following the 2010 harvest. We are, therefore, well protected from grain price increases. It also insulates us, to a large degree, from competition as well as from any fluctuations in Ukraine's economy and currency exchange rate.

Financial Results

The 2010 financial performance reflects the many advances made across the business. A 20% increase in group EBITDA from US$271 million in 2009 to US$325 million this year represents a clear validation of our business model. The increase in group revenue – up 33% from 2009's US$711 million to US$944 million – demonstrates that we are producing the type of high quality, value-for-money products that Ukrainians want to buy.

Group Strategy

Production costs

At all times, we keep production costs under control and have one of the lowest poultry production costs in the industry worldwide.

Build on our quality facilities

We continue to invest in state-of-the-art production facilities and equipment with the aim of maintaining our position as one of the most modern large scale producers in Europe.

Increase our land bank

A vital component in maintaining our unique vertically-integrated business model. In 2015 the Company plans to have around 400,000 ha.

Strengthen our market share

Ukraine's domestic market for meat products is expanding steadily. From an already dominant position, we are committed to winning an increased share of the processed meat markets through offering a wide range of dependable, high quality products, including more value-added products such as ready meals and convenience foods.

Promote our brands

We will continue to support our brands through targeted advertising which has resulted in high brand recognition and trust in our products with consequent increasing sales.

Expand our distribution networks

Over the next five years, we want to see an expansion in the number of our franchise stores (circa 2,600 in 2010). Expansion will also achieve our aim of spreading "Nasha Riaba" branded stores to cover more parts of the country.
We will keep the retail sales balance between franchised outlets and supermarkets.

"Our beneficial business model ensures the Company's stable profitability and sustainable growth."

Sales & Markets
Almost all current operations are focused on meeting rising domestic demand for nutritious, simple to cook, tasty, cost effective, protein-rich foods like chicken. Whilst we, of course, monitor appropriate opportunities to export, as long as Ukrainian demand for meat products remains high, MHP will be fully occupied in capturing an ever increasing share of this rapidly growing market. An essential element of that will be the on-going success of our "Nasha Riaba", which is one of the most recognised consumer food brands in Ukraine.

At the beginning of 2013 the first line at the Vinnytsia poultry farm is to be launched. The lion's share of it will be sold locally to satisfy growing domestic demand.

The principal driver for growth over the next few years will remain the domestic Ukrainian market prompted largely by increasing average per capita income in the country.

Currently the Company exports over 5% of its poultry produce and in the near future we will increase export sales from the current level to 15-20% once the Vinnytsia plant is launched. Export will mostly be directed to CIS, Middle Asia countries as well as the EU.

People
Today, MHP employs over 22,000 skilled and motivated people and the progress we are making as a Company is in no small way down to their contribution to our joint efforts. I take this opportunity to thank them all. I am proud of the measures MHP is taking to help and support them – measures which are, in some cases, a "first" in Ukraine and, as outlined in the CSR Report on page 26, up to the best international standards to be found anywhere. For me personally, MHP is more than a Company – it is my extended family. That is the passion I have for the Company and which I wish to share with everyone in it.

Outlook
As I write, all our poultry production facilities are working at full capacity in response to sustained and rising demand for its products. Our production capacity has grown significantly in the past two years with the new Myronivka facilities coming on-stream. Further growth in capacity is scheduled for 2013 when the Vinnytsia plant begins production, at which point we will likely become one of the largest producers in Europe. In the meantime, profitability will come from continued organic growth in demand for our chicken products, higher volumes and an expansion in our range of processed meat products. Acquisitions, including increasing our land bank still further, will continue to be judged on their ability to help us achieve our corporate aims. With the increase capacity utilisation, meat processing operations will further increase year on year.

So, we have the skills, the resources, the facilities and, importantly, the opportunity. Set against a stable legislative background in the domestic agriculture sector and a positive business environment created by Government, I remain as confident as I have ever been that MHP will carry on its record of creating expansion, delivering positive results and achieving growth in shareholder value in the years ahead.

Highlights

Operational Highlights

Poultry

- Myronivka poultry farm successfully achieved its first year at full capacity, resulted in total Company's poultry production increase by 26% to 360,000 tonnes (2009: 285,000 tonnes)
- Following a year of full capacity operation of MHP's Katerynopilsky sunflower crushing plant, 195,800 tonnes of sunflower oil was produced in the full year 2010 (2009: 140,400 tonnes), an increase of 39%
- Average chicken meat sales prices increased by 7% to UAH 13.65 per kg. against 2009 and average sunflower oil prices through the year increased by 27% to 919 US$/t. from 721 US$/t in 2009, in line with world pricing trends.
- Annual sales volumes of chicken to third parties increased by 21% to 331,400 tonnes. Demand for chicken was high throughout the year as consumers continued to substitute locally produced chicken for other meat
- Throughout the year MHP as always worked at 100% capacity and sold close to 100% of its production

Grain Growing

- Despite adverse weather conditions MHP's 2010 harvest was lower yielding than, but still significantly higher than Ukraine's average per hectare (please see table on page 21 of this Annual Report)
- The lower yields worldwide also effected price increases resulting in increased profitability per hectare for MHP compared to 2009
- During 2010 the Company continued to execute its stated strategy of gradually increasing its land bank and at the end of the period it had around 280,000 hectares of land under control

Other Agricultural

- Sales of sausages and cooked meat increased by 34%

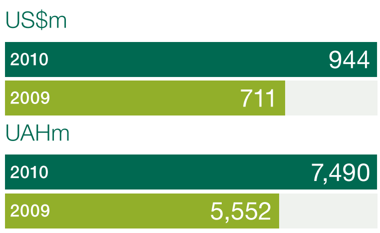
Financial Highlights

- Revenue in US dollar terms increased by 33% to US$944 million (2009: US$711 million)
- EBITDA in US dollar terms increased by 20% to US$325 million (2009: US$271 million)
- Consolidated EBITDA margin slightly decreased to 34% (2009: 38%), but remained high compared to international peers worldwide
- Net income was up in US dollar terms by 35%, while net income margin remained stable at 23%
- Successful Eurobond issue in April 2010 substantially optimised the Company's capital structure

Revenue

+35%

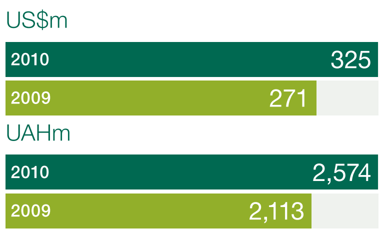
Percentage increase in UAH – 2009-2010



EBITDA

+22%

Percentage increase in UAH – 2009-2010



Expanding our operations >>

MHP has maintained its position as the leader in the Ukrainian poultry market, increasing its market share of industrially produced chicken from around 43% in 2009 to around 50% by the end of 2010, an outstanding achievement. Our poultry production grew by 26% over the previous year, thanks chiefly to meeting the production targets set for the new Myronivka poultry farm which had its first entire year at full capacity. This was achieved at a time when output from some Ukrainian industrial poultry producers actually fell, their market share declined or they left the sector entirely.

49%

MHP currently dominates the market of industrially produced chicken, increasing its market share by 7 percentage points in the past year alone.

100%

At 360 tonnes per year, MHP's production facilities are always working at full capacity and plans are underway to build on this position.

Our wide range of products under the Nasha Riaba brand continues to attract a loyal customer base who look to MHP to provide consistency of quality at the right price. The "Nasha Riaba" brand, in particular, is one of the strongest food brands in Ukraine, achieving over 97% brand recognition. We continue to invest in the development of this brand, both in new products and a wider range, as well as working with our partners to improve and expand the network on "Nasha Riaba" branded stores across the country.

We are fiercely protective of the reputation of our product range which is squarely founded on quality and price. These two vital ingredients in our success stem from a rigid adherence to our vertically-integrated business model which enables us to control quality and costs at every stage of production from the farm and factory floor to the customer's dinner table. Thanks to this approach, MHP is now the leading agro-industrial company in Ukraine. We intend to build on this position in the years ahead.

During the year under review, all our production facilities continued to operate at full capacity and our branded franchise retail outlets sold almost 100% what we produce.

Increasing Efficiency and Self-Sufficiency

Breeding

MHP owns two poultry breeding farms – Starynska in the Kiev Region and the soon-to-be-extended Shahtarska plant in the Donetsk Region. Starynska supplies the Peremoga Nova and Oril-Leader poultry farms and was expanded in 2008 in order to meet the demand from the Myronivka complex which was completed in 2009. The plant now has 19 rearing sites – seven for young birds and 12 for older birds – and houses around two million birds which in 2010 produced over 200 million hatching eggs.

From mid 2010, with the launch of additional breeding capacity at Starynska, MHP became self-sufficient in hatchery eggs, satisfying the needs of Phase 2 of the Myronivka poultry farm. Production costs consequently decreased in the following period.

Shahtarska supplies the Oril-Leader and Druzhba Nova poultry farms. It currently has nine rearing sites – three for young birds and six for laying hens. Over 400,000 birds are housed in this facility producing around 50 million hatching eggs each year.

Our breeding plants feature equipment supplied by the leading European manufacturers (including VDL, Agrotech, Big Dutchman, Roksel and Jansen) which regulate all aspects of production from the distribution of feed and drinking water for the hens and the collection of eggs to the control of light, temperatures and humidity in the chicken barns. We continue to invest heavily in the specialist training and development of the staff employed in these facilities.

Plans for the major expansion of Shahtarska include the construction of almost 180 additional rearing sites to meet the future demand of the Company's new Vinnytsia poultry farm, where construction began in 2010. The new facilities will enable the Shahtarska to produce an extraordinary 325 million hatching eggs annually, a five-fold increase on current capacity.

Hatching

Once the eggs have been certified by the State veterinary authorities, they are transported from the breeder farms in temperature-controlled lorries to closed hatcheries at our chicken farms. There, they are kept in incubators, which control temperature, humidity and air circulation,

Poultry continued

Geographical presence

until they hatch at 21 days. The newly hatched chicks are vaccinated against the common respiratory condition, known as Newcastle Disease, and bronchitis before being transferred to sterilised barns on site.

Growing

In 2010, our four broiler farms, operating at 100% capacity, reared a total of 192 million chickens: 113 million at Myronivka, our largest and newest farm; 16 million at Peremoga; 28 million at Oril-Leader and 35 million at Druzhba Nova. Each farm consists of a hatchery, chicken rearing barns and a slaughter house.

Throughout our operations, we go to considerable lengths to ensure full compliance with the latest EU and international standards. Light, temperature, air circulation, feed and water are all carefully controlled to ensure the stable growth and well-being of the birds at all times. Chemicals and steroids are not used at any point in the production process. The feed contains all the fat, protein, vitamins and minerals the chicks need and is adjusted appropriately as they grow. Within 40 to 45 days, the birds have reached a weight of 2.3 to 2.5 kgs and are ready for processing.

Myronivka
Europe's most advanced and productive poultry farm

Situated 130 km from Kiev in the Cherkasy Region of the country, Myronivka became fully operational in 2009 and is the current jewel in MHP's crown. At present, 2.25 million chickens are processed each week which equates to some 220,000 tonnes of meat per year. Production costs per kilo of chicken at Myronivka are generally lower than at MHP's other poultry farms due to the decrease in labour costs and improvements in energy efficiency.

We have introduced a new-to-MHP food safety management system at Myronivka based on the international standards ISO 22000: 2005 and ISO 9001: 2008. Our aim is that all our poultry plants should meet these quality certifications by 2012.

The EU Commissioner for Agriculture & Rural Development visited Myronivka in 2009 and declared herself impressed by what she saw. This was followed, in May 2010, by a visit from representatives of the European Commission who gave the complex a high rating. MHP is currently waiting for certification which will eventually clear the way for the export of poultry products to the EU.

Vinnytsia
Taking production on to a new level

During 2010, we began construction of what will become Europe's largest poultry complex – at Vinnytsia in central Ukraine. Based on similar lines to Myronivka but double the size, the new facility will be a fully integrated, ultra-modern production plant featuring its own incubator and breeder farm, hatchery, a mixed fodder plant, a slaughterhouse and a sunflower crushing plant, together with all the necessary infrastructure to support its activities.

The first production phase will be launched in 2013. In 2015 two production lines at Phase 1 will be operational, by which time the total MHP production of chicken meat will be 580,000 tonnes. By 2017-18, the completed plant will have a total of four production lines with a capacity to produce 440,000 tonnes per annum – no less than double the capacity of Myronivka. With this dramatic increase in capacity, MHP will have the opportunity to replace a significant proportion of low quality deep frozen imported meat from USA and Brazil as well as continuing to satisfy growing domestic demand for high quality products. Additionally, the increased volumes may contribute to exports as and when such opportunities arise. Our current land bank of 280,000 hectares is enough to satisfy the internal crop needs of the first phase of the Vinnytsia complex.

A Vertically-Integrated System
Ingredients for Feed

The price of animal feed represents the greatest potential for fluctuation in the cost of operational overheads. We have achieved our objective of overcoming this factor by growing all the corn and around 15-17% of the sunflower we need.

A by-product of the seed crushing process is the production of sunflower oil. In 2010, the Company increased its sales of oil by 39% to 195,800 tonnes compared to 140,400 tonnes in 2009. We will continue to use the proceeds of selling oil on the international markets to service our US$-denominated debt.

The launch of the Vinnytsia facilities from 2013 will result in an increase in sunflower oil production arising from increased feed output to satisfy the demands of the new plant. Our sunflower oil production will increase foreign currency revenues.

Vinnytsia, a new level of production >>

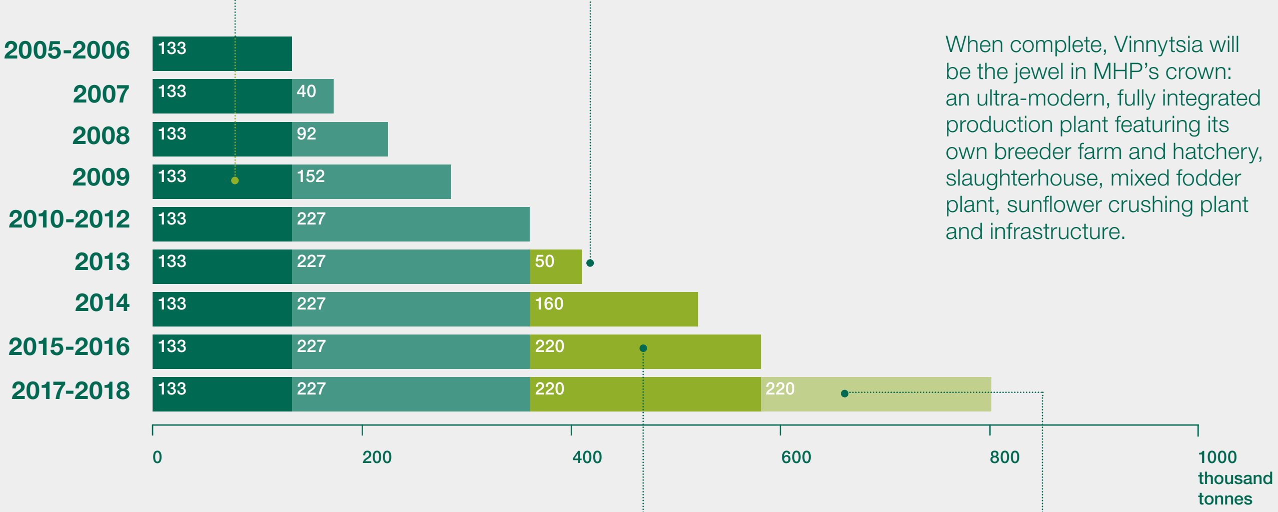
The Vinnytsia poultry complex will come on-stream progressively from 2013 and will be one of the most advanced chicken processing facilities in the world.

2005-09 Production doubled

Construction, completion and production launch of our first greenfield project, Myronivka, producing 220,000 tonnes of meat per annum.

2013 Phase 1 Projection US$ 750m

The first production line begins operations on schedule, adding approximately 50,000 tonnes of chicken meat to MHP's total annual production.



When complete, Vinnytsia will be the jewel in MHP's crown: an ultra-modern, fully integrated production plant featuring its own breeder farm and hatchery, slaughterhouse, mixed fodder plant, sunflower crushing plant and infrastructure.

2015-16 Projection

Launch of second production line and completion of Phase 1 of Vinnytsia development with an increase in production to 220,000 tonnes of chicken meat per annum. In 2015, total MHP production of chicken across the Group will be 580,000 tonnes per annum.

2017-18 Phase 2

Phase 2 opens – Vinnytsia complex now complete with four production lines and a total capacity of 440,000 tonnes of meat per annum.

Poultry continued

Feed Production and Storage

We operate three feed production facilities – MFC near Kiev, TKZ in southern Ukraine and Katerynopilsky – 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 Shahtarska; TKZ supplies Druzhba Nova; and Katerynopilsky supplies Myronivka, Oril-Leader and Peremoga. Construction began in 2010 of a new fodder mill in the Vinnytsia region.

MFC, which produced over 430,000 tonnes of feed in 2010, comprises a fodder mill, a protein mill, five grain stores and a cereals mill. Fodder production increased by over 12% in 2009. Each of its two production lines can produce 220,000 tonnes per annum. 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 per annum, produced over 186,000 tonnes in 2010 and increased its production by 93% compared to 96,500 tonnes in 2009.

Katerynopilsky has two production lines which together have a capacity of approximately 600,000 tonnes each year. In 2010, they produced 476,000 tonnes of fodder – a 20% increase on the previous year thanks largely to the increased demand from Myronivka. The first silos, which are part of the new fodder production facilities at Vinnytsia, will be operational at the end of 2011. These silos will accommodate the output of our new increased land bank. When Vinnytsia is operational, its fodder requirements will be supplied by the new fodder plant.

Replacing soya bean protein with sunflower protein decreases our production costs per kilo. This gives us two significant competitive advantages over other domestic poultry producers who, firstly, are not as vertically-integrated as MHP and cannot benefit from the cost-effective "grain-fodder-poultry-customer" supply chain that we enjoy at MHP. Secondly, our competitors either have to buy in fodder based on soya bean protein, or import expensive soya from abroad and produce fodder from that. With recent dramatic grain price increases, this lack of self-sufficiency is of critical importance.

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 degrees Centigrade before being delivered to customers. Any meat which is surplus to immediate requirements is frozen.

Most parts of our chilled chicken are sold under our market-leading "Nasha Riaba" 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 meals – are produced on modern production lines at our Myronivsky Meat Processing Plant and are blast frozen to protect their flavour. They are sold through franchised stores, supermarkets and the food service trade.

The Myronivsky meat processing plant in the Kiev Region has been operational since 2006 and is the only Ukrainian specialist in prepared frozen meat products. Five production lines use fresh ingredients from MHP's own farms to produce finished products. These are branded and sold under the well known "Lehko!" name.

Production at Lehko is steadily increasing. In 2009, output was 9,300 tonnes. In 2010, thanks to the growth in demand for our expanding range of convenience food products, the plant met its target of increasing production to 21,000 tonnes, an increase of 126% compared to 2009 production volumes. The plant is certified to ISO 22000: 2005 and ISO 9001: 2000 standards and has qualified to export its produce to Belarus, Kazakhstan, Georgia and Moldova.

Biosecurity and maintaining quality >>

Distribution & Sales

As part of our vertically-integrated business model, controlling all aspects of our production from egg production to merchandising displays in shops, MHP maintains its own comprehensive network of distribution and logistics centres around Ukraine. MHP has three main distribution channels allowing effective control of costs, eleven subsidiary distribution centres, a fleet of 450 refrigerated lorries and 2,600 retail outlets across Ukraine. Our vehicle fleet acts as high profile, mobile advertising hoardings for our products. We enjoy the benefits and security of a well-diversified customer base.

In Ukraine, the overwhelming preference of households is for fresh, chilled products as opposed to frozen. The demands and personal service expectations of Ukrainians are both served by independent, franchised retailers and supermarkets. During 2010, the number of "Nasha Riaba" franchised stores increased from around 2,300 to just over 2,600. We hope to see a further increase and foresee the franchise sector remaining the most important single outlet source for MHP products for the foreseeable future. In addition, we aim to maintain a balance of sales between franchises and supermarkets.

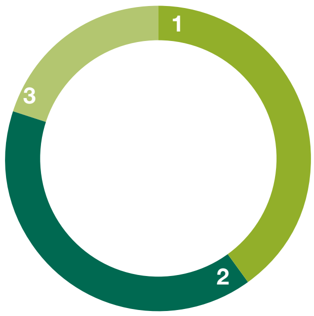
Strategic Objectives

MHP has experienced expansion, year on year, since it began operations in 1998 and we intend to pursue further expansion as a principal corporate objective. The first full year of production at Myronivka and further green field developments such as Vinnytsia represent the scale of organic growth of which we are capable. We will expand our land bank and pursue our goal to increase diversification into the grain market sale.

The increasing size of our operations brings with it greater economies of scale by reducing operating costs per unit which, incidentally, are already amongst the lowest in the industry worldwide. We intend to continue that downward drive in the interests of meeting the increasing demand from customers for a comprehensive range of attractive, high quality, well priced products.

In the near term, our aim is to become one of the biggest poultry producers in Europe. In addition to satisfying increasing domestic demand, in the longer term we will look at further growth through export opportunities to EU countries and the Middle East.

Poultry distribution channels
By volume



1. Retail	40%
2. Franchise Stores	40%
3. Hotels, restaurants, catering businesses, meat processors	20%

Легко!

+126%

Increase of convenience food production in the last year. Lehko! is a vast range of innovative convenience food.

A fleet of 450 refrigerated lorries and 2,600 outlets across Ukraine

НАША РЯБА

33%

MHP accounts for over a third of Ukraine's fast growing poultry consumption

Grain

Increasing our land bank >>

Arable farms play a strategic role in MHP's vertically-integrated business model. The Company not only runs this business efficiently and receives high yields, but also demonstrates high profitability sector wise. Its eight arable farms provide MHP's fodder plants with grain and oil crops; the fodder plants supply fodder for the broiler plants and breeding farms; the poultry farms, in turn, provide our crop-growing enterprises with organic fertiliser.

The Ukrainian climate, with its mixture of adequate rainfall and plentiful sunshine, combined with our famously fertile soil is ideal for growing crops. Growing our own supplies means we can maintain quality whilst controlling costs. Additionally, the crops we do not use for fodder – and the various by-products from those we do – provide significant extra revenue to the Group through their sale on the open market. For example, in 2010, we earned US$36 million from sales of grain to third parties, an additional contribution to groupwide cashflows.

We use corn, sunflowers and wheat grown on our eight arable farms to produce mixed fodder which is used to feed the chickens and livestock in our care. MHP continued with its strategy of gradually increasing its land bank and at the end of the period had 280,000 hectares of land under its control. At the same time, the bulk of the 2010 harvest was generated from land that was under the Company's control at the beginning of the year (total land bank at December 2009: 180,000 hectares including 150,000 hectares growing grain). Despite generally unfavourable weather conditions in the summer of 2010, MHP yields were twice the Ukrainian average. The proportions of crops grown are 40% corn, 30% wheat, 15% sunflowers and 15% other crops.

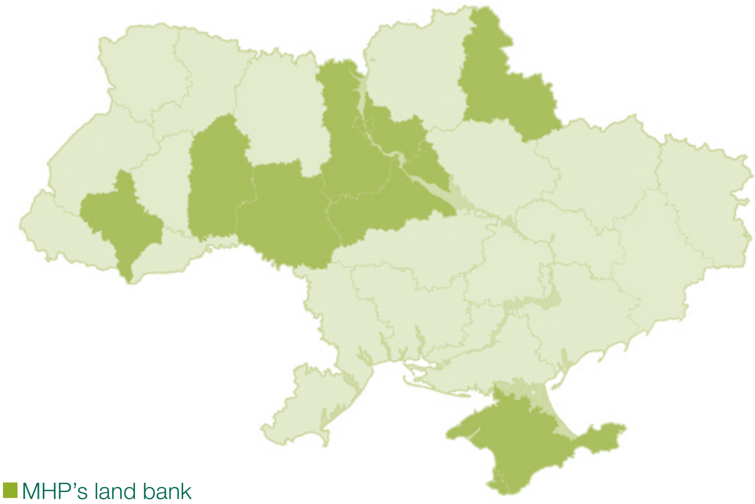
Our continuing drive to increase efficiency across the business has led to welcome increases in crop yield through the introduction of up-to-date farming practices, modern technology and the latest equipment on all our farms. In 2010, despite generally unfavourable weather conditions, our arable farms produced remarkable yields twice the Ukrainian average. Due to the grain increase in the market, MHP's EBITDA per hectare in 2010 was US$458, a very satisfactory performance.

We acquired some grain growing enterprises in Sumy and Khmelnytsky regions as predicted in last year's Annual Report. The size of our land bank increased to some 280,000 hectares during the year in order to meet increased demand from our expanding production facilities and to allow for further diversification into the production and sale of profitable, in-demand by-products. Land acquisitions included some grain-growing enterprises in the Sumy and Khmelnytsky regions of the country.

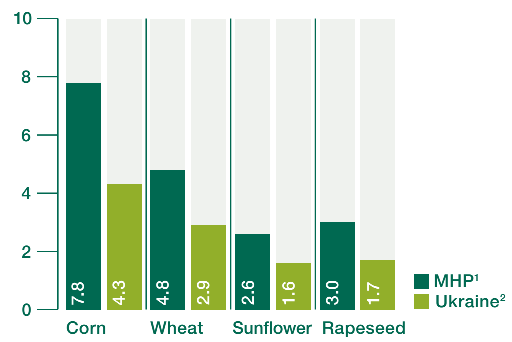
8 arable farms

We use corn, sunflowers and wheat grown on our eight arable farms to produce mixed fodder which is used to feed the chickens and livestock in our care.

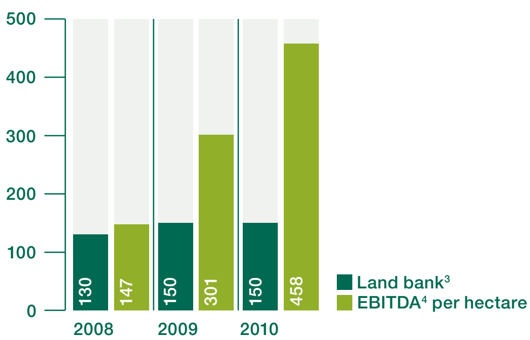
Geographical presence



2010 Crops yield
Tonnes/ha



EBITDA and land bank
'000 ha/US$



1. Yields based on net weight
2. Yields based on bunker weight
3. Land bank available for cultivation at the beginning of the season
4. Unadjusted EBITDA, which includes results from inter-company sales of grain to poultry segment for fodder production at market price

Other agricultural operations

Meat processing and other products >>

Our third business division produces a wide variety of fresh and prepared value-added mass market products ranging from sausages and cooked meats to top quality beef, foie gras, fruits and milk.

Sausages & Processed increase Meat
In 2010, overall production increase in this division was mostly driven by the growth of our meat processing operations, strengthening our already leading position in the highly fragmented Ukrainian processed meat sector. MHP is, in fact, the market leader with more than 10% market share in Ukraine.

The Group's vertically-integrated business model applies as much to this division as to other parts of the Group. We rear our own livestock – cattle, pigs and geese – on our own farms and grow the crops that go into their fodder. 50% of the ingredients in product recipes is chicken, the rest being pork and/or beef.

We sell the division's products through the network of "Nasha Riaba" stores and through other retail outlets, including supermarkets and distributors, as well as direct to the food service industry.

Our two plants producing sausages and cooked meats saw sales rise by 34% to almost 32,900 tonnes in 2010. Druzhba Narodiv, in Crimea, produces over 90 different types of pork and beef sausages as well as MHP's "Certified Angus" brand of prime beef. The plant is one of the most modern in Ukraine, having opened in 2007, and output is currently 50 tonnes per day. In the year under review, 9,000 head of cattle were reared and 27,000 pigs. Products are principally sold under the "Druzhba Narodiv", "Baschinsky" "Europroduct" brand labels.

Ukrainian Bacon, based in the Donetsk Region, joined the Group in 2008 and has a daily output of 48 tonnes of cooked meats and sausages sold under the "Baschinsky" and "Europroduct" brand labels catering mainly to the lower priced, value-for-money end of the market. In addition, the plant produces 20 tonnes of ready-to-cook products, such as dumplings, and a further 20 tonnes of poultry. A programme of investment in the plant has resulted in a further increase production – another strategic objective for 2010 – by modernising existing facilities and expanding the plant's heat treatment capabilities. We believe Ukrainian Bacon has the potential to increase its annual production to a total of over 150,000 tonnes per annum from 2011.

Goose & Foie Gras

The Snyatynska complex in the west of Ukraine houses a hatchery, over 50 geese rearing houses and a processing plant producing a range of high quality products including mousses, terrines and fois gras pate. Also during the year, the plant was licensed to export its products to Russia. The plant's food quality and safety control management systems fully comply with ISO 9001: 2008 and ISO 22000: 2005.

In May 2010, European Commission representatives visited Snyatynska and expressed their high opinion of its operations.

Fruit

Established in 2003 as a part of the Druzhba Narodiv operations, MHP's Crimea Fruits company uses 50% of its about 2,000 hectares of land to grow apples, with the remainder being used to cultivate grapes, peaches, apricots, strawberries and pears. The climate in this part of southern Ukraine is similar to that of northern Italy and, therefore, ideal for growing fruit. The harvested fruit is stored in 32 atmospherically controlled refrigerators with the capacity to handle over 8,000 tonnes of fruit as production grows towards its peak over the next few years.

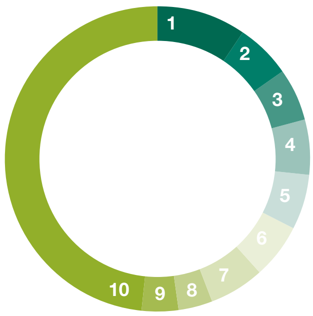
In addition to harvesting and storage facilities, there are commercial fruit processing and packaging lines on site. Produce is sold mainly direct to supermarkets.

Continuing Expansion

MHP continues to value the growing contribution our other agricultural activities make to the Group as a whole and we welcome the diversification the division represents and the wide variety of products it enables us to offer our customers. There is no doubt that the division has the potential for significant expansion perhaps most particularly in our processed meats which already generate the largest proportion of revenue in the division. We are committed to investing in the most modern production facilities and innovative new products which meet consumer demand for variety, quality and affordability.

Major Ukrainian meat processors

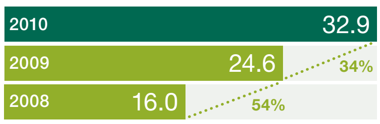
% of Ukrainian market



1.	MHP	9.5
2.	Yatran	5.8
3.	Globinskiy	5.8
4.	Gorlovsky	5.8
5.	Yubileiny	5.8
6.	Favorit	5.8
7.	SMP	5.8
8.	Luganskiy	3.7
9.	Kremenchug	3.7
10.	Others	48.3

Meat processing production

tonnes '000



Geographical presence

Risk 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 operational. MHP has effective policies in place to manage and, where possible, to avoid these risks.

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. 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.
Fluctuations in grain prices.	World prices could affect our poultry 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. Chicken always benefits from this when compared to other kinds of meat such as pork and beef because of the lower conversion rate (amount of grain required to produce 1kg of meat).
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 7% 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.

Risk	Potential Impact	Mitigation
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 21 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 1.1–1.2.
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 25% 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, the majority of our debt is at fixed rates. For variable rate borrowings, interest is linked to LIBOR and EUROLIBOR and they are generally at lower interest rates than are available in Ukraine.

Stable and sustainable >>

MHP strives to introduce modern, international standards of corporate responsibility across the Group. In many ways, we believe we are one of the leading Ukrainian companies in this area, expanding our involvement in a comprehensive range of innovative welfare initiatives for the community, the environment and staff.

Our aim – as in all other areas of the business – is to satisfy ourselves and our stakeholders that MHP adheres to best practice when it comes to corporate social responsibility.

The Community
We are fully aware of our social obligations to the communities in which we are active. During the year under review, a joint survey of MHP published by the IFC (International Financial Corporation) and the EBRD (European Bank of Reconstruction & Development) stated that the Company generally "has very good community relations and actively participates in community work". Some examples of recent initiatives are set out below.

Education
- Each year, we sponsor a number of agricultural education placements for the children of employees, offer employment to suitably qualified, recently graduated students from Ukraine's leading agricultural colleges and provide rent-free accommodation and specialist training for new employees.
- We support local schools and kindergartens by providing school meals and products from our range as well as financial support for repair and refurbishment works, including the creation of modern playground facilities and the purchase of equipment.
- Where appropriate, we support local road improvement initiatives in the vicinity of our plants, providing modern, high quality stretches of road for use both by the public and vehicles making their way to and from MHP facilities.

Charities
- In December 2010, working in partnership with the charity "Ukraine, I'm for You!", MHP provided funds for the purchase of a foetal monitor for the maternity department of the Putivla District Hospital in the Sumy region of the country. We also make occasional contributions to employees towards the cost of surgery for family members.
- In the area of national heritage, we give occasional grants towards the restoration of historic buildings near our production plants. For example, close to Druzhba Narodiv site in the Crimea region, we gave financial support to the refurbishment of a well known and architecturally important local church.
- MHP offers help-in-kind, such as food products, to support a network of local HIV/AIDS clinics in areas where the Company has operations.

Leisure
- MHP sponsors a number of local festivals in areas where we have operations. Often, these have a food and healthy eating theme at their heart. Examples include the "Without GMO" music festival held in Sebastopol in the Crimea region which was attended by around 40,000 people.
- "Chicken Fest", held in Kiev's ExpoCenter in May each year has established itself as one of the country's premier festivals based on a theme of healthy eating and healthy lifestyles.

Environment and sustainability

We have set up a biomass heating facility at the Myronivka fodder plant which recycles sunflower husks left over from fodder production.

Health and safety

Equipment is inspected regularly and we have established programmes designed to improve worksite safety training and working conditions.

Employees

We subsidise the cost of food served in our canteens and provide apartments for a number of best employees and their families.

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

Corporate responsibility continued

Environment

MHP is aware of the effects its operations may have on the environment and seeks to minimise impacts wherever possible by maintaining the highest international standards. In particular, energy efficiency has a high priority across the business – as well as finding alternative sources of energy including co-generation. That's why we have set up a biomass heating facility at the Myronivka fodder plant which burns sunflower husks left over from fodder production. We are looking at further opportunities across other MHP production facilities.

Our activities are subject to various environmental, health, safety, sanitary, veterinary and other laws and regulations including those governing fire, air emissions, solid waste and wastewater discharges and the use, storage, treatment and disposal of hazardous materials, such as disinfectants. Any 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 in order to compensate for any pollution we do generate. These payments are adjusted each year and, being based on expected emissions, would increase significantly if actual levels were higher.

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

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.

Pesticides and agro-chemicals: MHP's crop rotation process enables it to minimise the use of pesticides and agro-chemicals, to the extent that we use either, we comply with the current legislation governing their use.

Employees

MHP is fully aware of its obligations to its employees. We implement a programme of personal development for our staff and job-specific training, including health and safety awareness. Additionally, we provide a range of other initiatives designed to offer practical help and promote health and well-being off the work site. These include:

- Modern sports and leisure facilities for the use of staff and their families at the majority of our facilities.
- Buses to take employees to and from their places of work – and to take their children to school and back.
- At each of our plants, we subsidise the cost of food provided in our canteens so that a full midday meal costs only UAH 1.
- MHP provides one and two-bedroomed apartments for a number of employees and their families. Such apartments are provided at the Myronivka plant under our "Young Specialist" incentive programme for employees with at least 5 years' service with the Company.
- A range of performance related benefits, managed locally on an individual basis, including extra holidays, help with accommodation and the costs of buying houses, salary bonuses.

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

Worksite Safety

We have established programmes designed to improve worksite safety training and working conditions. Equipment is inspected regularly and our labour protection department is responsible for ensuring that we comply with health and safety requirements at all times.

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 the facility at which he or she works. They are paid as a fixed sum on an annual basis.

Pensions

Pensions are based on salary, as required by legislation.

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 afterwards.

Financial review

MHP is one of Ukraine's leading agro-industrial companies, focused on producing chicken and chicken products, processed meat products and growing grain. As the leading poultry producer in Ukraine, according to the State Customs Service of Ukraine (SCSU) MHP, accounted for approximately 50% of all chicken commercially produced in the country and 33% from poultry consumption in 2010.

We also have one of the country's largest portfolios of agricultural land and we have continued our strategy of gradually increasing our land bank. At the end of 2010 we had more than 280,000 hectares of land under control.

In addition, we produce and sell sunflower oil as a by-product of producing chicken feed, as well as sausages, cooked meat, convenience foods, beef, goose, milk and other agricultural products.

Operations

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

Poultry and Related Operations. This segment produces and sells chicken and chicken products, sunflower oil, convenience food, mixed fodder and other products related to the poultry production process. In 2010 it accounted for 84.8% of total sales (2009: 81.2%).

Grain Growing Operations. This segment, produces feed grain for our own operations; a proportion is also sold to third parties. In 2010, grain sold to third parties was responsible for 3.8% of MHP's total revenues (2009: 6.4%).

Other Agricultural Operations. This segment produces and sells sausages and cooked meat, as well as goose, foie gras, milk and other agricultural products. It accounted for 11.5% of 2010 sales (2009: 12.4%).

Results

Continuing operations	**2010 US$000**	2009 US$000	Change %
Revenue	944,206	711,004	33%
Net change in fair value of bio-assets and agricultural produce	**29,014**	35,236	(18%)
Cost of sales	**(680,637)**	(499,163)	36%
Gross profit	**292,583**	247,077	18%
Gross margin, %	**31%**	35%	(11%)
Selling, general and administrative expenses	**(102,107)**	(80,972)	26%
Government grants recognised as income	**82,058**	67,812	21%
Other operating expenses and income, net	**(15,750)**	(14,633)	8%
Operating profit before loss on impairment of property, plant and equipment	**256,784**	219,284	17%
Depreciation	**67,902**	51,677	31%
EBITDA	**324,686**	270,961	20%
EBITDA margin, %	**34%**	38%	(10%)
Loss on impairment of PPE		(1,304)	(100%)
Operating profit	**256,784**	217,980	18%
Finance costs, net	**(62,944)**	(50,817)	24%
Finance income	**13,309**	3,823	248%
Foreign exchange gains/(losses)	**10,965**	(23,580)	n/a
Gain realised from acquisitions, disposals and changes in non-controlling interest in subsidiaries	**–**	5,413	n/a
Other expenses and income, net	**(793)**	696	n/a
Profit before tax	**217,321**	153,515	42%
Taxes	**(1,873)**	6,488	n/a
Net income	**215,448**	160,003	35%
Net margin, %	**23%**	23%	1%

All the key financial indicators during 2010 increased year-on-year as reported in local currency (Hryvnia – UAH) as well as the US dollars.

In 2010, MHP's consolidated revenues from continuing operations in UAH increased by 35% to UAH7,490 million (2009: UAH5,552 million) – a reflection of the strong performance of the Company's poultry segment and the growth of chicken meat sales volumes. In US dollars it also increased by 33% to US$944.2 million (2009: US$711.0 million).

Gross profit from continuing operations in Hryvna increased by 21% to UAH2,319 million (2009: UAH1,923 million) and in US dollars it increased by 18% to US$292.6 (2009: US$247.1 million), gross margin was down by from 35% in 2009 to 31% in 2010.

EBITDA in local currency increased by 22% to UAH2,574 million (2009: UAH2,113 million) and in US dollars it increased by 20% to US$324.7 (2009: US$271.0 million). EBITDA margin slightly decreased from 38% to 34%.

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.

Financial review continued

Net income for the year from continuing operation increased significantly to UAH 1,708 million (2009: of UAH 1,245 million) or US$215.4 million (2009: US$160.0 million). Net margin remained stable at 23%.

Income Statement by Segments in 2010

	Poultry US$000	Grain US$000	Other agricultural US$000	Unallocated US$000	Total US$000
Revenue					
Total revenue	828,821	121,299	111,691	–	1,061,811
Inter-segment eliminations	(28,584)	(85,668)	(3,353)	–	(117,605)
Sales to external customers	**800,237**	**35,631**	**108,338**	–	**944,206**
Net change in fair value of biological assets and agricultural produce	9,473	17,019	2,522	–	29,014
Gross Profit*	**239,717**	**46,378**	**6,488**	–	**292,583**
Selling, general and administrative expenses	(66,465)	–	(7,850)	(27,792)	(102,107)
Government grants, recognised as income	65,690	9,995	6,373	–	82,058
Other operating income/expenses	(13,869)	(608)	(1,273)	–	(15,750)
Segment result/operating profit	**225,073**	**55,765**	**3,738**	**(27,792)**	**256,784**
EBITDA	272,673	67,162	9,323	(24,472)	**324,686**
Finance cost	–	–	–	–	(62,944)
Finance income	–	–	–	–	13,309
Foreign exchange gains	–	–	–	–	10,965
Other income/expenses	–	–	–	–	(793)
Profit before tax	–	–	–	–	**217,321**
Income tax expenses	–	–	–	–	(1,873)
Net profit from continuing operations	–	–	–	–	**215,448**

* Gross profit to external customers as adjusted for inter-segment sales results

General tax system – tax legislation changes

The new Tax Code of Ukraine, which was enacted in December 2010, introduced gradual decreases in income tax rates over the coming years (from 23% effective 1 April 2011 to 16% effective 1 January 2014), as well as certain changes to the rules of income tax assessment starting from 1 April 2011.

In accordance with the new Tax Code of Ukraine, the VAT rate will be decreased from currently effective 20% to 17% in 2014.

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 2010, as with previous years, State support was provided in the form of special tax regimes (VAT and Corporate Income Tax). According to the New Tax Code, the special VAT regime for the agricultural industry will be effective through 1 January 2018.

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" and are exempt from Corporate Income Tax and other taxes such as Land Tax, Municipal Tax, Natural Resources Usage Duty, Geological Survey Duty, and Trade Patent. This tax regime is valid 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 hryvnas. Approximately 25% of our revenue and almost 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, chicken meat and grains. In total, during 2010, the Company generated US$240 million of revenue in foreign currencies (US$153 million in 2009).

	2010	2009
Sunflower oil and related products	**188,156**	104,864
Chicken meat	**29,147**	17,650
Grains	**22,454**	30,109
Other agricultural segment products	**290**	270
Total export revenue	**240,047**	152,893

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

	As of 31 December 2010	Average for 2010	As of 31 December 2009	Average for 2009	As of 31 December 2008	Average for 2008
UAH/US$	**7.9617**	**7.9353**	7.9850	7.7916	7.7000	5.2693
UAH/EUR	**10.5731**	**10.5313**	11.4489	10.8736	10.8555	7.7114

Acquisitions

During 2010 MHP aggressively expanded its grain growing business, resulting in an increase in the total amount of land under the Company's control to more than 280.000 hectares. Mostly new lands are located close to existing grain growing facilities in Cherkassy and Vinnnitsa region in Central Ukraine with favourable climate conditions. Also MHP expanded its grain growing activity entering into two new regions of Ukraine – Sumy and Khmelnytsky. A significant part of the newly acquired entities contained an established grain growing business.

Poultry and related operations

	12010 US$000	2009 US$00	Growth rate %
Revenue	**800,237**	577,143	39%
– Chicken meat and other	**620,255**	475,869	30%
– Sunflower oil	**179,982**	101,274	78%
IAS 41 standard gains	**9,473**	16,670	(43%)
Gross profit	**239,717**	218,713	10%
Gross margin	**30%**	37.9%	(21%)
EBITDA	**272,673**	233,787	17%
EBITDA margin	**34.1%**	40.5%	(16%)
EBITDA per 1kg of chicken meat	**0.82**	0.86	(4%)

MHP's revenue from its poultry and related operations segment 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 84.8% of MHP total revenue from continuing operations (2009: 81.2%) and 84.0% of its EBITDA (2009: 86.3%).

Revenue from sales of chicken meat and other poultry is primarily from sales of chilled chicken, whole or in portions, ancillary products (such as hearts and livers), frozen chicken and convenience food under the Lehko! brand, as well as other products related to the poultry production process.

In 2010, chicken meat sales volumes to the third parties on an adjusted-weight basis increased by 21% to 331,400 tonnes (2009: 272,900 tonnes). This volume growth was despite Ukraine's total poultry production volumes in 2010 only increasing by 8% and was a result of the Myronivka poultry farm operating at full capacity for the full year.

The increased cost of grain was the main driver for the growth in prices for all varieties of meat in 2010. Chicken meat prices were less affected by the growth in grain prices due to a better fodder conversion rate compared to other types of meat. As a result, during the year, consumer demand for chicken remained high; all MHP's poultry production units continued to operate at 100% capacity utilisation and the Company was able to sell close to 100% of the chicken produced.

Average chicken meat sales prices increased by almost 7% to 13.65 UAH per kg. against 2009 and average sunflower oil prices through the year increased by 27% to 919 US$/t from 721 US$/t in 2009 in line with world market trends.

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. Following a year of full capacity operation at MHP's Katerynopilsky sunflower crushing plant, 195,800 tonnes of sunflower oil was sold in the full year 2010, compared to 140,400 tonnes in 2009, an increase of 39%. US dollar revenues from the sale of sunflower oil increase by 78% to US$180.0 million (2009:US$101.3 million).

As a result, segment revenue increased by 39% to US$800.2 million (2009: US$577.1 million).

Poultry production costs in 2010 in UAH were slightly higher compared to 2009 due to the increase in the market price of corn, which the Company uses to calculate its costs in the poultry segment (through the nine months of 2009 in chicken feed was used corn harvested in 2008 with unusually low price). However, as MHP is 100% self-sufficient in corn and has a high level of vertical-integration, the higher prices of grains in 2010 had a positive effect on the financial performance of the Company's Grain Growing segment.

Financial review continued

The cost of raw materials and other inventory in the Poultry division, is primarily for feed grain and other items associated with producing fodder, as well as for those associated with purchasing and producing hatching eggs. Most of the feed grain used in poultry production, such as corn, and partially sunflower seeds, is produced by the Company's grain growing division. Management believes that the prices at which products are sold between divisions are generally consistent with average market prices and do, therefore, comply with Ukrainian transfer pricing rules.

The gross profit in the poultry segment increased by 10% from US$218.7 million in 2009 to US$239.7 million in 2010, while the gross profit margin decrease from 38% in 2009 to 30% in 2010. Such a decrease is partly attributable to the increase in the share of sunflower oil sales in total poultry segment sales. According to the Group accounting policy sunflower oil gross margin is zero*.

Segment EBITDA in 2010 increased by 17% to 272.7 million (2009: US$233.8 million). Lower EBITDA margin in the poultry segment in 2010 (34% compared to 41% in 2009) was compensated by higher financial results in grain growing segment.

Grain growing

	2010 US$000	2009 US$00	Growth rate %
Revenue	**35,631**	45,752	(22%)
IAS 41 standard gains	**17,019**	17,862	(5%)
Gross profit	**46,378**	24,903	86%
EBITDA	**67,162**	44,312	52%
EBITDA per 1 hectare	**458**	301	52%

MHP grows four major crops: corn and sunflowers, which are used in its own operations; and wheat and rape, which are sold to third parties in the Ukrainian domestic market. In 2010, the division harvested approximately 150,000 hectares of crops. During 2010 the Company continued to execute its stated strategy of gradually increasing its land bank and at the end of the period it had around 280,000 hectares of land under control. At the same time, in 2010 the bulk of the Company's harvest was generated from land that was under the Company's control at the beginning of the year (total land bank as on December 31, 2009: 180,000 hectares, including 150,000 hectares in Grain Growing segment).

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.

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.

MHP's 2010 harvest was lower yielding than 2009 due to adverse weather conditions, but still significantly higher than Ukraine's average yields per hectare. Domestic price increase on crops was affected by lower yields worldwide and resulted in increased profitability per hectare for MHP in 2010 compared to 2009. EBITDA per 1 hectare in 2010 increased by 52% to US$458 compared to US$301 in 2009.

Other Agricultural Operations

	2010 US$000	2009 US$00	Growth rate %
Revenue	**108,338**	88,109	23%
– Meat processing	**79,185**	60,116	32%
– Other	**29,153**	27,993	4%
IAS 41 standard gains	**2,522**	704	258%
Gross profit	**6,488**	3,460	88%
Gross margin	**6.0%**	3.9%	53%
EBITDA	**9,323**	8,707	7%
EBITDA margin	**8.6%**	9.9%	(13%)

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

Revenue from Other Agricultural Operations was US$108.3 million (2009: US$88.1 million) a 23% increase year-on-year. Following further expansion of Ukrainian Bacon facility. MHP's sausage and cooked meat production volumes increased by 34% to 32,900 tonnes in 2010 compared to 24,600 tonnes in 2009.

Average sausage and cooked meat prices during 2010 increased by 2% to UAH17.59 per kg excluding VAT (FY 2009: UAH 17.33 UAH per kg). MHP is a market leader in meat processing in Ukraine and management expects further increases in its market share (currently market share is about 10%).

The cost of raw materials and other inventory used primarily consists of seeds, fertilisers, pesticides and veterinary medicines. In addition, costs include payroll expenses; depreciation of agricultural machinery, equipment and buildings; and fuel, electricity and natural gas used in the production process.

50% of the ingredients in product recipes is chicken, the rest being pork and/or beef.

Divisional gross profit reached US$6.5 million in 2010 (2009: US$3.5 million). Divisional EBITDA increased by 7% to US$9.3 million (2009: US$8.7 million) and EBITDA margin is 9% (2009: 10%).

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. Cash generated from operating activities before change in working capital was US$263.2 million (2009: US$200.8 million).

In 2010, the total increase in working capital was US$167 million. The main contributors to working capital were:

— Purchasing of sunflower seeds stocks in 2010 through own cash and credit facilities while in 2009 the Company used forward contracts with Toepher (US$54m)
— VAT related to intensive CAPEX programme (US$48m)
— Increase in agricultural produce, mainly grains (US$22m)
— Increase in inventories due to higher sunflower seeds price (US$19m)
— Trade accounts receivables increased mainly due to higher chicken meat prices and increase in meat processing product sales (US$ 11 m)
— Increase in biological assets in grain growing segment related to winter sowing campaign at larger area (US$9m)

* For the Group, the sunflower oil is the by-product of fodder production. According to the Group accounting policy the cost of the by-products should equaled to the sales price.

Cash flows

	2010 US$000	2009 US$00
Operating Activities		
Operating profit before movements in working capital changes	**263,231**	200,786
Change in working capital	**(166,651)**	(77,724)
Net Cash generated from operating activities	**96,580**	123,062
Investing Activities		
CAPEX	**(222,819)**	(170,913)
Including non-cash investments	**20,335**	26,607
Assets sale and other	**(190)**	717
Deposits	**(127,054)**	17,722
Net cash used in investing activites	**(329,728)**	(125,867)
Financing Activities		
Net cash generated from financing activities	**250,150**	(28,176)
Including Treasury shares acquisition	**(46,288)**	0
Net increase in cash and cash equivalents	**17,002**	(30,981)
Effects of exchange rates	**71**	(843)
Total change in cash	**17,073**	(31,824)

In 2010 our total capital expenditure, of US$222.8 million was mostly related to the Vinnytsia project financing as well as the expansion of land under control in the grain growing segment. Since the start of the Vinnytsia project financing in the second half of 2010, approximately US$100.0 million was invested in the project.

During 2010, the Company acquired, under the share buy-back programme, 3,370,144 shares for a cash consideration of US$46 million, of which 455,000 shares were further used for the compensation scheme.

Debt

	31.12.2010	31.12.2009
Total Debt U.S.$, m	**832**	519
Long Term Debt	**658**	349
Short Term Debt	**174**	170
Cash and bank deposits	**174**	30
Net Debt	**658**	489
LTM EBITDA	**325**	271
Debt/LTM EBITDA	**2.56**	1.92
Net Debt/LTM EBITDA	**2.03**	1.81

As at 31 December 2010, the Company's total debt was approximately US$832 million, most of which was denominated in US dollars. The average weighted cost of debt was below 10%.

MHP's debt structure improved significantly as a result of the successful completion of new Eurobond transaction.

In 2010 MHP successfully issued US$330 million 10.25% senior notes due 2015 for an issue price of 101.452% of the principal amount (effective coupon rate 9.875%), in addition to approximately US$255 million 10.25% senior notes of exchange notes that were issued to exchange 96% of the outstanding US$250 million existing notes.

Currently US$585 million of the debt (by nominal value) is in Eurobonds, which are not redeemable until April 2015.

US$57 million of our long-term debt is principally represented by loans, covered by ECA; it matures at various times up to 2018.

US$30 million of our long-term debt is IFC and EBRD three year loans for financing Company's working capital needs.

US$61 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 2015.

The Net Debt/EBITDA ratio at the end of the period was 2.0 (Eurobond covenant: 2.5).

As a hedge for currency risks, revenue from sunflower oil exports, sunflower husks and proceeds from export chicken meat and grain sales are used, fully covering debt service expenses.

At the end of 2010 MHP had US$173.8 million in cash and short term bank deposits including approximately US$100 million nominated in US dollar.

Outlook

Consumer demand for poultry continues to be high and the Company's production facilities are all operating at full capacity. Until production at Vinnytsia commences in 2013 our poultry production growth will be limited as operations are already at 100% capacity. So we are going to concentrate our efforts on increasing our share of value added products in our product mix.

In grain growing segment in 2011 we increased land under cultivation to approximately 250,000 hectares compared to 150,000 hectares in 2010.

We continue to increase the quantity of sausages and cooked meat products and produce a wider range of value-added products at our meat processing plants, with production at Ukrainian Bacon set to increase further.

The CAPEX program in 2011 will be mostly related to construction and equipment purchases for the new Vinnytsia poultry production complex. The construction is on stream and to schedule.

Board of Directors

Charles E Adriaenssen, Age 54
Chairman of the Nominations and Non-Executive Chairman 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 2000, a director of Rayvax SA, a holding company of ABINBEV. 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 42
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 41
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 41
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 35
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 59
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 65
Non-Executive Director
Chairman of the Audit Committee
Mr Grant is Chairman of Torotrak plc and Gas Turbine Efficiency plc and is a non-executive director of Melrose plc and Pace plc. He was previously Chairman of Peter Stubs Limited, Hasgo Group Limited, the Royal Automobile Club Motor Sports Association Limited and Surion Energy 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 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 October 2009. 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.

Audit remuneration
Audit remuneration amounted US$1.0 million, US$1.0 million and US$1.5 million in 2010, 2009 and 2008 respectively.

Audit remuneration is mainly attributable to the audit services, services provided in respect of IPO in 2008 and bonds issued in 2010.

Audit remuneration also includes tax consulting fees around of US$0.1 million per year.

Internal Control/Risk Management
MHP complies with the non-binding principles on corporate governance of the Luxembourg Stock Exchange. The internal control function is responsible for financial reporting and operating controls matters and reports to the CEO and CFO. The Audit Committee is responsible for overseeing internal control and risk management, and for monitoring its effectiveness.

Financial reporting process
MHP has in place a comprehensive financial review cycle, which includes a detailed annual budgeting process where the Group prepares budgets for review and approval by the Board of Directors, as well as forecasts of the financial performance during the year as based on the updates to the actual results. At the Group level, MHP has in place common accounting policies and procedures on financial reporting and closing. Management monitors the publication of the new reporting standards and works closely with the external auditors in evaluating in advance the potential impact of these standards.

Compensation of Key Management Personnel
Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to US$ 15,514 thousand, US$ 8,652 thousand and US$ 12,009 thousand for the years ended 31 December 2010, 2009 and 2008, respectively. Compensation to key management personnel consists of contractual salary and performance bonuses; during the year ended 31 December 2010 compensation to key management personnel included a one-off bonus to one of the top managers in the amount of US$ 7,628 thousand.

Corporate Governance continued

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 2010.

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 pages 8 and 9, the Chief Executive Officer's review on pages 10 to 12, and the Business review on pages 14 to 23.

Future Developments

The Group's strategy is:

— to expand its capacity through construction of green-field projects 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 400,000 hectares by 2015 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, including development of export markets.

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 2010.

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 35 of this report.

Annual General Meeting (AGM)

The AGM will be held at the Company's registered office in Luxembourg at 27 April 2011.

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 taken all steps that he/she ought to have taken in his/her duty as a director in order to make himself/herself aware of any relevant audit information, and to establish that the group's auditors are aware of that information.

Statement of the Board of Directors' responsibilities for the preparation and approval of the financial statements

for the year ended 31 december 2010

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of MHP S.A. and its subsidiaries (the "Group") as of 31 December 2010 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

In preparing the consolidated financial statements, the Board of Directors is responsible for:
— Properly selecting and applying accounting policies;
— Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
— Providing additional disclosures when compliance with the specific requirements in 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.

The Board of Directors, 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 year ended 31 December 2010 were authorised for issue by the Board of Directors on 25 March 2011.

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
We have audited the consolidated financial statements of MHP S.A., which comprise the consolidated balance sheet as of 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in shareholders' equity 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 the 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.

Independent auditors' 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 for Luxembourg by the Commission de Surveillance du Secteur Financier. 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 independent 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 independent 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 2010, 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 directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

For Deloitte S.A., Cabinet de révision agréé

Sophie Mitchell, Réviseur d'entreprises agréé
Partner
March 25, 2011

Consolidated balance sheet

As of 31 December 2010

(in US Dollars and in thousands)

	Notes	2010	2009	2008
Assets				
Non-current assets				
Property, plant and equipment, net	8	**744,965**	634,269	539,833
Land lease rights, net	9	**23,216**	854	572
Deferred tax assets	10	**5,190**	10,183	2,047
Long-term VAT recoverable, net	11	**24,017**	20,670	9,112
Non-current biological assets	12	**43,288**	36,235	29,480
Other non-current assets	13	**14,251**	8,717	5,886
Total non-current assets		**854,927**	710,928	586,930
Current assets				
Inventories	14	**113,491**	92,260	38,118
Biological assets	12	**135,410**	112,978	84,095
Agricultural produce	15	**113,850**	66,227	42,765
Other current assets, net	16	**21,331**	15,297	15,370
Taxes recoverable and prepaid, net	17	**107,824**	66,958	46,338
Trade accounts receivable, net	18	**53,395**	43,377	31,531
Short-term bank deposits	19	**134,460**	7,632	25,342
Cash and cash equivalents	20	**39,321**	22,248	54,072
Total current assets		**719,082**	426,977	337,631
Total assets		**1,574,009**	1,137,905	924,561
Liabilities and Shareholders' Equity				
Equity attributable to equity holders of the parent				
Share capital	21	**284,505**	284,505	284,505
Treasury shares		**(40,555)**	–	–
Additional paid-in capital		**179,565**	178,815	178,815
Revaluation reserve		**18,781**	18,781	9,410
Cumulative translation differences		**(237,751)**	(238,521)	(222,699)
Retained earnings		**436,439**	231,044	82,480
		640,984	474,624	332,511
Non-controlling interest		**29,384**	19,784	13,706
Total equity		**670,368**	494,408	346,217
Non-current liabilities				
Long-term bank borrowings	22	**58,426**	56,043	57,456
Bonds issued	23	**562,886**	248,046	246,903
Long-term finance lease obligations	24	**36,988**	44,546	47,972
Other long-term payables		**401**	310	400
Deferred tax liabilities	10	**2,502**	8,970	6,160
Total non-current liabilities		**661,203**	357,915	358,891
Current liabilities				
Trade accounts payable	25	**19,012**	72,380	22,170
Other current liabilities	26	**38,042**	45,428	41,897
Short-term bank borrowings and current portion of long-term bank borrowings	22	**140,092**	139,790	130,241
Current portion of bonds issued	23	**9,892**	–	–
Interest accrued		**11,573**	3,526	3,520
Current portion of finance lease obligations	24	**23,827**	24,458	21,625
Total current liabilities		**242,438**	285,582	219,453
Total liabilities		**903,641**	643,497	578,344
Contingencies and contractual commitments	28			
Total liabilities and shareholders' equity		**1,574,009**	1,137,905	924,561

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 44 to 79 form an integral part of these consolidated financial statements.
Independent auditors' report is on page 38.

Consolidated statement of comprehensive income

For the year ended 31 December 2010

(in US Dollars and in thousands, except per share data)

	Notes	2010	2009	2008
Continuing operations				
Revenue	30, 5	**944,206**	711,004	802,910
Net change in fair value of biological assets and agricultural produce	5	**29,014**	35,236	6,327
Cost of sales	31	**(680,637)**	(499,163)	(571,710)
Gross profit		**292,583**	247,077	237,527
Selling, general and administrative expenses	32	**(102,107)**	(80,972)	(80,495)
VAT refunds and other government grants income	27	**82,058**	67,812	107,663
Other operating expenses, net	33	**(15,750)**	(14,633)	(9,422)
Operating profit before loss on impairment of property, plant and equipment		**256,784**	219,284	255,273
Loss on impairment of property, plant and equipment	8	**–**	(1,304)	(11,767)
Operating profit		**256,784**	217,980	243,506
Finance costs, net	34	**(62,944)**	(50,817)	(51,663)
Finance income		**13,309**	3,823	6,695
Foreign exchange gains/(losses), net	29	**10,965**	(23,580)	(187,127)
Other (expenses)/income		**(793)**	696	301
Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net	2	**–**	5,413	4,482
Other expenses, net		**(39,463)**	(64,465)	(227,312)
Profit before tax		**217,321**	153,515	16,194
Income tax (expense)/benefit	10	**(1,873)**	6,488	(1,279)
Profit for the year from continuing operations		**215,448**	160,003	14,915
Discontinued operations				
Loss for the year from discontinued operations, net of income tax	6	**–**	–	(9,722)
Profit for the year		**215,448**	160,003	5,193
Other comprehensive income				
Effect of revaluation of property, plant and equipment		**–**	11,912	–
Deferred tax charged directly to revaluation reserve		**–**	(2,541)	–
Cumulative translation difference		**770**	(15,822)	(228,991)
Other comprehensive income/(loss) for the year, net of tax		**770**	(6,451)	(228,991)
Total comprehensive income/(loss) for the year		**216,218**	153,552	(223,798)
Profit attributable to:				
Equity holders of the Parent		**205,395**	148,564	1,518
Non-controlling interest		**10,053**	11,439	3,675
Total comprehensive income/(loss) attributable to:				
Equity holders of the Parent		**206,165**	142,113	(227,473)
Non-controlling interest		**10,053**	11,439	3,675
Earnings per share	37			
From continuing operations (US$ per share):				
Basic and diluted		**1.88**	1.34	0.11
From continuing and discontinued operations (US$ per share):				
Basic and diluted		**1.88**	1.34	0.01

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 44 to 79 form an integral part of these consolidated financial statements.
Independent auditors' report is on page 38.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2010

(in US Dollars and in thousands)

	Attributable to Equity Holders of the Parent								
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve	Cumulative translation differences	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2008	**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 21)	33,194	–	118,756	–	–	–	151,950	–	151,950
Acquisition and changes in non-controlling interest in subsidiaries (Note 2)	–	–	–	–	–	–	–	(1,341)	(1,341)
31 December 2008	**284,505**	**–**	**178,815**	**9,410**	**(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 non-controlling 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**
Profit for the year	–	–	–	–	–	205,395	205,395	10,053	215,448
Other comprehensive income	–	–	–	–	770	–	770	–	770
Total comprehensive income for the year	–	–	–	–	770	205,395	206,165	10,053	216,218
Acquisition of treasury shares (Note 21)	–	(46,288)	–	–	–	–	(46,288)	–	(46,288)
Treasury shares disposed of under a compensation scheme (Note 21)	–	5,733	750	–	–	–	6,483	–	6,483
Dividends declared by subsidiary	–	–	–	–	–	–	–	(453)	(453)
31 December 2010	**284,505**	**(40,555)**	**179,565**	**18,781**	**(237,751)**	**436,439**	**640,984**	**29,384**	**670,368**

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 44 to 79 form an integral part of these consolidated financial statements.
Independent auditors' report is on page 38.

Consolidated statement of cash flows
For the year ended 31 December 2010

(in US Dollars and in thousands)

	2010	2009	2008
Operating activities			
Profit before tax from continuing and discontinued operations	**217,321**	153,515	6,472
Adjustments to reconcile profit to net cash provided by operations			
Depreciation and amortisation expense	**67,902**	51,677	57,394
Finance costs, net	**62,944**	50,817	51,663
Finance income	**(13,309)**	(3,823)	(6,695)
Net change in fair value of biological assets and agricultural produce	**(29,014)**	(35,236)	(4,945)
Loss on disposal of discontinued operation	**–**	–	6,193
Gain realised from acquisitions and changes in non-controlling interest in subsidiaries, net	**–**	(5,413)	(4,482)
Foreign exchange (gains)/losses, net	**(10,965)**	23,580	187,127
Change in allowance for irrecoverable amounts and direct write-offs	**8,264**	9,594	5,873
Impairment of property, plant and equipment	**–**	1,304	11,767
Loss/(gain) on disposal of property, plant and equipment	**1,931**	(8)	1,145
Bonus to key management personnel settled in treasury shares	**6,483**	–	–
Operating profit before working capital changes	**311,557**	246,007	311,512
Increase in inventories	**(19,407)**	(55,679)	(12,106)
Increase in biological assets	**(9,423)**	(17,160)	(23,066)
Increase in agricultural produce	**(21,768)**	(8,767)	(44,603)
(Increase)/decrease in other current assets	**(5,130)**	439	(726)
Increase in taxes recoverable and prepaid	**(47,919)**	(42,340)	(39,759)
Increase in trade accounts receivable	**(10,744)**	(14,459)	(25,480)
Increase/(decrease) in other long-term payables	**77**	(66)	(2,523)
(Decrease)/increase in trade accounts payable	**(52,516)**	48,051	(976)
Increase in other current liabilities	**179**	12,257	8,683
Cash generated by operations	**144,906**	168,283	170,956
Finance costs paid	**(58,134)**	(47,494)	(51,861)
Interest received	**12,924**	3,737	5,976
Income tax paid	**(3,116)**	(1,464)	(2,353)
Net cash generated by operating activities	**96,580**	123,062	122,718
Investing activities			
Purchases of property, plant and equipment	**(139,157)**	(135,257)	(179,695)
Acquisition of land lease rights	**(4,767)**	–	–
Purchases of other non-current assets	**(2,883)**	(3,445)	(2,688)
Proceeds from disposal of subsidiary, net of cash disposed	**–**	–	(17)
Proceeds from disposals of property, plant and equipment	**703**	1,545	3,957
Purchases of non-current biological assets	**(3,610)**	(5,604)	(1,462)
Acquisition of subsidiaries, net of cash acquired	**(38,659)**	–	456
Financing provided in relation to acquisition of subsidiaries	**(13,408)**	–	(17,432)
Investments in short-term deposits	**(164,662)**	(7,608)	(57,711)
Withdrawals of short-term deposits	**37,608**	25,330	42,130
Loans provided to employees, net	**(993)**	(758)	(1,022)
Loans (repaid by)/provided to related parties, net	**100**	(70)	(136)
Net cash used in investing activities	**(329,728)**	(125,867)	(213,620)

Consolidated statement of cash flows

For the year ended 31 December 2010 (continued)

(in US Dollars and in thousands)

	2010	2009	2008
Financing activities			
Proceeds from loans received	**565,134**	447,037	274,618
Repayment of bank loans	**(560,309)**	(446,068)	(238,716)
Proceeds from corporate bonds issued, net of issue costs	**323,018**	–	–
Repayments of corporate bonds issued	**–**	–	(41,288)
Finance lease payments	**(24,532)**	(22,957)	(18,544)
Proceeds from other financing received	**–**	6,366	13,846
Repayment of other financing	**(6,420)**	(12,554)	–
Issue of share capital, net of issue costs	**–**	–	151,950
Dividends paid by subsidiary to non-controlling shareholders	**(453)**	–	–
Acquisition of treasury shares	**(46,288)**	–	–
Net cash generated by/(used in) financing activities	**250,150**	(28,176)	141,866
Net increase/(decrease) in cash and cash equivalents	**17,002**	(30,981)	50,964
Cash and cash equivalents at the beginning of the year	**22,248**	54,072	10,088
Effect of translation to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**71**	(843)	(6,980)
Cash and cash equivalents at the end of the year	**39,321**	22,248	54,072

On behalf of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The notes on pages 44 to 79 form an integral part of these consolidated financial statements.
Independent auditors’ report is on page 38.

Notes to the consolidated financial statements

For the year ended 31 December 2010

(in US Dollars and in thousands)

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. Hereinafter, MHP S.A. and its subsidiaries are referred to as the "MHP S.A. Group" or the "Group". The registered address of MHP S.A. is 5, rue Guillaume Kroll, L-1822 Luxembourg.

The controlling shareholder of MHP S.A. 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 poultry and related operations, grain growing, as well as other agricultural operations, meat processing, cultivation and selling fruits and producing beef and meat products ready for consumption). The Group's poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age ("grow-out"), processing and marketing of branded chilled products and include the production and sale of chicken products, 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, milk, goose meat, foie gras, fruits and feed grains. During each of the years presented in these financial statements, the Group employed over 22,000 people.

The Group has been undertaking a large-scale investment programme to expand its poultry and related operations, with the first launch in 2007 of Myronivska poultry farm. In June 2009, the Group completed the stage two of Myronivska poultry complex, which reached full production capacity during the third quarter of 2009. In May 2010 the Group also commenced construction of the greenfield Vinnytsia poultry complex.

During the year ended 31 December 2010 the Group substantially increased its agricultural land bank as part of its vertical integration and diversification strategy through acquisitions of land lease rights (Note 9).

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

The primary subsidiaries and the principal activities of the companies forming the Group as of 31 December 2010, 2009 and 2008 were as follows (for details of changes see Note 2):

Operating entity	Country of registration	Year established/ acquired	Principal activity	Effective ownership interest*, % 2010	2009	2008
MHP S.A.	Luxembourg	2006	Holding company	**Parent**	Parent	Parent
Raftan Holding Limited ("RHL")	Republic of Cyprus	2006	Sub-holding company	**100**	100	100
MHP	Ukraine	1998	Management, marketing and sales	**99.9**	99.9	99.9
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv ("MZVKK")	Ukraine	1998	Fodder and sunflower oil production	**88.5**	88.5	88.5
Peremoga Nova ("Peremoga")	Ukraine	1999	Chicken farm	**99.9**	99.9	99.9
Druzhba Narodiv Nova ("Druzhba Nova")	Ukraine	2002	Chicken farm	**99.9**	99.9	99.9
Oril-Leader ("Oril")	Ukraine	2003	Chicken farm	**99.9**	99.9	99.9
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	99.9
Myronivska Pticefabrica ("Myronivska")	Ukraine	2004	Chicken farm	**99.9**	99.9	99.9
Starynska Ptahofabryka ("Starynska")	Ukraine	2003	Breeder farm	**94.9**	94.9	84.9
Ptahofabryka Snyatynska Nova ("Snyatynska")	Ukraine	2005	Geese breeder farm	**99.9**	99.9	99.9
Zernoproduct	Ukraine	2005	Fodder grain cultivation	**89.9**	89.9	89.9
Katerynopilsky Elevator	Ukraine	2005	Fodder production, grain storage and sunflower oil production	**99.9**	99.9	99.9
Druzhba Narodiv ("Druzhba")	Ukraine	2006	Cattle breeding, plant cultivation	**99.9**	99.9	99.0
Crimean Fruit Company ("Crimean Fruit")	Ukraine	2006	Fruits and fodder grain cultivation	**81.9**	81.9	81.9
NPF Urozhay ("Urozhay")	Ukraine	2006	Fodder grain cultivation	**89.9**	89.9	89.9
Agrofort ("AGF")	Ukraine	2006	Fodder grain cultivation	**86.1**	86.1	86.1
Urozhayna Krayina	Ukraine	2010	Fodder grain cultivation	**99.9**	N/A	N/A
Ukrainian Bacon	Ukraine	2008	Meat processing	**79.9**	79.9	79.9

* 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 non-controlling interests in subsidiaries of the Group during the years ended 31 December 2010, 2009 and 2008.

Acquisitions

2010 acquisitions in grain growing segment

During the year ended 31 December 2010, the Group acquired from third parties 100% interests in a number of entities engaged in grain growing activities. The transactions were accounted for under the acquisition method. The Group's effective ownership interest in these subsidiaries upon the acquisition and as of 31 December 2010 was 99.9%.

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

Property, plant and equipment	16,463
Land lease rights	18,801
Non-current biological assets	3,482
Agricultural produce	5,274
Biological assets	5,827
Inventories	1,076
Taxes recoverable and prepaid	1,086
Trade accounts receivable	113
Cash and cash equivalents	54
Total assets	**52,176**
Accounts payable to the Group	(13,408)
Trade accounts payable	(1,656)
Other current liabilities	(981)
Total liabilities	**(16,045)**
Net assets acquired	**36,131**
Fair value of the consideration transferred	(38,943)
Goodwill (Note 13)	**2,812**
Cash consideration paid	(38,713)
Cash acquired	54
Net cash inflow arising on the acquisition	**(38,659)**

Goodwill arising on the acquisitions of these subsidiaries is attributable to the benefits of expected synergies and future development of the grain growing activities.

Ukrainian Bacon

In July 2008, the Group acquired from a third party a 80.0% interest in Ukrainian Bacon, a meat processing company. The transaction was accounted for under the acquisition method. The Group's effective ownership interest in Ukrainian Bacon upon the acquisition and as of 31 December 2010, 2009 and 2008 was 79.9%.

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

2. Changes in the group structure continued

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

Property, plant and equipment	28,737
Prepayments for property, plant and equipment	662
Other non-current assets	302
Taxes recoverable and prepaid	3,492
Other current assets	2,605
Trade accounts receivable	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 transferred	(469)
Gain realised upon acquisition	**3,561**
Cash consideration transferred	–
Cash acquired	456
Net cash inflow arising on the acquisition	**456**

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

"Pro forma" results of Acquisitions – "Pro forma" revenue and profit from continuing operations for the year ended 31 December 2010, had the transactions related to acquisitions as discussed above, occurred on 1 January 2010 would have been US$957,497 thousand and US$217,734 thousand, respectively. "Pro forma" earnings per share would have been US$1.9 per share.

"Pro forma" revenue and profit from continuing operations 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. "Pro forma" earnings per share for the year ended 31 December 2008 would have been US$0.11 and US$0.01 per share from continuing and continuing and discontinued operations, respectively.

These "pro forma" revenue and profit for the year from continuing operations do not reflect any adjustments related to other transactions. "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.

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 non-controlling interests due to negative net assets of Kyivska as of the date of the transaction.

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 to 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:

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.

Changes in non-controlling interests in subsidiaries

Druzhba

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 non-controlling 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 non-controlling 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 non-controlling 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 non-controlling interest in subsidiaries*.

Starynska

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

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 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:
- IFRS 3 "Business Combinations" (Revised 2008)
- IAS 27 "Consolidated and Separate Financial Statements" (Revised 2008)
- IFRS 1 "First-time Adoption of International Financial Reporting Standards (Revised 2008)
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (July 2008)
- Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"

IFRS 3 "Business Combinations" (Revised 2008) has been applied effective 1 January 2010 prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. The most significant changes affecting the Group's accounting policies are as follows:
- IFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquired subsidiary.
- IFRS 3 (Revised 2008) changes the recognition and subsequent accounting for contingent consideration. Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of twelve months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration are recognised in profit or loss.
- IFRS 3 (Revised 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquired subsidiary.
- IFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The application of IAS 27 "Consolidated and Separate Financial Statements" (Revised 2008) resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries, which were applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions:
- In prior years, in the absence of specific requirements in IFRS, increases in interests in existing subsidiaries on acquisitions from third parties were treated in the same manner as the acquisitions of subsidiaries based on the fair value of the net assets at the date of acquisition of additional interest, with goodwill or bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27 (Revised 2008), all such increases or decreases are dealt with in equity, based on the relative interests in the carrying values of the net assets of subsidiaries, with no impact on goodwill or profit or loss.
- When control of a subsidiary is lost as a result of a transaction, event or circumstance, IAS 27 (Revised 2008) requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised in profit or loss.
- IAS 27 (Revised 2008) requires that the non-controlling interests' proportionate share of profit or loss is attributed to the non-controlling interests even if this results in the non-controlling interests having a debit balance. In prior years, the excess of the losses applicable to the non-controlling interests in a subsidiary over the non-controlling interest in the subsidiary's equity were allocated against the Parent's interest except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

The adoption of IFRS 3 "Business Combinations" (Revised 2008) and IAS 27 "Consolidated and Separate Financial Statements" (Revised 2008) did not materially affect the amounts reported in the current year but may affect the accounting for future transactions as a result of changes in the Group's accounting policies.

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 2010. Adoption of these amendments, as well as adoption of other Standards and Interpretations did not have any significant impact on the amounts reported in these consolidated 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:
IAS 24 "Related Party Disclosures" (2009)	1 January 2011
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
Amendments to IAS 32 "Financial Instruments: Presentation" – Classification of Rights Issues	1 February 2010
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010
IFRS 9 "Financial Instruments: Classification and Measurement"	1 January 2013*
Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets	1 July 2011*
Improvements to IFRS issued in 2010	1 July 2010 and 1 January 2011 (as appropriate)*
Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets	1 January 2012*
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011*

* Standards and Interpretations not yet endorsed by the European Union.

Management is currently evaluating the impact of the adoption of 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 entities within the Group is the Ukrainian Hryvnia ("UAH"). Transactions in currencies other than the functional currency of the entities concerned are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange ruling 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;
— All resulting exchange differences are recognised as a separate component of equity.

For practical reasons, the Group translates 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.

The relevant exchange rates were:

	As of 31 December 2010	**Average for 2010**	As of 31 December 2009	Average for 2009	As of 31 December 2008	Average for 2008
UAH/US$	**7.9617**	**7.9353**	7.9850	7.7916	7.7000	5.2693
UAH/EUR	**10.5731**	**10.5313**	11.4489	10.8736	10.8555	7.7114

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 entity, 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, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

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

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

3. Summary of significant accounting policies continued

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

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

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent.

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

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

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

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

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

Property, plant and equipment – Property, plant and equipment are carried at historical cost 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 depreciation and 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.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Construction in progress is not depreciated. Depreciation of construction in progress commences when the assets are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by the management.

Intangible assets – Intangible assets, which are acquired by the Group and which have finite useful lives, consist primarily of land lease rights.

Land lease rights acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Land lease rights acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, land lease rights acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as land lease rights acquired separately.

Amortisation of intangible assets is recognised on a straight-line basis over their estimated useful lives. For land lease rights, the amortisation period is determined by reference to the term of the non-cancellable operating lease agreement, which vary from 3 to 15 years.

The amortisation period and the amortisation method for intangible assets with finite useful life are reviewed at least at the end of each reporting period.

Impairment of tangible and intangible assets – At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Notes to the consolidated financial statements continued
For the year ended 31 December 2010

(in US Dollars and in thousands)

3. Summary of significant accounting policies continued
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.

Impairment of goodwill – For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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 10).

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.

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

(iv) 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 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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

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3. Summary of significant accounting policies continued

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 for 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 provided to the Group’s chief operating decision maker (“CODM”). The Group has identified its top management team as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified the following reportable segments:
— Poultry and related operations
— Grain growing
— Other agricultural operations

Borrowing costs – Borrowing costs include interest expense, 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 qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for 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”), and grants for the agricultural industry (conditional upon reinvestment of the granted funds for agricultural production purposes) are recognised as income over the periods necessary to match them with the related costs, or as an offset against finance costs when received as compensation for the finance costs for agricultural producers. To the extent the conditions attached to the grants are not met at the balance sheet date, the received funds are recorded in the Group's consolidated financial statements as deferred income. Other government grants 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.

Reclassifications – Certain reclassifications have been made to the consolidated balance sheets as of 31 December 2009 and 2008 and to the consolidated statements of other comprehensive income for the years then ended to conform to the current year presentation. The reclassifications were made due to changes in relative significance of the following items:
— Land lease rights, net
— Prepayments for property, plant and equipment
— Accounts payable for property, plant and equipment
— Deferred income
— Other operating income and expenses
— Other income and expenses

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

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

Critical judgements in applying accounting policies
The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Acquisitions of land lease rights – During the year ended 31 December 2010, the Group acquired control over entities owning legal rights for operating leases of agricultural land plots. For each individual acquisition, the Group evaluated whether the acquisition constituted an asset acquisition or a business combination. In making this judgment, management considered whether the acquired entities are capable of being conducted and managed as a business for the purpose of providing returns, including whether the acquired entities possess other assets and workforce as inputs compared to normal industry requirements. As a result, the Group's management concluded that land lease rights of US$4,767 thousand and US$18,801 thousand were acquired in assets acquisition and business combination transactions, respectively (Note 9).

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. Group management applies judgment to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgment, 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 the goods passed 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 this arrangement, management applied judgment to determine the date on which control over these goods passed to the Group. In making this judgment, management considered the relevant significance of risk 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. 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 in the Group's financial statements from the date when they were acquired by the supplier.

Revaluation of property, plant and equipment – As described in Note 8, the Group applies revaluation model to the 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 the carrying amount differs materially from 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 need not be revalued as of 31 December 2010.

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

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4. Critical accounting judgments and key sources of estimation uncertainty continued

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 the fair values of biological assets based on the following key assumptions:

— Average meat output for broilers and livestock for meat production
— Average productive life of breeders and cattle held for regeneration and milk production
— Expected crops output
— 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, 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 11 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 addition, management assessed whether the allowance for irrecoverable VAT needs to be created.

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 and 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.

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 2010. 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	Other agricultural operations	Grain growing	Eliminations	Consolidated
External sales	800,237	108,338	35,631		944,206
Sales between business segments	28,584	3,353	85,668	(117,605)	–
Total revenue	828,821	111,691	121,299	(117,605)	944,206
Segment results	225,073	3,738	55,765	–	284,576
Unallocated corporate expenses					(27,792)
Other expenses, net					(39,463)
Profit before tax					**217,321**
Other information:					
Segment assets	946,195	154,392	236,590	–	1,337,177
Unallocated corporate assets	–	–	–	–	236,832
Consolidated total assets					**1,574,009**
Segment liabilities	(35,436)	(7,177)	(7,970)	–	(50,583)
Unallocated corporate liabilities	–	–	–	–	(853,058)
Consolidated total liabilities					**(903,641)**
Additions to property, plant and equipment*	128,972	9,825	17,360	–	156,157
Depreciation and amortisation**	47,600	5,585	11,397	–	64,582
Net change in fair value of biological assets and agricultural produce	9,473	2,522	17,019	–	29,014

* Additions to property, plant and equipment in 2010 (Note 8) include unallocated additions to property, plant and equipment in the amount of US$4,818 thousand.
** Depreciation and amortisation for the year ended 31 December 2010 includes unallocated depreciation and amortisation in the amount of US$3,320 thousand.

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

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 2009 and 2008:

	2009					2008				
	Poultry and related operations	Other agricultural operations	Grain growing	Eliminations	Consolidated	Poultry and related operations	Other agricultural operations	Grain growing	Eliminations	Consolidated
External sales	577,143	88,109	45,752	–	711,004	660,031	93,102	49,777	–	802,910
Sales between business segments	22,438	1,496	37,673	(61,607)	–	20,362	1,268	17,653	(39,283)	–
Total revenue	599,581	89,605	83,425	(61,607)	711,004	680,393	94,370	67,430	(39,283)	802,910
Segment results	196,594	3,234	35,301	–	235,129	255,165	184	10,739	–	266,088
Unallocated corporate expenses					(15,845)					(10,815)
Loss on impairment of property, plant and equipment					(1,304)					(11,767)
Other expenses, net					(64,465)					(227,312)
Profit before tax					**153,515**					**16,194**
Other information:										
Segment assets	770,376	134,310	135,909		1,040,595	562,485	122,430	120,287		805,202
Unallocated corporate assets					97,310					119,359
Consolidated total assets					**1,137,905**					**924,561**
Segment liabilities	(96,609)	(8,089)	(4,076)		(108,774)	(32,565)	(9,696)	(5,202)		(47,463)
Unallocated corporate liabilities					(534,723)					(530,881)
Consolidated total liabilities					**(643,497)**					**(578,344)**
Additions to property, plant and equipment	117,685	10,338	5,559		133,582	165,077	24,262	49,711		239,050
Depreciation	37,193	5,473	9,011		51,677	41,230	7,383	8,325		56,938
Net change in fair value of biological assets and agricultural produce	16,670	704	17,862		35,236	17,854	(1,137)	(10,390)		6,327

* Additions to property, plant and equipment in 2009 and 2008 (Note 8) included unallocated additions to property, plant and equipment in the amount of US$24,545 and 9,227 thousand.

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2010, 2009 and 2008:

	2010	2009	2008
Sunflower oil and related products	**188,156**	104,864	109,899
Chicken meat	**29,147**	17,650	10,686
Grains	**22,454**	30,109	–
Other agricultural segment products	**290**	270	174
Total export revenue	**240,047**	152,893	120,759

Export sales of sunflower oil and related products and export sales of grains are primarily made to global trading companies at CPT port terms. The major market for the Group's export sales of chicken meat are CIS countries.

6. Discontinued operations

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 year ended 31 December 2008 were as follows:

	2008
Revenue	3,922
Net change in fair value of biological assets and agricultural produce	(1,382)
Cost of sales	(5,796)
Gross loss	(3,256)
Other operating expenses	(114)
Operating loss	(3,370)
Other expenses, net	(159)
Income tax expense (Note 10)	–
	(3,529)
Loss on disposal of operation	(6,193)
Loss for the year from discontinued operations	(9,722)

During the year ended 31 December 2008 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
Total assets	16,603
Total liabilities	10,056

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

	2008
Operating activities	(3,019)
Investing activities	(867)
Financing activities	3,893
Net increase in cash and cash equivalents	7

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.

Transactions with related parties under common control

The Group enters into transactions with related parties that are under common control of the Principal Shareholder of the Group (Note 1) in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing arrangements.

Terms and conditions of sales to related parties are determined based on arrangements specific to each contract 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 transactions with the related parties during the years ended 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Sales of goods to related parties	**7,476**	6,937	10,203
Sales of services to related parties	**51**	40	52
Purchases from related parties	**194**	112	1,892

During the years ended 31 December 2010, 2009 and 2008, the Group's sales to related parties mainly consisted of sales of poultry production related products.

Notes to the consolidated financial statements continued

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7. Related party balances and transactions continued

The balances owed to and due from related parties were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Trade accounts receivable (Note 18)	**7,756**	3,176	2,791
Advances received (Note 26)	**200**	200	338
Short-term advances, finance aid and promissory notes (Note 16)	**2,304**	1,061	976

Compensation to key management personnel

Total compensation of the Group's key management personnel included primarily in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income amounted to US$15,514 thousand, US$8,652 thousand and US$12,009 thousand for the years ended 31 December 2010, 2009 and 2008, respectively. Compensation to key management personnel consists of contractual salary and performance bonuses; during the year ended 31 December 2010 compensation to key management personnel included a one-off bonus to one of the top managers in the amount of US$7,628 thousand (Note 32).

Key management personnel totaled 38 individuals as of 31 December 2010 and 2009 and 35 individuals as of 31 December 2008, respectively, including 3 independent directors.

8. Property, plant and equipment, net

The following table represents movements in property, plant and equipment for the year ended 31 December 2010:

	Buildings and structures	Grain storage facilities	Machinery and equipment	Utilities and infrastructure	Vehicles and agricultural machinery	Office furniture and equipment	Construction in progress	Total
Cost or valuation								
As of 1 January 2010	217,356	30,929	244,698	52,757	154,570	13,897	66,322	780,529
Additions	25,500	1,563	21,906	4,897	29,526	2,102	75,481	160,975
Disposals	(176)	–	(425)	(38)	(1,563)	(51)	–	(2,253)
Transfers	6,670	12	2,248	1,167	122	49	(10,268)	–
Acquired through business combination (Note 2)	6,365	–	2,106	22	7,955	15	–	16,463
Reclassifications	3,652	–	2,869	(6,521)	–	–	–	–
Translation difference	432	85	622	156	333	34	16	1,678
As of 31 December 2010	259,799	32,589	274,024	52,440	190,943	16,046	131,551	957,392
Accumulated depreciation								
As of 1 January 2010	23,447	–	59,634	9,593	49,896	3,690	–	146,260
Depreciation charge for the year	13,216	1,049	23,409	4,397	22,088	3,110	–	67,269
Eliminated on disposal	(36)	–	(234)	(3)	(992)	(46)	–	(1,311)
Reclassifications	540	–	265	(805)	–	–	–	–
Translation difference	22	(3)	97	16	76	1	–	209
As of 31 December 2010	37,189	1,046	83,171	13,198	71,068	6,755	–	212,427
Net book value								
31 December 2010	**222,610**	**31,543**	**190,853**	**39,242**	**119,875**	**9,291**	**131,551**	**744,965**
1 January 2010	**193,909**	**30,929**	**185,064**	**43,164**	**104,674**	**10,207**	**66,322**	**634,269**

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

	Buildings and structures	Grain storage facilities	Machinery and equipment	Utilities and infrastructure	Vehicles and agricultural machinery	Office furniture and equipment	Construction in progress	Total
Cost or valuation								
As of 1 January 2009	137,697	21,060	174,310	26,043	125,081	4,438	153,417	642,046
Additions	48,026	–	57,579	3,118	35,888	9,600	3,916	158,127
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	66,322	780,529
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**	**66,322**	**634,269**
1 January 2009	**118,447**	**20,615**	**132,933**	**19,555**	**92,353**	**2,513**	**153,417**	**539,833**

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

	Buildings and structures	Grain storage facilities	Machinery and equipment	Utilities and infrastructure	Vehicles and agricultural machinery	Office furniture and equipment	Construction in progress	Total
Cost or valuation								
As of 1 January 2008	184,169	31,497	244,200	32,115	135,930	5,016	100,258	733,185
Additions	13,643	626	18,643	6,063	54,164	1,335	153,803	248,277
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	153,417	642,046
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**	**153,417**	**539,833**
1 January 2008	**164,247**	**31,497**	**202,224**	**25,336**	**103,956**	**3,121**	**100,258**	**630,639**

As of 31 December 2010, included within construction in progress were prepayments for property, plant and equipment in the amount of US$25,020 thousand (2009: US$6,591 thousand; 2008: US$22,269 thousand).

As of 31 December 2010, included within property, plant and equipment were fully depreciated assets with the cost of US$12,494 thousand (2009: US$5,243 thousand; 2008: US$5,276 thousand).

As of 31 December 2010, the Group's machinery and equipment with the carrying amount of US$5,247 thousand (2009: US$5,813 thousand, 2008: US$6,674 thousand) were pledged as collateral to secure its banks borrowings (Note 22).

As of 31 December 2010, 2009 and 2008 the net carrying amount of property, plant and equipment held under finance lease agreements were US$72,234 thousand, US$61,554 thousand and US$57,476 thousand, respectively.

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

8. Property, plant and equipment, net continued

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 and 2008 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. 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 years ended 31 December 2009 and 2008 the Group recognised impairment losses of US$1,304 thousand and US$11,767 thousand, respectively, for the difference in these amounts. No impairment losses were recognised in the year ended 31 December 2010.

The impairment losses recognised were due to increased business risks and lower expected returns to the production lines, as well as decreased market prices for commercial properties relative previous years.

The amount of impairment losses recognised during the periods, together with information on the discount rates used in the estimation of the recoverable amount of impaired assets, is as follows:

	2009		2008	
	Discount rate used, %	Loss on impairment	Discount rate used, %	Loss on impairment
Production line				
Convenience foods	23.1	–	25.5	–
Goose meat and foie gras	31.1	1,304	33.5	2,653
Administrative office premises	14.4	–	15.25	9,114
Total		1,304		11,767

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

The discount rates used in the 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 year ended 31 December 2009, the Group engaged independent appraisers to revalue its grain storage facilities. The effective date of revaluation was 1 December 2009. The valuation, which conformed to the International Valuation Standards, was determined by reference to observable prices in an active market and recent market transactions.

No revaluation of grain storage facilities was performed as of 31 December 2010 as, based on the management's assessment, the fair value of grain storage facilities as of 31 December 2010 did not materially differ from their carrying amount.

If the grain storage facilities were carried at cost, their net book value as of 31 December 2010 would be US$13,792 thousand (2009: US$12,549 thousand, 2008: US$13,321 thousand).

9. Land lease rights, net

Land lease rights represent rights for operating leases of agricultural land plots, the major part of which was acquired by the Group during the year ended 31 December 2010 as part of assets acquisitions and through business combinations. As of the dates of these acquisitions, the related operating lease agreements had validity terms of 3 to 15 years.

The following table represents movements in land lease rights for the year ended 31 December 2010:

Cost:	
As of 31 December 2009	965
Additions	4,767
Acquired through business combinations (Note 2)	18,801
Translation difference	(94)
As of 31 December 2010	24,439
Accumulated amortisation:	
As of 31 December 2009	111
Amortization charge for the year	1,117
Translation difference	(5)
As of 31 December 2010	1,223
Net book value:	
As of 31 December 2010	**23,216**
As of 31 December 2009	**854**

10. 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. FAT does not constitute an income tax, and as such, is recognised in the statement of comprehensive income in Other operating expenses.

During the years ended 31 December 2010, 2009 and 2008, the Group companies which have the status of the Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a 25% rate. The new Tax Code of Ukraine, which was enacted in December 2010 (Note 28), introduced gradual decreases in income tax rates over the future years (from 23% effective 1 April 2011 to 16% effective 1 January 2014), as well as certain changes to the rules of income tax assessment starting from 1 April 2011. The deferred income tax assets and liabilities as of 31 December 2010 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2010, 2009 and 2008.

The components of income tax (benefit)/expense were as follows for the years ended 31 December 2010, 2009 and 2008:

	2010	2009	2008
Current income tax expense	**3,413**	933	1,739
Deferred tax benefit	**(1,540)**	(7,421)	(460)
Income tax expense/(benefit)	**1,873**	(6,488)	1,279

Reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2010, 2009 and 2008 was as follows:

	2010	2009	2008
Profit before tax from continuing operations	**217,321**	153,515	16,194
Loss before tax from discontinued operations (Note 6)	**–**	–	(9,722)
Profit before income tax	**217,321**	153,515	6,472
Income tax expense at the tax rate of 25%	**54,330**	38,379	1,618
Tax effect of:			
Income generated by FAT payers (exempt from income tax)	**(76,815)**	(58,770)	(44,987)
Changes in tax rate and law	**(18,801)**	–	–
Unrecognised deferred tax assets on property, plant and equipment	**6,792**	–	–
Non-deductible expenses	**11,889**	10,419	12,286
Expenses not deducted for tax purposes	**24,478**	3,484	32,362
Income tax expense/(benefit)	**1,873**	(6,488)	1,279

As of 31 December 2010, 2009 and 2008 the Group did not recognise deferred tax assets arising from temporary differences of US$97,912 thousand, US$13,936 thousand and US$129,448 thousand, respectively, as the Group does not intend to deduct respective expenses for tax purposes in future periods. As of 31 December 2010 the Group did not recognise deferred tax assets on temporary differences in respect of the property, plant and equipment of US$27,168 thousand due to uncertainties as to whether the Group will be able to realise these deferred tax assets.

Deferred tax liabilities have not been recognised in respect of unremitted earnings of Ukrainian subsidiaries as the earnings can be remitted free from taxation currently and in future years.

As of 31 December 2010, 2009 and 2008, deferred tax assets and liabilities comprised the following:

	2010	2009	2008
Deferred tax assets arising from:			
Advances received and other payables	**4,284**	5,736	2,099
Other current liabilities	**1,619**	5,168	1,030
Inventories	–	897	473
Property, plant and equipment	**6,792**	–	–
Expenses deferred in tax books	**1,942**	6,795	4,994
Less:			
Unrecognised deferred tax assets	**(6,792)**	–	–
Total deferred tax assets	**7,845**	18,596	8,596
Deferred tax liabilities arising from:			
Property, plant and equipment	**(2,655)**	(13,999)	(12,312)
Prepayments to suppliers	**(1,827)**	(3,384)	(241)
Inventories	**(675)**	–	(156)
Total deferred tax liabilities	**(5,157)**	(17,383)	(12,709)
Net deferred tax asset/(liability)	**2,688**	1,213	(4,113)

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

10. Taxation continued

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 2010, 2009 and 2008:

	2010	2009	2008
Deferred tax assets	**5,190**	10,183	2,047
Deferred tax liabilities	**(2,502)**	(8,970)	(6,160)
	2,688	1,213	(4,113)

The movements in net deferred tax assets/(liabilities) for the years ended 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Net deferred tax assets/(liabilities) as of beginning of the year	**1,213**	(4,113)	(3,801)
Deferred tax benefit	**1,540**	7,421	460
Deferred tax on property, plant and equipment charged directly to revaluation reserve	**–**	(2,541)	–
Deferred tax liabilities arising on acquisition of subsidiaries (Note 2)	**–**	–	(2,630)
Translation difference	**(65)**	446	1,858
Net deferred tax assets/(liabilities) as of end of the year	**2,688**	1,213	(4,113)

11. Long-term VAT recoverable, net

As of 31 December 2010, 2009 and 2008 the balance of long-term VAT recoverable was accumulated on continuing capital expenditures and increased investments in working capital. Management expects that these balances will not be recovered within the twelve months after the balance sheet date.

As of 31 December 2010, an allowance for estimated irrecoverable long-term VAT of US$3,746 thousand was recorded by the Group (2009: US$4,537 thousand, 2008: US$1,437 thousand).

12. Biological assets

The balances of non-current biological assets were as follows as of 31 December 2010, 2009 and 2008:

	2010		2009		2008	
	Thousand units	Carrying amount	Thousand units	Carrying amount	Thousand units	Carrying amount
Milk cows, boars, sows, units	**13.1**	**13,997**	11.5	9,560	10.2	6,033
Orchards, hectare	**1.87**	**25,768**	2.4	23,478	2.11	19,934
Other non-current bearer biological assets		**714**		530		526
Total bearer non-current biological assets		**40,479**		33,568		26,493
Non-current cattle and pigs, units	**5.9**	**2,809**	6.6	2,667	8.6	2,987
Total consumable non-current biological assets		**2,809**		2,667		2,987
Total non-current biological assets		**43,288**		36,235		29,480

The balances of current biological assets were as follows as of 31 December 2010, 2009 and 2008:

	2010		2009		2008	
	Thousand units	Carrying amount	Thousand units	Carrying amount	Thousand units	Carrying amount
Breeders held for hatchery eggs production, units	**2,360**	**39,530**	1,886	35,845	1,420	19,323
Total bearer current biological assets		**39,530**		35,845		19,323
Broiler poultry, units	**26,371**	**43,287**	24,258	36,957	14,297	23,126
Hatchery eggs, units	**20,179**	**5,724**	19,334	6,310	12,690	3,866
Crops in fields, hectare	**76**	**36,940**	58	26,260	70	26,840
Cattle and pigs, units	**61**	**9,118**	44	6,714	43	10,386
Other current consumable biological assets		**811**		892		554
Total consumable current biological assets		**95,880**		77,133		64,772
Total current biological assets		**135,410**		112,978		84,095

Other current consumable biological assets include geese and other livestock.

The following table represents the changes in the carrying amounts of major biological assets during the years ended 31 December 2010, 2009 and 2008:

	Crops in fields	Orchards	Breeders held for hatchery eggs production	Broiler poultry	Milk cows, boars, sows	Non-current cattle and pigs	Cattle, pigs
As of 1 January 2008	**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	7,231	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 sale	–	–	–	–	(661)	(12)	(6,135)
Decrease due to harvest	(93,553)	(13,335)	(6,917)	(414,073)	(9,890)	(3,904)	(26,201)
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	408,338	8,443	(106)	19,801
Transfer to consumable biological assets	–	–	(50,617)	50,615	(825)	(59)	884
Transfer to bearing non-current biological assets	–	–	–	–	2,167	816	(2,983)
Decrease due to sale	–	–	–	–	(192)	(3)	(9,745)
Decrease due to harvest	(125,193)	(5,631)	(5,313)	(458,654)	(6,023)	(1,539)	(13,051)
Translation difference	(967)	(837)	(1,117)	(1,188)	(308)	(101)	(288)
As of 31 December 2009	**26,260**	**23,478**	**35,845**	**36,957**	**9,560**	**2,667**	**6,714**
Increase due to purchases	3,135	1,537	8,176	2,830	176	65	1,756
Acquired through business combinations (Note 2)	2,234	–	–	–	3,411	71	3,560
Gains/(losses) arising from change in fair value of biological assets less costs to sell	160,106	10,104	72,341	504,092	10,599	(1,976)	23,792
Transfer to consumable biological assets	–	–	(69,968)	69,968	(1,782)	(295)	2,077
Transfer to bearing non-current biological assets	–	–	–	–	2,162	3,724	(5,886)
Decrease due to sale	–	–	–	–	(529)	(7)	(8,371)
Decrease due to harvest	(154,791)	(9,455)	(6,957)	(570,647)	(9,611)	(1,449)	(14,535)
Translation difference	(4)	104	93	87	11	9	11
As of 31 December 2010	**36,940**	**25,768**	**39,530**	**43,287**	**13,997**	**2,809**	**9,118**

13. Other non-current assets

The balances of other non-current assets were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Packaging and containers	**7,757**	5,592	3,458
Goodwill (Note 2)	**2,812**	–	–
Long-term loans to employees and related parties	**1,039**	708	95
Other investments	**273**	273	283
Other non-current assets	**2,370**	2,144	2,050
Total	**14,251**	8,717	5,886

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

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14. Inventories

The balances of inventories were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Components for mixed fodder production	**83,477**	70,568	21,748
Other raw materials	**14,345**	9,099	6,998
Sunflower oil	**4,234**	2,020	510
Packaging materials	**4,092**	3,283	3,437
Spare parts	**3,831**	3,558	2,780
Mixed fodder	**2,231**	2,156	1,590
Other inventories	**1,281**	1,576	1,055
Total	**113,491**	92,260	38,118

As of 31 December 2010, inventories with carrying amount of US$62,500 thousand (2009 and 2008: nil) were pledged as collateral to secure banks borrowings (Note 22).

15. Agricultural produce

The balances of agricultural produce were as follows as of 31 December 2010, 2009 and 2008:

	2010		2009		2008	
	Thousand tons	Carrying amount	Thousand tons	Carrying amount	Thousand tons	Carrying amount
Chicken meat	**15.333**	**24,403**	5.531	7,405	4.887	7,881
Other meat	**N/A**	**4,058**	N/A	3,167	N/A	3,394
Grain	**455**	**77,069**	396	48,641	306	24,695
Fruits, vegetables and other crops	**N/A**	**8,320**	N/A	7,014	N/A	6,795
Total agricultural produce		**113,850**		66,227		42,765

16. Other current assets, net

Other current assets were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Prepayments to suppliers and prepaid expenses	**12,202**	10,585	7,867
VAT bonds	**5,038**	–	–
Short-term advances, finance aid to and promissory notes from related parties (Note 7)	**2,304**	1,061	976
Loans to employees	**634**	941	1,391
Government grants receivable (Note 27)	**–**	29	3,397
Other receivables	**2,320**	3,418	2,346
Less: allowance for irrecoverable amounts	**(1,167)**	(737)	(607)
Total	**21,331**	15,297	15,370

As of 31 December 2010 VAT bonds were represented by debt securities with face value of US$5,725 thousand, which were issued by the State to Ukrainian subsidiaries of the Group as part of conversion of the Group's VAT recoverable. The VAT bonds are stated at their fair value, which is determined by reference to market quotations. Subsequent to 31 December 2010, the Group sold the VAT bonds for a cash consideration of US$5,297 thousand.

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

17. Taxes recoverable and prepaid, net

Taxes recoverable and prepaid were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
VAT recoverable	**116,534**	69,890	49,736
Miscellaneous taxes prepaid	**1,472**	1,889	777
Less: allowance for irrecoverable VAT	**(10,182)**	(4,821)	(4,175)
Total	**107,824**	66,958	46,338

18. Trade accounts receivable, net

The balances of trade accounts receivable were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Agricultural operations	**44,888**	37,481	26,663
Due from related parties (Note 7)	**7,756**	3,176	2,791
Sunflower oil sales	**1,536**	3,432	2,957
Less: allowance for irrecoverable amounts	**(785)**	(712)	(880)
Total	**53,395**	43,377	31,531

The allowance for irrecoverable amounts is estimated at the level of 25% of trade accounts receivable on sales of poultry meat which are over 30 days past due (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 the results of such review as of 31 December 2010 the Group determined that trade accounts receivable on sales of poultry meat of US$305 thousand were overdue but do not require allowance for irrecoverable amounts.

The aging of trade accounts receivable that were impaired as of 31 December 2010, 2009 and 2008 was as follows:

	Trade accounts receivable			Allowance for irrecoverable amounts		
	2010	2009	2008	2010	2009	2008
Trade accounts receivable on sales of poultry meat:						
Over 30 but less than 270 days	**408**	546	280	**(102)**	(137)	(70)
Over 270 days	**79**	139	561	**(79)**	(139)	(561)
Total trade accounts receivable on sales of poultry meat	**487**	685	841	**(181)**	(276)	(631)
Trade accounts receivable on other sales:						
Over 60 but less than 360 days	**141**	397	268	**(35)**	(99)	(67)
Over 360 days	**569**	337	182	**(569)**	(337)	(182)
Total trade accounts receivable on other sales	**710**	734	450	**(604)**	(436)	(249)
Total	**1,197**	1,419	1,291	**(785)**	(712)	(880)

19. Short-term bank deposits

Short-term bank deposits were as follows as of 31 December 2010, 2009 and 2008:

Currency	Effective rate	2010	Effective rate	2009	Effective rate	2008
UAH	15.93%	**59,460**	16.14%	7,632	16.69%	1,248
US$	8.37%	**75,000**	–	–	10.98%	24,094
Total		**134,460**		7,632		25,342

As of 31 December 2010, the short-term deposits were placed with Ukrainian banks for periods of six months to one year and had the following maturity at the reporting date:

	2010
With maturity within one month	**30,000**
With maturity in the second to the third month inclusive	**49,931**
With maturity in the fourth to the sixth month inclusive	**54,529**
Total	**134,460**

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 25, 26).

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20. Cash and cash equivalents

The balances of cash and cash equivalents were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Cash in hand and with banks	**39,321**	22,248	18,975
Short-term deposits with banks	**–**	–	35,097
Total	**39,321**	22,248	54,072

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

21. Shareholders' equity

Share capital

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

	2010	2009	2008
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	110,770,000
Number of shares outstanding	**107,854,856**	110,770,000	110,770,000

The authorised share capital as of 31 December 2010, 2009 and 2008 was EUR 340,000 thousand represented by 170,000,000 shares with par value of EUR 2 each.

As of 1 January 2008 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 that date 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.

Treasury shares

During the year ended 31 December 2010, the Group acquired, under the share buy-back programme, 3,370,144 shares for a cash consideration of US$46,288 thousand, of which 455,000 shares were further partially used for the compensation scheme (Note 32). The excess of the fair value of shares transferred over the carrying value of the shares bought back in the amount of US$750 thousand was recognised as an adjustment to additional paid-in capital.

22. Bank borrowings

The following table summarizes bank loans and credit lines outstanding as of 31 December 2010, 2009 and 2008:

Bank	Currency	Weighted average interest rate	2010	Weighted average interest rate	2009	Weighted average interest rate	2008
Foreign banks	US$	5.52%	**78,642**		–		–
Foreign banks	EUR	3.12%	**56,712**	3.24%	81,873	5.43%	78,697
			135,354		81,873		78,697
Ukrainian banks	US$	6.25%	**36,750**	8.86%	94,000	6.78%	109,000
Ukrainian banks	UAH	7.75%	**26,414**	23.82%	19,960		–
			63,164		113,960		109,000
Total bank borrowings			**198,518**		195,833		187,697
Less:							
Short-term bank borrowings and current portion of long-term bank borrowings			**(140,092)**		(139,790)		(130,241)
Total long-term bank borrowings			**58,426**		56,043		57,456

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 2010, 2009 and 2008:

	2010	2009	2008
Credit lines	**141,806**	129,103	132,560
Term loans	**56,712**	66,730	55,137
Total bank borrowings	**198,518**	195,833	187,697

The following table summarises fixed and floating interest rates bank loans and credit lines held by the Group as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Fixed interest rate	**158,750**	47,386	39,756
Floating interest rate	**39,768**	148,447	147,941
Total	**198,518**	195,833	187,697

Bank loans and credit lines outstanding as of 31 December 2010 were repayable as follows:

	2010		
	Foreign	**Ukrainian**	**Total**
Within one year	**76,928**	**63,164**	**140,092**
In the second year	**22,001**	**–**	**22,001**
In the third to fifth year inclusive	**31,377**	**–**	**31,377**
After five years	**5,048**	**–**	**5,048**
Total	**135,354**	**63,164**	**198,518**

As of 31 December 2010, the Group had available undrawn facilities of US$168,323 thousand. These undrawn facilities expire during the period from January 2011 until December 2018.

The Group as well as particular subsidiaries of the Group have 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 equity to total assets ratio, net debt to EBITDA ratio, EBITDA to interest expenses ratio and current ratio. The Group subsidiaries are also required to obtain approval with lenders regarding the property to be used as collateral.

As of 31 December 2010, the Group had borrowings of US$55,751 thousand that were secured. These borrowings were secured by property, plant and equipment with the carrying amount of US$5,247 thousand (Note 8) and inventories with the carrying amount of US$62,500 thousand (Note 14).

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23. Bonds issued

Bonds issued and outstanding as of 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
10.25% Senior Notes due in 2011	**9,967**	250,000	250,000
10.25% Senior Notes due in 2015	**584,767**	–	–
Unamortised premium on bonds issued	**4,640**	–	–
Unamortised debt issue cost	**(26,596)**	(1,954)	(3,097)
Total	**572,778**	248,046	246,903
Less: Current portion of bonds issued	**(9,892)**	–	–
Total long-term portion of bonds issued	**562,886**	248,046	246,903

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 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.

The notes are listed on London Stock Exchange.

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.

On 29 April 2010, MHP S.A. issued US$330,000 thousand 10.25% Senior Notes due in 2015 for an issue price of 101.452% of principal amount.

In addition, as of 13 May 2010 the MHP S.A. exchanged 96.01% (US$240,033 thousand) of US$250,000 thousand of the existing 10.25% Senior Notes due in 2011 for the new Notes due 2015. As a result of the exchange, new Senior Notes were issued for the total par value of US$254,767 thousand.

24. Finance lease obligations

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 2010, the weighted average interest rates on finance lease obligations were 8.92% and 7.91% for finance lease obligations denominated in EUR and US$, respectively.

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2010, 2009 and 2008:

	Minimum lease payments			Present value of minimum lease payments		
	2010	2009	2008	2010	2009	2008
Payable within one year	**28,350**	31,094	28,928	**23,827**	24,458	21,625
Payable in the second year	**18,775**	25,535	24,697	**16,304**	21,309	19,632
Payable in the third to fifth year inclusive	**22,353**	26,187	32,408	**20,684**	23,237	27,776
Payable after fifth year	**–**	–	684	**–**	–	564
	69,478	82,816	86,717	**60,815**	69,004	69,597
Less:						
Future finance charges	**(8,663)**	(13,812)	(17,120)	**–**	–	–
Present value of finance lease obligations	**60,815**	69,004	69,597	**60,815**	69,004	69,597
Less:						
Current portion				**(23,827)**	(24,458)	(21,625)
Finance lease obligations, long-term portion				**36,988**	44,546	47,972

25. Trade accounts payable

Trade accounts payable were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Trade accounts payable to third parties	**18,986**	72,361	22,145
Payables due to related parties	**26**	19	25
Total	**19,012**	72,380	22,170

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 (2010: nil, 2008: liabilities of US$6,205 thousand and accrued interest of US$136 thousand).

26. Other current liabilities

Other current liabilities were as follows as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Accrued payroll and payroll related taxes	**24,528**	25,268	15,151
Accounts payable for property, plant and equipment	**4,396**	6,340	8,116
Advances from and other payables due to third parties	**4,137**	3,629	2,470
Advances from related parties (Note 7)	**200**	200	338
Payables on other financing arrangements	**–**	6,370	12,484
Deferred income (Note 27)	**–**	–	789
Other payables	**4,781**	3,621	2,549
Total	**38,042**	45,428	41,897

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.

27. VAT refunds and other 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.

Government grants recognised by the Group as income during the years ended 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
VAT refunds	**80,223**	65,606	59,338
Fruits and vine cultivation	**1,219**	1,145	468
Processing of live animals	**–**	780	46,146
Other government grants	**616**	281	1,711
Total	**82,058**	67,812	107,663

VAT refunds for agricultural industry – According to the Law of Ukraine "On the Value Added Tax", companies that generated not less than 75% of gross revenues for the previous tax year from sales of own agricultural products are entitled to retain VAT on sales of agricultural products, net of VAT paid on purchases, for use in agricultural production. Through 31 December 2008 the Group's net VAT liability was transferred to a special account restricted for payments for goods and services related to agricultural activities. Accordingly, the corresponding VAT liability to be refunded at 31 December 2008 in the amount of US$789 thousand was recorded in the Group's consolidated financial statements as deferred income, as the income recognition criteria were considered to be met only when payments are made.

In accordance with the Tax Code of Ukraine issued in December 2010 (Note 28), the VAT rate will be decreased from currently effective 20% to 17% from 1 January 2014. The special VAT regime for agricultural industry will be effective through 1 January 2018.

Included in VAT refunds for the years ended 31 December 2010, 2009 and 2008 were specific VAT subsidies for production and sale of milk and live animals for further processing in the amount of US$2,125 thousand, US$1,511 thousand and US$2,075, respectively.

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 2010, 2009 and 2008 for creation and cultivating of orchards, vines and berry-fields.

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27. VAT refunds and other government grants income continued

Government grants on processing of live animals – During the year ended 31 December 2008, 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. Effective 1 January 2009, the government suspended this type of subsidies.

Other government grants – Other government grants recognised as income during the years ended 31 December 2010, 2009 and 2008 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 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 2010, 2009 and 2008. The eligibility, application and tender procedures related to such grants are 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 2010, 2009 and 2008 were US$4,999 thousand, US$900 thousand and US$2,406 thousand, respectively (Note 34).

28. Contingencies and contractual commitments

Operating environment – The principal business activities of the Group are within Ukraine. Emerging markets such as Ukraine are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Ukraine and the Ukraine's economy in general. 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.

The global financial turmoil has negatively affected Ukraine's financial and capital markets in 2008 and 2009. 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 net profit was impacted by the significant depreciation of Ukrainian currency during the year ended 31 December 2008. The Ukrainian currency remained relatively stable in 2010 and 2009.

The Ukraine's economy returned to growth in 2010. Although significant economic uncertainties remain, Ukrainian economy experienced a 4.2% GDP growth in 2010 and further recovery is expected in 2011.

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.

In December 2010, the Tax Code of Ukraine was officially published. In its entirety, the Tax Code of Ukraine will become effective on 1 January 2011, while some of its provisions will take effect later (such as, Section III dealing with corporate income tax, will come into force from 1 April 2011). Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for agricultural industry from 1 January 2018, as discussed in Notes 10 and 27, respectively, the Tax Code also changes various other taxation rules. As of the date these financial statements were authorised for issue, additional clarifications and guidance on application of the new tax rules were not published, and certain revisions were proposed for consideration of the Ukrainian Parliament.

While the Group's management believes the enactment of the Tax Code of Ukraine will not have a significant negative impact on the Group's financial results in the foreseeable future, as of the date these financial statements were authorised for issue management was in the process of assessing of effects of its adoption on the operations of the Group.

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 2010, 2009 and 2008, 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 2010, purchase commitments on such contracts were primarily related to construction of Vinnytsia poultry complex and amounted to US$79,746 thousand (2009: US$2,307 thousand; 2008: US$20,927 thousand).

Commitments on operating lease of land – The Group has the following non-cancellable contractual obligations as to the operating lease of land as of 31 December 2010, 2009 and 2008:

	2010	2009	2008
Within one year	**11,855**	6,886	5,264
In the second to the fifth year inclusive	**37,037**	23,868	19,218
Thereafter	**51,688**	38,256	38,193
Total	**100,580**	69,010	62,675

Ukrainian legislation provides for a ban on sales of agricultural land plots till 1 January 2012. Although as of the date these financial statements were authorised for issue, the Parliament of Ukraine was in discussion regarding its prolongation and significant uncertainties as to the extension of the ban remain.

29. Risk management policies

Capital risk management – The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holders through maintaining a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through new share issues and as the issue of new debt or the redemption of existing debt.

The Group's target is to achieve a leverage ratio of not higher than 2.5. Prior to 2010 the Group defined its leverage ratio as the proportion of debt to adjusted operating profit. During the year ended 31 December 2010, the Group changed the definition of its leverage ratio, which now is determined as the proportion of net debt to adjusted operating profit.

As of 31 December 2010, 2009 and 2008 the leverage ratio was as follows:

	2010	2009	2008
Bank borrowings (Note 22)	**198,518**	195,833	187,697
Bonds issued (Note 23)	**572,778**	248,046	246,903
Finance lease obligations (Note 24)	**60,815**	69,004	69,597
Payables on other financing arrangements (Note 26)	**–**	6,370	12,484
Debt	**832,111**	519,253	516,681
Less:			
Cash and cash equivalents and Short-term bank deposits	**(173,781)**	(29,880)	(79,414)
Net debt	**658,330**	489,373	437,267
Operating profit	**256,784**	217,980	243,506
Adjustments for:			
Depreciation and amortisation expense (Notes 31, 32)	**67,902**	51,677	56,938
Loss on impairment of property, plant and equipment (Note 8)	**–**	1,304	11,767
Adjusted operating profit	**324,686**	270,961	312,211
Debt to adjusted operating profit	**2.56**	1.92	1.65
Net debt to adjusted operating profit	**2.03**	1.81	1.40

Debt is defined as bank borrowings, bonds issued, finance lease obligations, and payables on other financing arrangements. Net debt is defined as debt less cash and cash equivalents and bank deposits. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 25). 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

	2010	2009	2008
Financial assets:			
Cash and cash equivalents	**39,321**	22,248	54,072
Short-term bank deposits	**134,460**	7,632	25,342
Trade accounts receivable, net	**53,395**	43,377	31,531
Government grants receivable (Note 16)	**–**	29	3,397
Loans to employees and related parties (Notes 13 and 16)	**1,673**	1,649	1,486
VAT bonds (Note 16)	**5,038**	–	–
Other receivables (Note 16)	**2,320**	3,418	2,346
Total financial assets	**236,207**	78,353	118,174

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29. Risk management policies continued

	2010	2009	2008
Financial liabilities:			
Bank borrowings (Note 22)	**198,518**	195,833	187,697
Bonds issued	**572,778**	248,046	246,903
Finance lease obligations	**60,815**	69,004	69,597
Accounts payable for property, plant and equipment	**4,396**	6,340	8,116
Interest accrued	**11,573**	3,526	3,520
Trade accounts payable	**19,012**	72,380	22,170
Other long-term payables	**401**	310	400
Other current liabilities (Note 26)	**4,781**	9,991	15,033
Total financial liabilities	**872,274**	605,430	553,436

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.

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 franchises, distributors and supermarkets, is set at 5-21 days.

Limits on the level of credit risk by customer are approved and monitored on a regular basis by the management of the Group. The Group's management assesses amounts receivable from the customers for recoverability starting from 30 and 60 days for receivables on sales of poultry meat and receivables on other sales, respectively. No assessment is performed immediately from the date credit period is expired. About 31% of trade receivables comprise amounts due from 12 large supermarket chains, which have the longest contractual receivable settlement period among customers.

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 2010. 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.

2010	Carrying amount	Contractual amounts	Less than 1 year	From 2nd to 5th year	After 5th year
Bank borrowings	198,518	206,635	144,259	57,101	5,275
Bonds issued	572,778	865,479	70,927	794,552	–
Finance lease obligations	60,815	69,478	28,350	41,128	–
Total	**832,111**	**1,141,592**	**243,536**	**892,781**	**5,275**

The Group's target is to maintain its current ratio, defined as a proportion of current assets to current liabilities, at the level of not less than 1.2. As of 31 December 2010, 2009 and 2008, the current ratio was as follows:

	2010	2009	2008
Current assets	**719,082**	426,977	337,631
Current liabilities	**242,438**	285,582	219,453
Current ratio	**2.97**	1.5	1.5

Currency risk – Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes certain transactions denominated in foreign currencies. The Group does not use any derivatives to manage foreign currency risk exposure, at the same time the management of the Group sets limits on the level of exposure by currencies.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as of 31 December 2010 were as follows:

	2010		2009		2008	
	US$ denominated	EUR denominated	US$ denominated	EUR denominated	US$ denominated	EUR Denominated
Assets						
Trade accounts receivable	**1,954**	**–**	3,910	–	3,987	2
Other current assets, net	**386**	**–**	–	–	–	–
Short-term bank deposits	**75,000**	**–**	–	–	24,094	–
Cash and cash equivalents	**27,217**	**128**	17,088	37	40,357	12
Total assets	**104,557**	**128**	**20,998**	**37**	**68,438**	**14**
Liabilities						
Trade accounts payable	**104**	**2,798**	54,482	4,127	1,694	4,591
Other current liabilities	**–**	**2,587**	6,385	4,232	6	5,790
Interest accrued	**11,163**	**311**	2,686	591	–	–
Short-term bank borrowings	**90,050**	**23,628**	94,000	25,830	109,000	21,241
Short-term finance lease obligations	**8,323**	**15,504**	5,447	19,010	2,682	18,943
Current portion of bonds issued	**9,967**	**–**	–	–	–	–
Total current liabilities	**119,607**	**44,828**	163,000	53,790	113,382	50,565
Long-term bank borrowings	**26,700**	**33,085**	–	56,043	–	57,456
Bonds issued	**584,767**	**–**	250,000	–	250,000	–
Long-term finance lease obligations	**23,818**	**13,170**	15,797	28,750	5,854	42,118
Total non-current liabilities	**635,285**	**46,255**	265,797	84,793	255,854	99,574
Total liabilities	**754,892**	**91,083**	**428,797**	**138,583**	**369,236**	**150,139**

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 10% (2009 and 2008: 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 expected change in foreign currency rates.

	US$-denominated		
	2010	2009	2008
Profit/(loss)	**32,517/ (65,034)**	20,390/ (61,170)	15,040/ (45,120)

	EUR-denominated		
	2010	2009	2008
Profit/(loss)	**4,548/ (9,096)**	6,927/ (20,782)	7,506/ (22,519)

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

During the year ended 31 December 2010, the Ukrainian Hryvnia appreciated against the EUR by 3.1% and depreciated against the US Dollar by 1.8% (2009 – depreciated both against the EUR and the US Dollars by 5.5% and by 3.7%, respectively; 2008 – depreciated both against the EUR and the US Dollar by 46.3% and by 52.5%, respectively). As a result, during the year ended 31 December 2010 the Group recognised net foreign exchange gains in the amount of US$10,965 thousand (2009 and 2008 – foreign exchange losses of US$23,580 thousand and US$187,127 thousand, respectively) in the consolidated statement of comprehensive income.

Group management believes that the currency risk is mitigated by the existence of US$-denominated proceeds from sales sunflower oil, grain and chicken meat, which are substantially sufficient for servicing the Group's US$-denominated liabilities and were as follows during the years ended 31 December 2010, 2009 and 2008:

	2010	2009	2008
Sunflower oil and related products	**188,156**	104,864	109,899
Chicken meat	**29,147**	17,650	10,686
Grains	**22,454**	30,109	–
Other agricultural segment products	**290**	270	174
Total export revenue	**240,047**	152,893	120,759

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29. Risk management policies continued

Interest rate risk – Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The major part of the Group's borrowings bear fixed interest rates. For variable rate borrowings, interest is linked to LIBOR and EUROLIBOR.

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.

	2010		2009		2008		
	LIBOR	**EURIBOR**	LIBOR	EURIBOR	LIBOR	EURIBOR	NBU discount rate
Profit/(loss)	**11,825/ (11,825)**	**5,778/ (5,778)**	9,741/ (9,741)	6,490/ (6,490)	12,209/ (12,209)	6,496/ (6,496)	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 continues expansion of its grain growing segment, as part of vertical integration strategy, and also accumulates sufficient commodity stock to meet its production needs.

30. Revenue

Revenue for the years ended 31 December 2010, 2009 and 2008 was as follows:

	2010	2009	2008
Poultry and related operations segment			
Revenue from sales of chicken meat	**562,982**	443,654	501,013
Revenue from sunflower oil sales	**179,982**	101,274	109,974
Revenue from other poultry related sales	**57,273**	32,215	49,044
	800,237	577,143	660,031
Other agricultural operations segment			
Revenue from sales of other meat	**79,185**	60,116	66,122
Other agricultural sales	**29,153**	27,993	26,980
	108,338	88,109	93,102
Grain growing segment			
Revenue from sales of grains	**35,631**	45,752	49,777
Total revenue from continuing operations	**944,206**	711,004	802,910

31. Cost of sales

Cost of sales for the years ended 31 December 2010, 2009 and 2008 was as follows:

	2010	2009	2008
Poultry and related operations	**546,494**	375,525	437,865
Other agricultural operations	**104,372**	85,352	91,492
Grain growing operations	**29,771**	38,286	42,353
Total	**680,637**	499,163	571,710

For the years ended 31 December 2010, 2009 and 2008, cost of sales comprised the following:

	2010	2009	2008
Costs of raw materials and other inventory used	**475,093**	338,114	390,421
Payroll and related expenses	**101,425**	79,746	86,440
Depreciation and amortisation expense	**56,799**	43,479	51,541
Other costs	**47,320**	37,824	43,308
Total	**680,637**	499,163	571,710

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.

32. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Payroll and related expense	**35,948**	30,062	37,820
Bonus to key management personnel	**7,628**	–	–
Services	**17,517**	13,992	11,069
Depreciation expense	**11,103**	8,198	5,397
Fuel and other materials used	**9,166**	6,454	8,045
Advertising expense	**9,094**	10,562	8,361
Representative costs and business trips	**8,611**	8,807	8,319
Insurance expense	**1,734**	1,349	580
Bank services and conversion fees	**535**	476	477
Other	**771**	1,072	427
Total	**102,107**	80,972	80,495

During the year-ended 31 December 2010 the Group paid a one-off bonus to one of the top managers in the form of 455,000 shares representing 0.4% of the share capital of MHP S.A. (Note 21). The amount recognised as part of Selling, general and administrative expenses, was measured as the sum of the fair value of the shares at grant date of US$6,483 thousand and the amount of payroll-related taxes of US$1,145 thousand.

33. Other operating expenses, net

Other operating expenses for the years ended 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Loss on impairment of VAT receivable	**8,212**	7,803	4,821
Loss on impairment of accounts receivable	**1,115**	1,791	1,052
Loss/(gain) on disposal of property, plant and equipment and other non-current assets	**1,931**	(8)	1,145
Other	**5,434**	5,623	3,004
Total other operating expenses	**16,692**	15,209	10,022
Less:			
Other operating income	**(942)**	(576)	(600)
Total other operating expenses, net	**15,750**	14,633	9,422

34. Finance costs, net

Finance costs for the years ended 31 December 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Interest on corporate bonds	**50,911**	26,822	31,300
Interest on bank borrowings	**8,539**	12,996	11,332
Interest on obligations under finance leases	**5,979**	7,279	5,584
Interest on grain purchases financing arrangements	**3,049**	3,463	3,456
Bank commissions and other charges	**1,921**	1,301	2,397
Government grants as compensation for the finance costs of agricultural producers (Note 27)	**(4,999)**	(900)	(2,406)
Total finance costs	**65,400**	50,961	51,663
Less:			
Finance costs included in cost of qualifying assets	**(2,456)**	(144)	–
Total	**62,944**	50,817	51,663

For qualifying assets, the weighted average capitalisation rate on funds borrowed generally during the year ended 31 December 2010 was 10.6% (2009: 9.87%).

Interest on corporate bonds for the years ended 31 December 2010, 2009 and 2008 includes amortisation of premium and debt issue costs on bonds issued in the amounts of US$1,526 thousand, US$1,197 thousand and US$1,611 thousand, respectively.

Notes to the consolidated financial statements continued

For the year ended 31 December 2010

(in US Dollars and in thousands)

35. Pensions and retirement plans

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund are recorded in the consolidated 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 year ended 31 December 2010 the Group remitted 33.2% for both CIT and FAT payers (2009 and 2008: 33.2% for CIT payers and 26.56% for FAT payers), of the aggregate employee's salaries to the State Pension Fund subject to the following limits:

Period	Limit per employee per month, US$
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
1 January 2010 – 31 March 2010	545
1 April 2010 – 30 June 2010	555
1 July 2010 – 30 September 2010	557
1 October 2010 – 30 November 2010	569
1 December 2010 – 31 December 2010	579

The Group's contributions to the State Pension Fund during the year ended 31 December 2010 amounted to US$34,024 thousand (2009: US$23,840 thousand; 2008: US$22,820 thousand).

36. 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, 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 2010 is estimated at US$199,185 thousand compared to carrying amount of US$198,518 thousand. The fair value of finance lease obligations as of 31 December 2010 is estimated at US$63,420 thousand compared to carrying amount of US$60,815 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 Senior Notes due 2015 is estimated at US$613,339 thousand compared to the carrying value of US$562,886 thousand; the fair value of Senior Notes due 2011 is estimated at US$10,092 thousand compared to the carrying value of US$9,892 thousand. The fair value was estimated based on market quotations.

37. Earnings per share

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

	2010	2009	2008
Profit for the year attributable to equity holders of the Parent	**205,395**	148,564	1,518
Loss for the year from discontinued operations used in calculation of earnings per share from discontinued operations	**–**	–	9,722
Earnings used in calculation of earnings per share from continuing operations	**205,395**	148,564	11,240
Weighted average number of shares outstanding	**109,411,408**	110,770,000	106,738,750

During the year ended 31 December 2008 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.

38. 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:

	2010	2009	2008
Additions of property, plant and equipment under finance leases	**16,365**	22,118	47,616
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor	**3,970**	4,489	16,313
Property, plant and equipment purchased for credit	**4,396**	6,340	8,116

39. Authorization of the consolidated financial statements

These consolidated financial statements were authorised for issue by the Board of Directors of MHP S.A. on 25 March 2011.

Corporate information

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