



Well positioned for the future

**Myronivsky
Hliboproduct**

Annual Report 2011

Part 1: Corporate overview 2011



MHP (Myronivsky Hliboproduct) is Ukraine's leading producer of poultry and poultry products. We command around a 50% share of the market for industrially-produced chicken while our "Nasha Riaba" brand leads the market for food products. As one of Ukraine's leading agro-industrial companies, MHP is one of the largest grain producers in Ukraine.

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

In response to Ukraine's market potential, the Company is expanding its poultry production capacity with the Vinnytsia poultry farm, coming on-stream at the beginning of 2013.

The Company cultivates around 280,000 hectares of land, harvesting over 1.7 million tonnes of crops in 2011 and delivering across all crops almost twice country's average.

Meat processing operations also performed very well, retaining 10% of the highly fragmented Ukrainian market.

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Part 2: Report and accounts

Additional document in the pocket on inside back cover



MYRONIVSKY HLIBOPRODUCT

Read about vertical integration and business model
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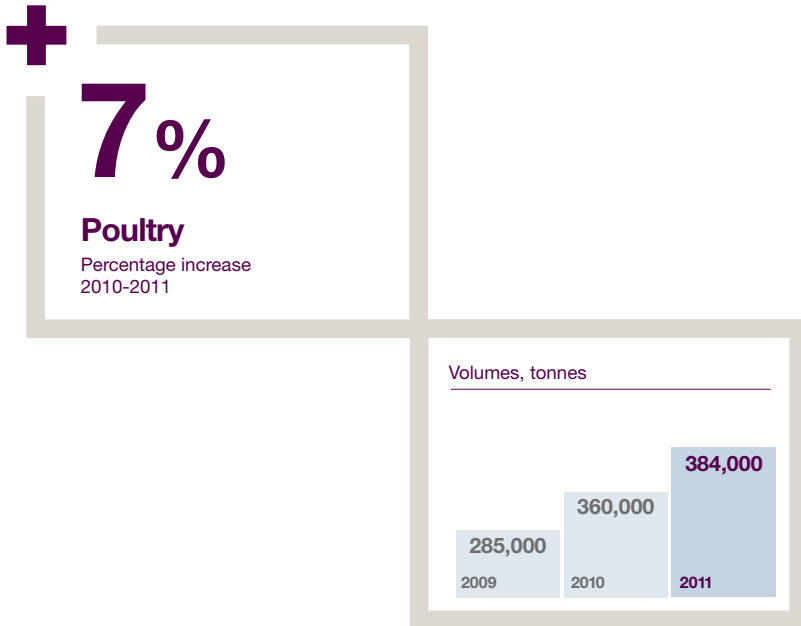
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2011 was a year of further success and progress for MHP. The Company holds an indisputable leading position on the Ukrainian meat market.

As usual MHP demonstrated again a strong growth across our three business streams: poultry production, grain growing operations and meat processing segments. We are proud to be:

- one of the leading poultry producers in Europe with one of the strongest food brands in Ukraine;
- one of the biggest grain producers in Ukraine with an impressive potential for growth;
- the biggest processed meat producer in Ukraine with a steady increase in production volumes.

Sustainable growth



Market overview

How did Ukrainian agrosector develop in 2011?

According to preliminary estimates in 2011 the Ukrainian GDP grew by 5.2% including 1.5% due to gricultural production growth.

The agricultural sector of Ukraine constitutes 8% of the Ukrainian GDP, and yet has great opportunities to grow in absolute terms and to replace many imported products. According to UNO (United Nations Organisation) data, Ukraine is the third world leader in agricultural production growth (after Brazil and Russia).

In 2011 agricultural production rose by 17.5% compared with 2010 including both agricultural companies and private farmers at 23.8% and 12.3% respectively. In 2011 all across Ukraine agricultural production increased, while in 2010 it decreased by 1.5%.

Domestic meat market

There was a significant world grain price growth at the end of 2010, which influenced Ukrainian meat market development in 2011.

The increase in grain prices affected all meat producers as feed constitutes 50-60% of production costs.

For the the last 10 years production and consumption of beef has been steadily decreasing and during the last five years there was a decrease by almost 30%. In 2011 this trend was exacerbated by the significant rise in grain

prices at the end of 2010 which has a greater effect on the price of production for cattle and pigs.

The production of pork is less industrialised than chicken so as grain prices rise, the cost of production becomes too high for smaller producers and volumes decline as a result. In the first half of 2011 there was an oversupply of pork on the market caused by cuts of pig livestock by inefficient small producers. As a result, in 2011 pig livestock has decreased for the first time in last few years and oversupply of pork on the market in the fist half of 2011 retained a price growth for all kinds of meat. At the of 2010 feed prices grew substantially and in more than half year they were compensated by procrestenated meat price growth. As a result, price for poultry meat started to increase only in the third quarter of 2011. This trend is common and standard for the industry and is in line with world trends.

Industrial production of poultry in 2011 rose by 6% while at the same time remaining unchanged in households for the last few years. Imports in 2011 according to the Ukrainian Union of Poultry Producers were 246,000 tonnes which was less than in 2010. Nevertheless considering unofficial imports, which represented mainly poultry meat, overall meat imports into Ukraine by the Company's estimates remained at the level of 2010.

Leaders in our markets

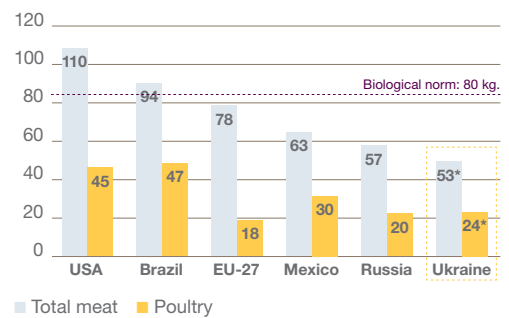


50%

Market share of industrially produced chicken

Meat Consumption in 2011

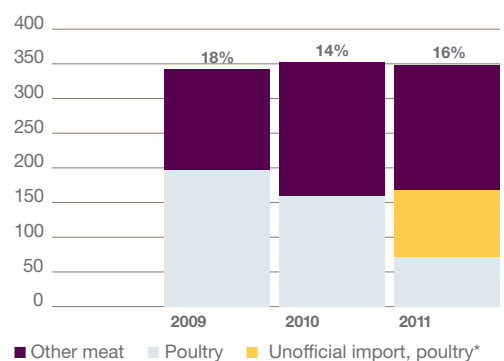
Kg per Capita



Source: USDA, FAPRI, Committee of Statistics of Ukraine and Broker Research
* Includes unofficial imports, Company estimate

Imported meat

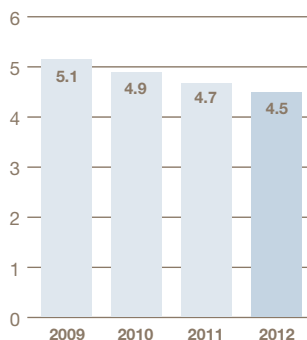
'000 tonnes



Imported as % of total poultry supply
*Company estimate

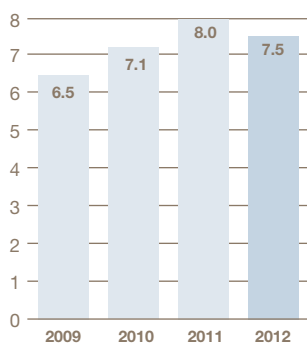
Cattle livestock 2009-2012

Million heads



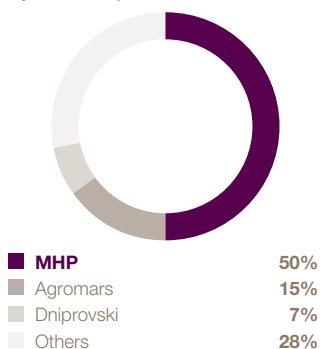
Pig livestock 2009-2012

Million heads



Ukraine poultry market share

By industrial production



Overall meat consumption in Ukraine increased slightly in 2011 compared to 2010, reflecting quite stable living standards and level of disposable income. It was accompanied with a decrease of beef consumption, a slight increase of pork consumption as a result of an oversupply in H1 2011, a stable poultry market and the absence of alternative meat supplies. Poultry prices in the second half of 2011 increased dramatically by 20% in comparison to the same period in 2010.

In 2011, MHP produced 384,000 tonnes of poultry and benefited from a 10% price increase compared to 2010.

Grain market

Favourable weather conditions in the year led to a bumper harvest, with harvests producing a record 56.7 million tonnes of grain –16 million tonnes more than in 2010. The government's decision to withdraw export duties for grain in October 2011 in response to this record harvest had a positive impact on export volumes, contributing to a positive balance of payments.

MHP is one of the country's leading and most profitable grain producers with a land bank of 280,000 hectares and yields well ahead of the country average. In 2011 MHP harvested over 1.7 million tonnes of crops.

Meat processing

The Ukrainian processed meat market is fragmented and overall production volumes have been quite stable for the last three years.

MHP is the #1 producer of processed meat products in Ukraine, representing 10% of the market. The Company is ready and able to expand its product range, production and sales under our brands across all regions of Ukraine.

Looking forward

Consumer demand for poultry remains 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.

Following the Company's strategy and objectives, MHP continues to develop export markets in order to establish and build reliable and long-term relationships.

In grain growing segment in 2012 we expect high grain yields in spite of poor weather conditions in autumn 2011 – winter 2012 in Ukraine.

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. The growth of production volumes of meat processing products in 2012 will be obtained by the further increase of production at Ukrainian Bacon.

The CAPEX program in 2012 will be mostly related to the construction and the equipment installation on the new Vinnytsia poultry production complex, where the construction is on budget and to schedule.

We are confident that we will be able to continue to implement our strategy and to keep delivering strong financial results, cementing our position as one of the leading agro-industrial companies in Ukraine.

A robust business model
of vertical integration

Continued investment

Retail



Distribution



Convenience food, processed
meat and sausages



Poultry



Hatching Eggs



Fodder



Sunflower Protein



Grain



Existing capacities

Future capacities

2,600 dedicated outlets

40% of poultry is sold via franchise network

Plus more than 1,500 new outlets

100% of poultry delivered to customers within 12 hours by dedicated fleet

Fleet of more than 450 vehicles

Plus more than 200 new vehicles

Growing share of processed meat and sausages

Around 100,000 tonnes of convenience food, sausages and cooked meat per year

Further capacity for meat processing and production increase of convenience food.

Bio-fuel



We are always seeking new ways to reduce our energy consumption. In 2012 we are investing \$15 million in a new Bio gas plant at Oril-Leader poultry farm that will use chicken manure and waste from the plant as raw material to produce gas and electricity, reducing our carbon footprint and helping reduce our cost of production.

100% of poultry grown out and processed at own facilities

Fully automated processing plants, 3.6 million chicken per week

Vinnitsia poultry complex with capacity 440,000 tonnes split between Phase 1 and 2

100% self-sufficient in hatching eggs

2 breeder farms, 297 million hatching eggs per year

Additional 160 million hatching eggs per year

100% self-sufficient in fodder
Own grain storage facilities

3 fodder mills – more than 1 million tonnes fodder
Grain storage facilities 1,135,000 m³

Further increase in fodder production with new capacity launches 2013-2015

Replacement of expensive imported soybean meal by own produced protein from sunflower seeds

200,000 tonnes of sunflower oil to be exported

Further increase of crop production and sunflower oil sales

Own grain production satisfies 100% of the Company's corn and 15% of sunflower needs

280,000 hectares of land under control

Further increase of land bank according to the Company's plan to 400,000 hectares in mid terms

MHP at a glance

Enterprises



Poultry production

Vinnytsia Poultry Farm
 Myronivska Poultry Farm
 Peremoga Nova Poultry Farm
 Oril Leader Poultry Farm
 Druzhba Narodiv Nova Poultry Farm
 Shakhtarska Nova Poultry Farm
 Starynska Poultry Farm
 Snyatynska Nova Poultry Farm (goose)



Fodder production

Fodder Complex "Ladyzhinsky"
 Myronivsky Plant for Manufacturing Groats and Feeds (MFC)
 Katerynopilsky Elevator
 Tavriysky Plant for Manufacturing Feeds
 Dobropolie Elevator
 Novomoskovsk Elevator
 Rokita Elevator



Grain growing

Zernoproduct MHP
 Urozhay
 Agrofort
 Perspective
 Urozhaina Kraina
 Lypivka



Meat processing

Meat processing Plant Druzhba Narodiv
 Myronivsky Meat Processing Plant
 "Lehko"
 Ukrainian Bacon

Product portfolio

Our brands are among the most recognised and trusted in Ukraine.

We continually seek to improve our products, and to regularly introduce new lines of products designed to appeal to the end buyer.

Our aim is to build and maintain the respect and trust of our consumers.



For more information on our **Products** visit www.mhp.com.ua

Poultry

Sales in 2011

US\$979m



Key products and brands

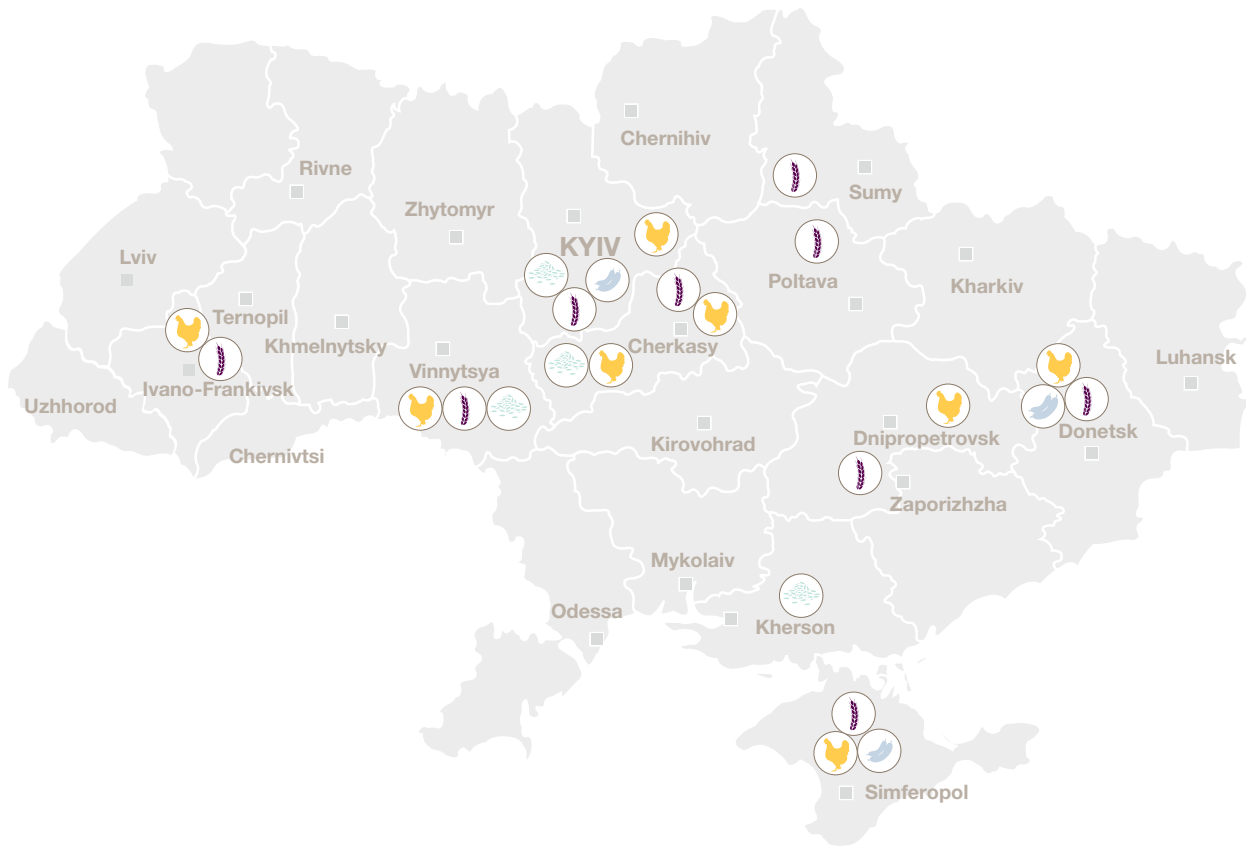
- Chilled chicken, whole or in portions
- Frozen chicken, whole or in portions
- Pre-cooked convenience food
- Sunflower oil



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



MHP at a glance

Grain

Sales in 2011

US\$ **104**m



- Key products**
- Corn
 - Sunflowers
 - Wheat
 - Rape

Total land bank

280,000

hectares by the end of 2011

Other agricultural operations

Sales in 2011

US\$ **146**m



- Key products and brands**
- Sausages
 - Cooked meats
 - 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 paté and from high-quality pork to stuffed pancakes



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



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



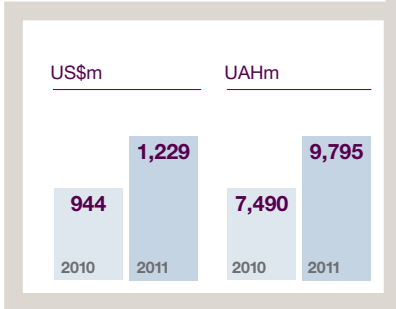
Certified Angus
Premium fresh beef from Aberdeen-Angus cattle, 36 types bred on our Druzhba farm

Chief Executive's review



30%

Revenue
Percentage increase
2010-2011

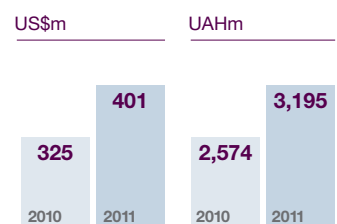



Meeting market demands



24%

EBITDA
Percentage increase
in US\$ 2010-2011



 For more information on our financial performance see the Financial review in Part 2 of our Annual Report

It has been a good year for MHP. We have delivered a strong financial performance, increased sales substantially across our chicken and other meat products range and experienced the highest crop yields in Ukraine during the period.

Overview

We reaped the benefits of our significant land expansion in 2010, driving up grain production across all our main crops and generating outstanding increases in revenues and profits in the grain growing segment on a land bank currently covering 280,000 hectares.

Our flagship expansion project, a world-leading poultry plant in Vinnytsia, is on track to commence production in early 2013 and will ultimately more than double our production capacity by 2018.

In 2012 we plan to start trial production at Vinnytsia, testing all the equipment, processes and resources, to be ready for a strong start in early 2013. This will enable us to add an additional 50,000-60,000 tonnes during 2013 to our current production capacity.

We have maintained our industry-leading position in Ukraine, supported by our robust, vertically integrated business model. Self-sufficiency is at the heart of this model, reducing our exposure to the impact of grain price inflation during the period and enabling us to control costs and quality at every stage of the process to deliver consistently high-quality, good value food products.

A robust financial performance

Our results were better than expected across all our business streams. Revenues for the year rose substantially, up 30% to US\$1,229 million (2010: US\$994 million), a clear demonstration of how our business model enabled us to benefit from higher volumes and prices for chicken and meat processing products, impressive results in grain growing (in both yields and overall harvest).

EBITDA also grew strongly to US\$401 million, a 23% increase over the US\$325 million generated in 2010, driven by a dynamic performance in the grain growing segment and growth in chicken meat prices.

Key highlights

Revenues for our poultry and related operations segment grew by 22% to US\$979 million compared to 2010, with EBITDA increasing by 6% to US\$290 million (2010: US\$273 million) despite the impact of a high rise in production costs on gross profits, driven by grain and utility price increases and modest poultry prices in the first half of 2011 in line with international poultry price trends. Since the second half of 2011 price for chicken started to recover in line with international trends. As a result, in 2011 the price for chicken meat increased by 10% compared with the 2010 chicken meat price.

All our chicken production facilities operated at full capacity during the year with consumer demand for chicken increasing. Despite rising prices in the second half of the year, in line with world poultry prices, chicken is still the most widely available and affordable meat in Ukraine, accounting for around 50% of all meat purchased. We maintained our strong domestic market presence, once again taking around a 50% share of all industrially produced chicken and have continued to steadily increase our export sales. These have doubled year-on-year and now contribute around 10% of total chicken meat sales following the expansion of sales into Middle East and Asian markets.

We have once again delivered record crop yields, significantly higher than the average in Ukraine, and well ahead of last year. In addition to favourable weather conditions, this performance is driven by our advanced technologies and our relentless focus on attention to detail. We have a highly disciplined approach to managing our land. Every day is important: timing is critical, as is making the right choice of fertiliser, seed and chemical protection to minimise disease and maximise yields.

“Our results were better than expected across all our business streams.”

Yuriy Kosiuk
Chief Executive

Chief Executive's review continued

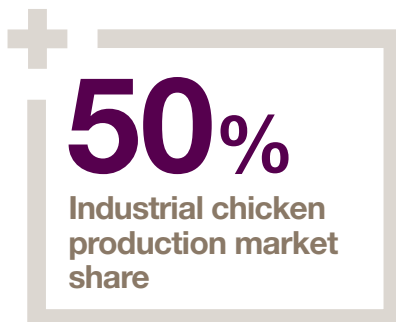
Building on our strong market position


Whilst we have maintained a leading share in our markets, we are already looking forward to next year. Spearheaded by our new Director of Consumer Products, Yuriy Logush, new sales and marketing strategies are being developed to increase customer loyalty and awareness of the quality and availability of our products. We are aiming to reinforce the position of Nasha Riaba as a premium brand in Ukraine. We are also transforming our sales teams who are now focused on increasing our sales of branded products and maximising sales through our branded stores and key retail accounts.

Although there is still room for expansion in our domestic market, we have increased our export activities in preparation for the additional volumes that the Vinnytsia project will deliver. Internationally our products have proved to be extremely competitive on price and quality.

As one of the lowest cost producers of poultry meat, with our state-of-the-art Vinnytsia site we feel that we have a great potential to increase our exports to around 15-20% of our total poultry production in mid the term and beyond.

Progress on obtaining certification to sell into the European Union has been frustratingly slow but all conditions have been met and we are eagerly awaiting confirmation of the final decision. We consider other export markets, such as Central Asia and the Middle East of equal importance for us as European ones.



 For more information on our production market share see page 14-25

The Company milestones

1998

Acquired a controlling stake in Myronivsky Fodder Plant. MHP became one of the leading grain trading companies in Ukraine.

1999

MHP started producing chicken at its Peremoga Nova Farm. Vertical integration strategy development for poultry production.



2002

The Nasha Riaba brand of chilled chicken was launched on the market.

2003

A franchise outlet branding programme was launched. Initiation of new business routes: production of crops, meat processing, etc.

2004

First sunflower crushing plant established. Sunflower protein replaced soya bean protein in fodder. Sales of sunflower oil began.

2005

Significant acquisitions: Zernoproduct – grain growing operations, Katerynopilsky – fodder plant, Cherkassy Pre-cast Concrete Factory.

2006

MHP S.A. was incorporated in Luxembourg. Lehko plant launched into operations. US\$250 million Eurobond issued.

2007

Phase 1 of the Myronivka poultry farm was launched, the Starynska breeding farm and Katerynopilsky fodder plant were extended.



2008

MHP listed on LSE through an IPO in GDRs. MHP also acquired 80% stake in Ukrainian Bacon. The Company became self-sufficient in corn.

2009

Completed Myronivka Poultry Farm of 220,000 tonnes capacity, increased sunflower processing capacity. Successful restyling of Nasha Riaba.

2010

Refinanced its US\$250 million Eurobond and issued US\$330 million due 2015. Construction of Vinnytsia Poultry Complex started.

A winning team

I am incredibly proud of everything MHP has achieved so far and our 24,800 employees have played a critical part in our growth so far. They have all contributed to our strong results this year and I would personally like to thank them for their efforts. Our ambitious growth plans will enable us to provide development opportunities for our skilled and motivated staff, to continually improve our human resources standards and to make a positive contribution to our local communities.

Looking forward

Our key challenge in 2012 is to complete the first phase of the Vinnytsia project on time, ready to move into production in 2013. Our land bank expansion means we have the grain supply in place to meet all our fodder requirements, maintaining our self-sufficient model. Construction is well advanced and the new management team is already in place, with the major task of recruitment and training new employees well underway.

This transformational project will propel MHP from the domestic to the international stage, as we become one of the largest poultry producers in Europe and maintain our position as one of the most cost efficient producers of high quality chicken meat in the world.

Our strategy and culture however, will not change. We will continue to invest in our land bank and production facilities, building strong brands based on quality and value for money for consumers in Ukraine and increasingly, overseas. This will in turn continue to deliver returns to our shareholders and I am confident that we have the skills, resources and passion to achieve our ambitious goals.

“Although there is still room for expansion in our domestic market, we have increased our export activities in preparation for the additional volumes that the Vinnytsia project will deliver.”

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 over 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 food.

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 consequently increasing sales.

Expand our distribution networks

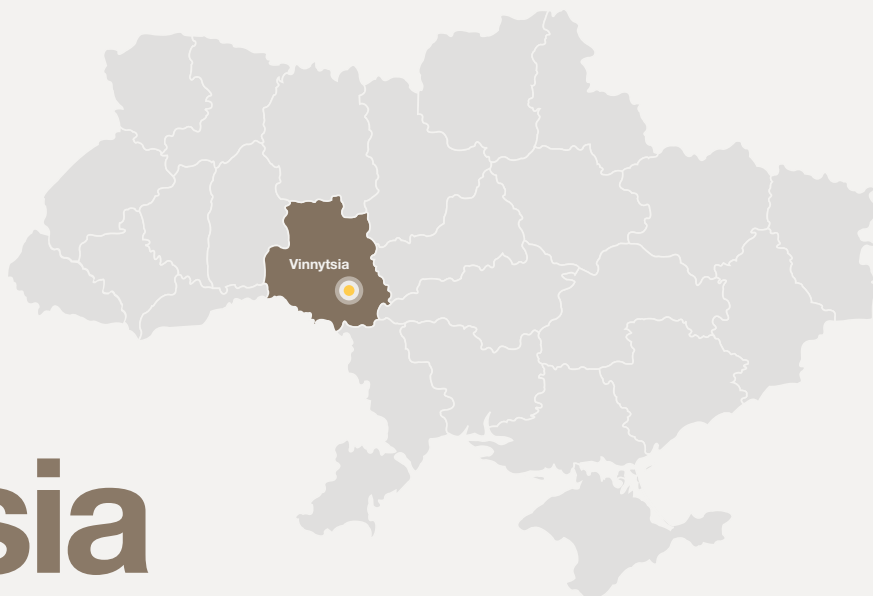
Over the next five years, we want to see an expansion in the number of our franchise stores (circa 2,600 in 2011). Expansion will also achieve our aim of expanding network of “Nasha Riaba” branded stores to cover more parts of the country. We will keep the retail sales balance between franchised outlets and supermarkets.

 For more information on our Group strategy visit www.mhp.com.ua

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.



Construction of the Vinnytsia sites in 2011. When complete, this fully integrated plant will become one of the biggest poultry complexes in the world.

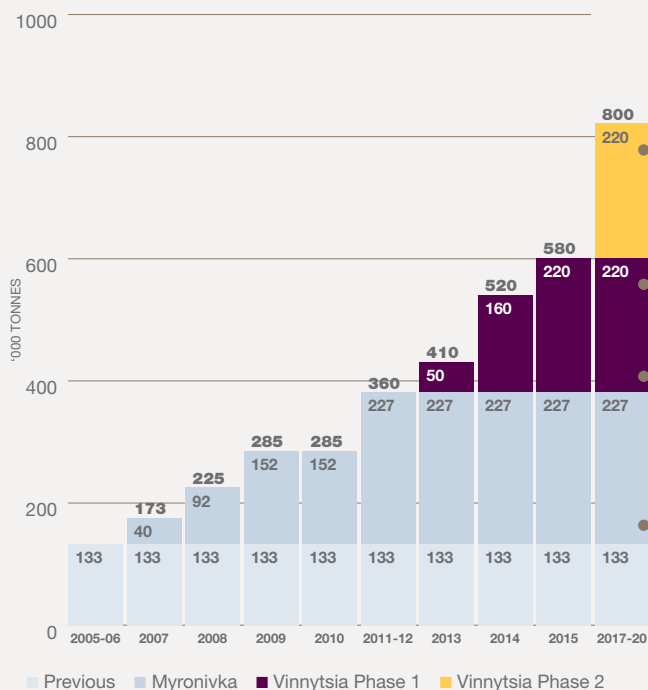


Location
Vinnytsia region, Ladyzhyn

Vinnytsia Project



Capacity growth



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.

2015-16 Projection

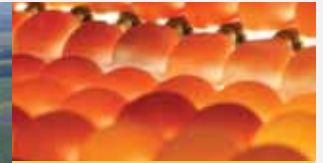
Launch of second production line and completion of Phase 1 of Vinnytsia development with an increase in production to 220,000 tonnes of chicken meat per annum. In 2015, total MHP production of chicken across the Group will be 580,000 tonnes per annum.

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.

2005-09 – Production doubled

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



◀ Large scale state-of-the-art Vinnytsia Poultry Farm, chicken brigades at Ladyzhyn



220,000
Poultry production
 Phase 1, tonnes
 2015

Situated in the Vinnytsia region in Central Ukraine, we are constructing the largest poultry complex in Europe that will be one of the most advanced chicken processing facilities in the world. This ultra-modern, fully-integrated production plant will be self sufficient with its own hatchery, mixed fodder plant replenished from our own grain production, sunflower crushing plant, slaughter house and a packaging plant.

Significant progress during 2011

This ambitious project is on schedule to deliver Phase 1 of the project, with two slaughter lines due to commence production in 2013, reaching full production capacity of 220,000 tonnes in 2015. We have invested US\$360 million by the end of 2011 from the planned US\$750 capital expenditure budget for the project, financed by a combination of debt (Eurobond 2010) and cash from our own resources.

Breeding Farm

Hatching eggs for the Vinnytsia complex will be produced at the Shakhtarska breeding farm, situated in the Donetsk region. A major expansion project is already underway there to ensure that sufficient capacity will be available to satisfy the substantial future demand of the Vinnytsia complex. This will dramatically increase capacity by over five-fold to an extra-ordinary 325 million hatching eggs annually from 177 rearing sites. The first sites of Shakhtarska farm will be operational in the middle of 2012 and will start rearing parent stock and producing hatching eggs for the complex.

Hatchery

A new hatchery is almost complete and will be launched in a trial regime in the middle of 2012 together with a launch of a broiler farm in a test regime.

Poultry Farm

Rearing zones/chicken barns for the complex are being built and two chicken rearing zones with 38 chicken houses are on schedule for testing to begin in mid 2012. The construction of a 220,000 tonnes per annum capacity slaughterhouse is nearing completion. Since September 2011, equipment for the poultry farm has been arriving and is in the process of being installed.

Fodder plant and grain storage

By September 2011 we had completed both the sunflower seed and grain silos, with the installation of operational equipment well underway at the end of the year. Both have

substantial capacity of 200,000 m³ and will be the largest across our asset base. Construction of the new fodder and sunflower oil plants is progressing well. The fodder facility will be launched towards the end of 2012 to satisfy the demands of the Vinnytsia poultry farm, with an annual production capacity of 1.2 thousand tonnes.

Infrastructure

We have also made a substantial investment in creating the necessary infrastructure for the new complex, building a new independent electric power substation with a capacity to generate 100MW. Good progress has been made on the construction of a water treatment station with a capacity of 15,000 m³, supported by 60 km of water supply systems and we are moving forward with the construction of 45 km of new roads.

Supporting our growing workforce

The Vinnytsia complex will eventually employ additional employees and become an important contributor to the local economy. The management team is already in place and a significant recruitment drive is underway. We are building 280 residential apartments on site, an 800 bed hostel and a kindergarten to care for 260 children.

Building a strong market position

Phase 1 will be commissioned in 2013-15 and Phase 2 of the project is due for completion in 2017-18. Each will add 220,000 tonnes, more than doubling our current poultry production of 380,000 tonnes, sustained by our expanded land bank. This will give us the opportunity to satisfy the growing domestic demand for chicken and replace a significant proportion of deep frozen chicken meat currently imported from Brazil and USA in our domestic market, as well as developing our own export business. When fully complete and operational, this industry-leading project will transform MHP from a leader in its domestic markets to one of the largest poultry companies in Europe.



Leading the Ukrainian market

7%

Poultry production

Percentage increase
2010-2011

10%

Poultry price increase
2010-2011

50%

MHP currently dominates the market of industrially produced chicken, producing high quality meat.

Business review

Poultry production

Our poultry segment generates the majority of our revenue and contributes around 70% of our EBITDA. Revenues in 2011 were up 22% compared to 2010, and increased to US\$ 979 million, driven by increased volumes and higher prices for chicken meat.

A market-leading position

This year, we produced over 380,000 tonnes of chicken meat and we are poised to increase total production volume over the next few years by more than 60% when Phase 1 at a new poultry complex at Vinnytsia reaches 100% fruition in 2015 with a capacity to produce 220,000 tonnes per annum.

We have a market-leading position in our domestic market, with a 33% share of all poultry consumption and 50% share of all industrially produced chicken. Our products have built a strong reputation with consumers based on high quality, good value for money with our Nasha Riaba brand rated as Ukraine's favourite brand for two years running by Focus magazine. We continue to work with our partners to improve and expand our Nasha Riaba branded stores network and we are extending our footprint internationally, entering new markets and increasing export sales.

The cornerstone of our success is our vertically-integrated business model. We undertake each stage in the chicken production process from hatching eggs to distribution and sales, producing feed for our chickens from our own grain growing operations. This gives us complete control of quality and cost from the farm to the table.

Delivering high quality products

We own two poultry breeding farms producing hatching eggs for our four poultry rearing farms, producing 297 million hatching eggs and rearing 201 million chickens during 2011. A major expansion of our Shakhtarska breeding farm is underway in preparation for the future demands of the Vinnytsia complex.

For more information on our **poultry operations** visit www.mhp.com.ua



Our product range founded on quality, reputation and price



Business review continued

Poultry production continued



Our broiler farms include the largest chicken farm in Ukraine today. Situated in the Cherkassy region of Ukraine, Myronivka is a state-of-the-art facility producing more than 220,000 tonnes of chicken per year and is our most efficient site. Like all our sites, it is a fully integrated facility supported by own breeding farm, a new hatchery, a modern processing plant and a fodder plant.

Fodder for our chickens is supplied by three mills and five storage facilities with a capacity of 1,135 thousand cubic meters to store crops. These crops are used to produce feed for our chickens, providing them with the protein, vitamins and minerals that growing chicks need. During 2011, we produced 1,158 thousand tonnes of fodder, contributing an important element to our self-sufficiency model and also to the quality of our products. As a vertically integrated producer we have complete control of the feed for our chickens and take great care in ensuring its quality – from seed to crop to final fodder. We see this as critical to protecting our reputation as a safe producer.

We are the only company in the world to replace soya bean as the protein source with sunflower protein from sunflower seeds grown partially on our own grain growing enterprises, reducing our production costs per kilo. In addition to using the sunflower seeds to provide the main source of protein for fodder production, we also produce sunflower oil as a by-product of the sunflower crushing process, that we export through world traders. This not only gives us a cost advantage over competitors but also generates a useful source of foreign exchange earnings from the sale of sunflower oil to international markets. Over 173,000 tonnes of sunflower oil were sold in 2011 as far we bought sunflower cake periodically during the year in the Ukrainian open market to take advantage of the price of cake.

Distributing our chilled and frozen chicken via our 11 distribution centres and more than 450 refrigerated vehicles is the final piece of our integrated model, giving us quality control right through to the point of sales. Around 40% of our sales are currently made through our 2,600 franchised stores and we expect the number of franchises to continue to rise. As a result of our well developed relations with supermarkets, MHP has a diversified customer base, with no customer accounting for more than 8% of sales. We are planning to maintain a balance between these two important channels and to extend our distribution network to cover the majority of regions in Ukraine.

Maintaining high biosecurity standards

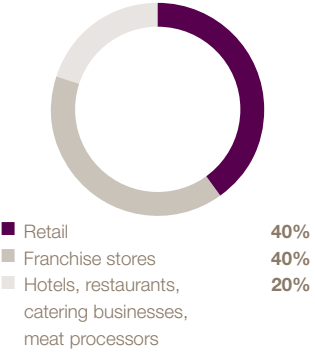
Our reputation for quality is based on rigorously controlled biosecurity standards across our operations. Environmental conditions are tightly regulated in our breeding plants and all eggs are certified by the State veterinary authorities before they leave the farm.

100%

At over 380 thousand tonnes per year, MHP's production facilities are always working at full capacity and plans are underway to build on this position.

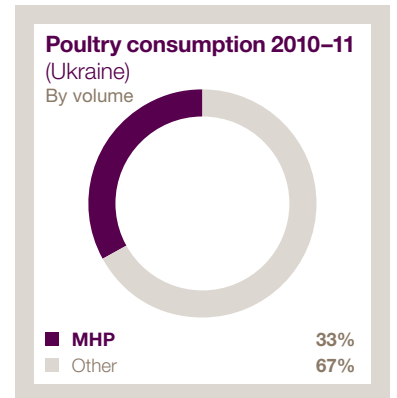
Poultry distribution channels

By volume





Day old chicks transported to the rearing sites, where they are safely grown for 42-45 days.



Over the last seven years, we have been introducing integrated food safety management systems which combine the best international and national standards. These provide common measurement tools and facilitate global marketing. We are in the process of adopting a new international certification scheme FSSC 2200. This is an international food safety management system accreditation, based on ISO 2200, that focuses on ensuring good practices in each link of the supply chain and is approved by the Global Initiative for Food Safety (GFSI). Most of our plants are already certified according to both ISO 9001 and ISO 2200 standards and by the end of 2012, the majority will have completed the transition to the new FSSC 2200 standard. This dedication to biosecurity gives us the confidence that we can continue to grow whilst maintaining our high standards of food safety.

Building strong brands

Our wide range of chilled chicken products is sold under our flagship “Nasha Riaba” brand, which dominates the market and is sold at a premium price over its closest competitor. Sales to third parties were up 12% in 2011 to 370,900 tonnes and prices held up well during the year despite seasonality. Nasha Riaba is a well-trusted brand, respected for its quality. Survey results such as those from the Kiev Institute of Consumer Expertise evidence this reputation. In December 2011 in the Institute’s quality review of poultry products in Ukraine, Nasha Riaba products achieved the best results for quality and safety. Promotional activity during the year focused on in-store activity with major campaigns in preparation to drive increased traffic to our franchised stores Vinnitsia complex goes into production and capacity constraints are lifted. The field sales team has been revitalised and expanded, with new management and additional training and support from a new marketing team.



Read more about our **Vinnitsia project** on pages 12-13

Traditionally, the Ukrainian consumer has preferred fresh, chilled products but our innovative convenience food, marketed under our “Lehko!” brand is establishing a strong market presence. This is a relatively new concept in Ukraine, but gaining momentum fast, with 60% of our finished products sold through distributors and the rest direct to supermarkets and the food service trade. Produced at the Myronivsky meat processing plant Lehko, volumes remained relatively stable year-on-year.

A platform for growth

Our goal is to become the number one poultry producer in Europe, taking advantage of our growing local market and building our exports to the Middle East, Central Asia, North Africa and the European Union. Our vertically integrated business model, underpinned by in-depth industry expertise gives us a strong platform for growth and with the increased capacity from the new Vinnitsia complex, we are on track to achieve our objectives.



Highly profitable arable farms



Geographical
presence

Business review continued

Grain growing

Fodder production

1.7m

Tonnes of grain

Corn, sunflowers, wheat and rapeseeds are MHP's core crops.

MHP operates one of the largest land banks in Ukraine, cultivating 280,000 hectares in 2011, which is more than in 2010 by 100,000 hectares. Growing our own grain is a critical component of our integrated business model. We use our own crops to provide fodder for our chickens and livestock, satisfying 100% of our requirements and enabling us to maintain strict bio-security and tight control on quality. Exporting the balance generates significant additional revenue to the Group; for example in 2011, we exported over 30% of crops from our total harvest of 1,712,068 tonnes and overall revenues from grain exports contributed US\$63 million to our foreign currency reserves.

We have eight arable farms mainly in the central, northern and western regions of Ukraine: Vinnytsia, Cherkassy, Khmelnytsky and Sumy. In 2011 corn represented (by hectare) 43% of our crops, followed by wheat at 21%, sunflowers at 11%, rapeseed at 4% and other crops such as rye, barley, sugar beet, oats accounting for the rest.

Arable farms play a strategic role in MHP's vertically-integrated business model.



The Company operates three feed production facilities and five storage facilities.

Business review continued

Grain growing continued

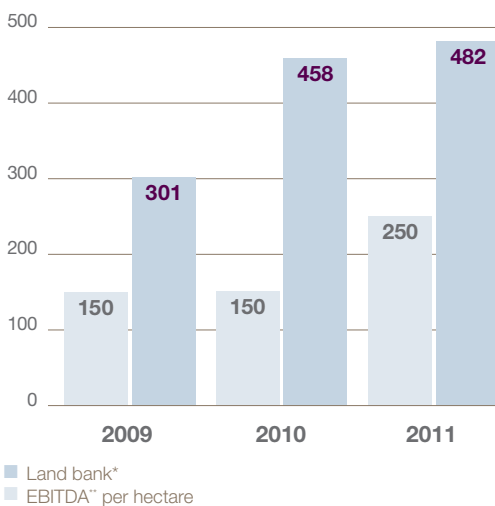
Fodder production continued



We use corn, sunflower and wheat grown on our eight arable farms to produce mixed fodder for chickens and livestock in our care.

EBITDA and land bank

US\$ per hectare



* Land bank available for cultivation at the beginning of the season

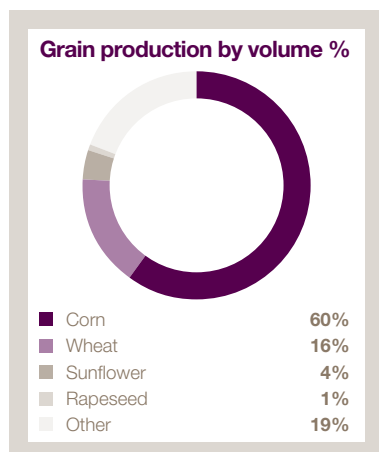
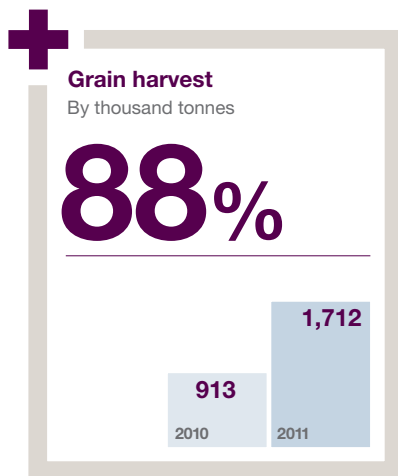
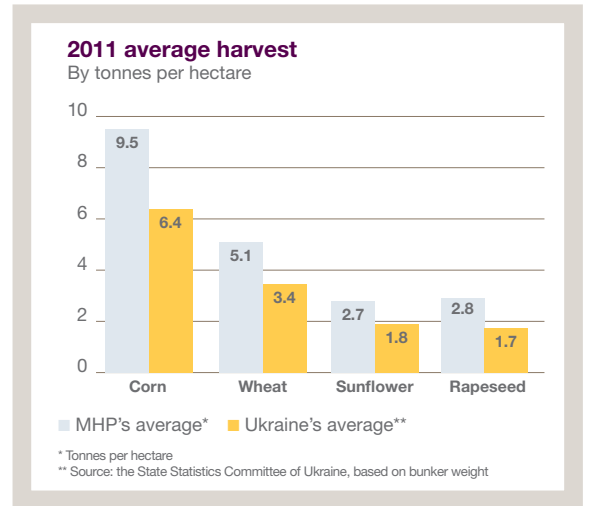
** Unadjusted EBITDA, which includes results from inter-company sales of grain to poultry segment for fodder production at market price

An outstanding harvest

Ukraine's climate and black fertile soil are ideally suited for grain cultivation; in fact Ukraine is often referred to as the 'breadbasket of Europe'. Favourable weather conditions in 2011 resulted in a bumper harvest in Ukraine of 56.7 million tonnes. Around 24 million tonnes are for export, making Ukraine one of the biggest players in the world grain market. Domestic grain prices are correlated with international ones throughout 2011. Combined with MHP's strong harvest and yields, this resulted in an outstanding EBITDA per hectare of US\$482 on an exceptional harvest of over 1.7 million tonnes of grains and oilseeds up by an impressive 88% over the 2010.

Once again, MHP delivered yields that were significantly higher than the Ukrainian average. Corn in particular was at least 50% higher than the country's average, contributing to a European record yield on one of our farms where we harvested almost 15 tonnes per hectare net from 91.4 hectares. Whilst weather conditions are a critical factor in harvest volumes, our focus on improving our management processes has been driving up yields over the last few years as we apply the latest technology and farming practices to soil preparation, planting, crop protection and harvesting.

Those crops that aren't used for fodder are grown to enable us to operate a crop-rotation system and sell for export to receive US denominated revenues. We minimise the use of chemical fertilisers and pesticides and use chicken droppings from the chicken barns as fertiliser.



Storage capacity for our grain crops nearly doubled during the year reaching 1,135,000 m³ (2010: 735,000 m³), mostly due to progress on new facilities at the Ladyzhynsky fodder complex (part of the Vinnytsia project). With a total capacity of 1.2 thousand tonnes, this fodder facility will be commissioned towards the end of 2012 ready to satisfy the demands of Vinnytsia, as it reaches 100% capacity.

Strategy

Our aim is to remain self-sufficient in grain for our chickens and other livestock, capitalising on the advantages of having both poultry and grain under one umbrella to create a natural hedge against fluctuations in commodity prices. The recent expansion of our land bank means we are already well-positioned to satisfy the increased requirements of the Vinnytsia complex as it comes on stream over the next few years. In addition, we intend to continue developing our grain growing segment as an independent business, exploiting its exciting potential for future profitability and growth with further expansion of our land bank, targeting a total land bank of 450,000 hectares in the near term.

For more information on our **Grain growing operations** visit www.mhp.com.ua

37

thousand tonnes

processed meat products
in 2011

Revenue US\$m



Providing variety for mass market products

Business review continued

Other agricultural operations

12%

Sales rose to almost 37,000 tonnes in 2011 from our two plants producing sausages and cooked meats

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.

Although Other agricultural operations is the smallest of our divisions, it is growing strongly as it includes our sausages and cooked meats product range which are market leaders. Revenue in this segment rose by an impressive 35% in 2011 and it now represents 12% of our total revenue and 4% of EBITDA.

It is also an integral part and a logical development within our integrated business model. The Company produces a range of different meat products from smoked chicken to premium beef and foie gras.

Chicken meat is one of the main ingredients in our processed meat products – accounting for over 50% of its composition, the rest is beef and/or pork. We also rear our cattle, pigs and geese on our own farms and grow the crops for their fodder. Finally, we sell the division's products through our distributors, retailers, supermarkets, franchisees and to the food service industry.



Druzhba Narodiv produces over 90 different types of pork and beef sausages.



Products are principally sold under Druzhba Narodiv, Baschinsky and Europroduct brands.



Business review continued

Other agricultural operations



Developing our brands

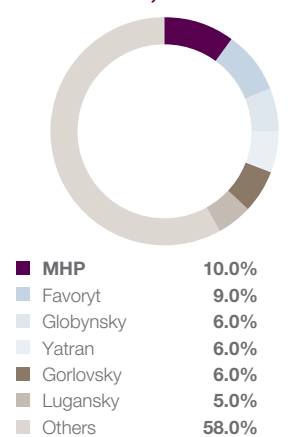
We have around 10% of the meat processing market in Ukraine, selling 37,000 tonnes of processed meat products in 2011, 12% more than in 2010. Today, the market is highly fragmented but there are signs of consolidation as regional brands extend their footprint across the country. Our products are sold under three main brands: Druzhba Narodiv, Baschinsky and Europroduct.

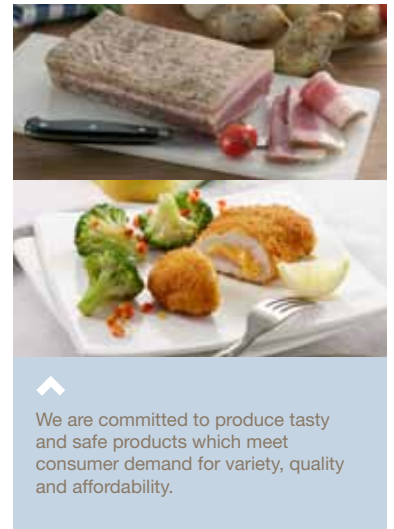
A range of over 90 different pork and beef and chicken sausages and cooked meats for the Druzhba Narodiv brand are produced in our modern plant in Crimea, with the raw ingredients supplied by our local cattle and pig farms to ensure consistent and high quality. The plant operated at virtually full capacity during the year, producing 50 tonnes per day.

This facility also produces beef for our exclusive Certified Angus brand – a range of top quality beef cuts from our unique herd of Aberdeen-Angus bulls reared on the Druzhba Narodiv farm.

The Baschinsky and Europroduct brands are largely produced by Ukrainian Bacon, one of the top ten meat processing companies in Ukraine. We acquired Ukrainian Bacon in 2008 and today this plant is an important part of our portfolio, with a daily output of 60 tonnes per day. We are aiming to steadily expand volumes as a programme of investment started in 2008 comes to fruition. The Europroduct brand caters for the lower-priced, value for money market segment and is benefiting from the trend for consumers to buy branded products – as are our other brands.

Processed meat products, market share, %





We are committed to produce tasty and safe products which meet consumer demand for variety, quality and affordability.



For more information on our **Other agricultural operations** visit www.mhp.com.ua

A wide range of complementary products

This segment includes sales of foie gras, fruit and a range of other agricultural products produced on our farms. We are Ukraine's only producer of foie gras, from geese reared at our Snyatynska complex in the west of Ukraine. This is produced under strict quality standards that comply with internationally recognised ISO 9001: 2008 and ISO 22000: 2005 accreditations. 50 geese rearing houses produce the ingredients for high quality mousses, terrines and foie gras patés for sale locally and to Russia where we exported to in 2011.

As part of our Druzhba Narodiv operations, around 1,600 hectares of land is used mostly to grow apples. Situated in the southern most part of Ukraine, the Crimea Fruits company take an advantage of the ideal climate for fruit growing. Harvest is stored in temperature controlled refrigerators. Fruit is then sold directly to supermarkets during the year, benefiting from a reputation for good quality underpinned by ISO 9001: 2008 and ISO 2200: 2005 accreditation.

Strategy

We intend to remain number one in this exciting market segment, increasing sales through our shops and across the country as consumption per capita continues to grow. There is some overlap between our products so there will be some rationalisation of the range during 2012 with more focus on developing regional brands and increasing our market share. In addition we expect to continue producing good yields in our fruit business.

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

Operational risks	Fluctuations in demand and market prices.	Avian flu and other livestock diseases.	Fluctuations in grain prices.	Increased cost for, or disruptions in, gas and fuel supplies.	Weather.
Potential impact	A drop in demand.	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.	World prices could affect our poultry production costs.	Gas and fuel, used for production and distribution, are imported. Uncertainty in supply and fluctuating prices could affect production and costs.	Inclement weather could affect crop yield.
Mitigation	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 we believe demand for chicken will 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.	We operate strict biosecurity measures, including disinfectant washes, culling wild birds in the immediate vicinity of our farms.	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).	Gas and fuel represent only about 9% 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.	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.

Financial risks	Credit risk.	Liquidity risk.	Currency exchange risk.	Interest rate risk.
Potential impact	Debtors fail to make scheduled payments.	Lack of funds to make payments due.	Exposure to fluctuation in exchange rates. Inability to repay US dollar debt.	Changes in interest rates affecting the cost of borrowings, the value of our financial instruments, and our profit and loss and shareholders' equity.
Mitigation	<p>No single customer represents more than 8% of total sales.</p> <p>The amount of credit allowed to one customer or group of customers is strictly controlled.</p> <p>Credit to major groups of customers, including supermarkets and franchises, is restricted to between five and 21 days.</p>	<p>MHP has a detailed budgeting and cash forecasting process to ensure that adequate funds are available.</p> <p>Our target is to maintain our current ratio, defined as the proportion of current assets to current liabilities, no less than 1.1–1.2.</p>	<p>We do not use derivatives, which are neither available nor routinely used in Ukraine, to manage our exposure.</p> <p>We earn around 30% 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.</p>	<p>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 EURIBOR and they are generally at lower interest rates than are available in Ukraine.</p>



Stable and sustainable

Future

Ladyzhyn: support to schools and local communities

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 made together with 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 universities 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.

We believe that high standards of corporate responsibility are critical to the sustainability and reputation of MHP and our aim is to meet best practice across all areas of our business by contributing to our local communities, taking care of our employees and minimising our environmental impact. Our tight cooperation with the EBRD and the IFC also helps us to improve and heighten the level of biosecurity, quality control and stakeholder engagement.



Active participation in community life and development



Committed to minimising the impact of operations on the environment.



Contributing to the local communities in which we operate is a social obligation that we take seriously.

Communities in regions

Contributing to the local communities in which we operate is a social obligation that we take seriously, from building new facilities to working with local charities or sponsoring local events.

Contributing to local communities

One major project completed in 2011, was MHP's contribution to the renovation of a fitness and leisure centre in the village of Myrne, close to our Starynska poultry farm. This sports ground was abandoned 10 years ago and was almost in ruins. The renovation took around 2.5 months and included repairing the roof, replacing all the windows and doors and installing new sewage and heating. Once all the repairs were complete, the sports centre was re-equipped, ready to reopen in February 2011 for the benefit of all village residents as well as employees of the poultry farm.

Another project in Myrne saw the renovation of the Park of Flame where we contributed to cleaning up the park, installing new fences, lighting, litter bins and a children's playground and restoring a monument to an Unknown Soldier. The completion of the renovations was celebrated on the anniversary of Victory Day (World War II), when MHP organised a dinner for local veterans, providing all the catering.

At our Druzhba Narodiv meat processing plant in Crimea, we maintain a first-class equestrian sports centre, capable of hosting regional and national competitions and providing high standards of training to competition level. We also supply meat to the Yalta Zoo, the biggest zoo in Ukraine and one of the region's main attractions.

In the Vinnytsia region, we supported a double celebration in the town of Ladyzhyn, providing a free BBQ and entertainment for the combined Ukraine Independence Day and Ladyzhyn town day. Our local plant director awarded a young local sportsman the opportunity to train professionally in competition standard yacht, following his successful performance in the national sailing championships.

Mentoring

We have also initiated a number of activities to encourage young people to consider careers in industry, and specifically with MHP. Under the framework of our MHP: 'Way to the Profession' project, we organised tours of our production facilities for local Ladyzhyn high school students and launched our own Company page on the social network, VKontakte. This is supplemented by five corporate videos focusing on the key professions in the Company and a brochure telling the stories of some of our best employees.

Our employees

As one of the largest employers in Ukraine, we are committed to providing a safe working environment for all our employees, improving their skills at work and promoting health and well-being generally.

We also provide practical help with accommodation and schools: for example, at our new Vinnytsia complex we are building 280 residential apartments on site, an 800 bed hostel and a kindergarten to care for 260 children. All our on-site canteens are heavily subsidised and transport is provided for employees to travel to work – and for their children to travel to school.

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

A safe working environment

We have well-established health and safety policies and procedures at all our sites, with regular inspection of equipment and worksite safety training. Our Labour Protection department is responsible for ensuring that we comply with health and safety requirements at all times.

Well structured remuneration and benefits

We have a well-structured remuneration package that includes a performance-related bonus based on the efficiency and quality of production achieved by each employee and the facility where they work. We also provide pensions, holiday and maternity benefits in line with and exceeding national standards.

Our environment

We are committed to minimising the impact of our manufacturing and agricultural operations on the environment and strive to meet the highest national and international standards.

Efficient energy usage

We are constantly seeking new ways to reduce our energy consumption. We are investing around US\$15 million in a new Biogas plant at Oril-Leader poultry farm that will use chicken manure and waste from the plant as raw material, reducing our carbon footprint and helping reduce our cost of production.



Controlling emissions

We ensure that any chemicals, disinfectants, solid waste and waste water that we discharge in the course of our operations are carefully monitored and controlled to ensure there is no negative impact on local wildlife or vegetation close to our facilities. Although we make an annual payment to the State – effectively an environmental tariff – to compensate for any pollution we do generate, MHP has never incurred any environmental penalties.

Minimal use of chemicals in production

We do not use genetically modified materials or steroids in our fodder or in our products and use crop rotation to minimise the use of pesticides and agro-chemicals: any pesticides that we do use comply with all current legislation governing their use.

For more information on our **Corporate Social Responsibility** visit www.mhp.com.ua



Support to schools at Ladyzhyn



A range of competitions during 2011 in horseriding at Crimea was supported

Environment and sustainability

A biomass heating facility at the Myronivka fodder plant which recycles sunflower husks left over from fodder production.

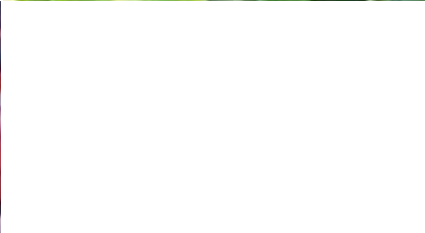
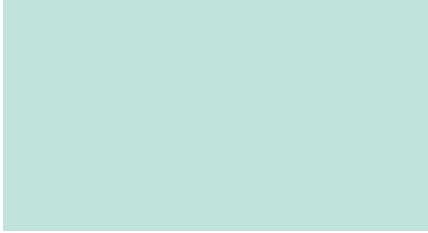
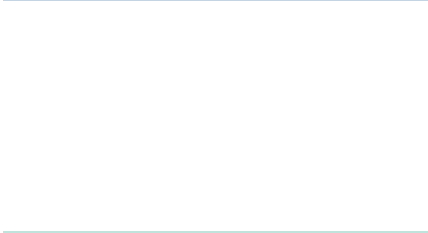
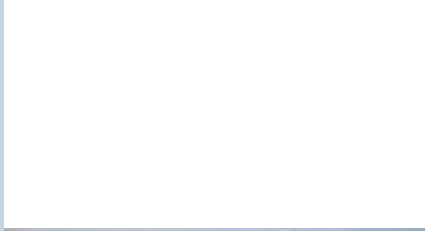
Health and safety

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.

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



www.mhp.com.ua

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