Well positioned for the future

Myronivsky Hliboproduct

Annual Report 2011

Part 2: Report & Accounts

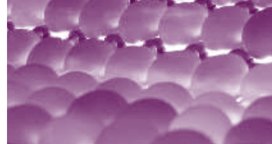
MHP (Myronivsky Hliboproduct) is Ukraine's leading producer of poultry and poultry products. We command around 50% share of the market for industrially-produced chicken while our "Nasha Riaba" brand leads the market for food products.

As one of Ukraine's leading agro-industrial companies, MHP is one of the largest grain producers in Ukraine and the largest processed meat producer in the country

In 2011 the Company produced over 380,000 tonnes of poultry meat, cultivated around 280,000 hectares of land harvesting over 1.7 million tonnes of crops and delivered to the market 37,000 tonnes of processed meat products.

MYRONIVSKY HLIBOPRODUCT

Read about our quality grain production on page 18, Part 1



Read about our increasing efficiency in Poultry production on page 14, Part 1

Read about the growth of our meat processing operations on page 20, Part 1

Read about fodder production on page 18, Part 1

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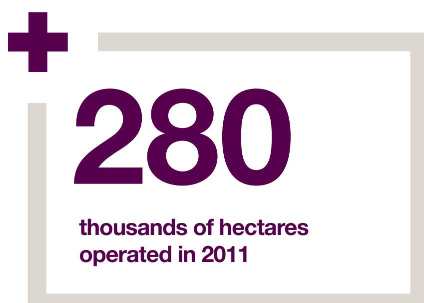
Key operational highlights



Poultry and related operations

- The Company's total volumes of chicken meat sold to third parties increased by 12% to 370,900 tonnes (2010: 331,400 tonnes).
- During the year, consumer demand for chicken remained high; all MHP's poultry production units continued to operate at 100% of capacity and the Company was able to sell close to 100% of the chicken produced.
- MHP's market share of industrially produced chicken in Ukraine was around 50% and of total poultry supply remained at 33%.
- Average chicken price for the full year of 2011 increased by 10% to UAH 15.00 (net of VAT) per kg against UAH 13.65 (net of VAT) per kg in 2010.
- Export sales of chicken increased by almost 80% compared to 2010 and constituted around 10% of total sales volumes. In 2011 the Company opened new export sales markets, among which are Libya, Lebanon, Uzbekistan and Angola.

Grain growing operations

- Over 2011 the Company operated on 280,000 hectares of land, including 100,000 hectares acquired in 2010 that was cultivated for the first time in 2011. Total harvest in 2011 constituted 1,712,068 tonnes.
- MHP's 2011 yields as usual are significantly higher than Ukraine's average per hectare, and higher than in 2010, particularly in corn.

Other agricultural operations

- Sales volumes of processed meat products, the main driver in other agricultural segment, increased by 12% to 37,000 tonnes in 2011 compared to 32,900 tonnes in 2010.
- MHP is a market leader with close to 10% market share in meat processing in Ukraine in 2011.

Key financial highlights

FY 2011 highlights

- Revenue increased by 30% to US$1,229 million (2010: US$944 million).
- EBITDA increased by 24% to US$401 million (2010: US$325 million).
- EBITDA margin remained relatively stable at 33% (2010: 34%)
- Net income from continuing operations increased by 18% to US$259 million (2010: US$215 million).

"MHP has continued to make great progress during the year, delivering a robust financial performance and executing its strategy efficiently and successfully".

Charles E Adriaenssen
Chairman

A clear and transparent framework

+ 24,800
Staff employed

400
Thousand tonnes of corn exported in 2011

I am immensely proud of the way MHP is developing as a company: we are maturing into an exceptionally well-managed and controlled organisation with a reputation for delivering what we promise. This year, we have gone further and exceeded the promises and expectations set at the beginning of 2011.

We are poised to become a European leader in chicken meat production. The completion of the Vinnytsia complex will deliver a step change in our output and performance and we are putting the building blocks in place for this next phase of our growth with care and precision.

Performance

I am delighted to report another year of strong growth in revenues and EBITDA. Revenues rose substantially to US$1,229 million (2010: US$944 million) up 30% with EBITDA increasing by 24% to US$401 million compared with US$325 million in 2010.

The increase in our land bank in 2010 by 100,000 hectares and a bumper harvest, combined with higher yields and experienced management, contributed to significantly higher grain production in the year. We were not only able to easily satisfy our own fodder needs for our livestock but also export over 400,000 tonnes of corn – driving up our foreign exchange income and creating a natural hedge against currency fluctuation.

Even though we have been generating the financial resources required to support our flagship Vinnytsia project, investment has been strictly controlled and our debt rating is stable, well within the limits of our covenants.

Markets

These results have been achieved against a backdrop of good GDP growth in the Ukraine, stable currency ratio and volatile grain and poultry prices. Our vertically integrated business model has mitigated the impact of high worldwide grain prices on our production of chicken meat whilst enabling us to take advantage of these prices for our exports. Even though we have been running at full capacity, we have maintained our market share domestically and also increased our focus on poultry exports with 10% of our production now going to markets in Central Asia and Middle East. We are gradually opening up new business partnerships in those regions ready for a long relationship, in preparation for our new poultry complex, Vinnytsia, coming on stream in 2013.

Corporate Governance

There were two significant changes to our Board during the year. Following the resignation of Yevhen Shatokhin from the Board in 2011, we recruited Yuriy Logush to head up our Consumer Products division and Yuriy Melnyk who is a head of Agricultural division of MHP. They joined the Board in October 2011. Yuriy brings a wealth of marketing and sales experience to the Board and his operational expertise and best practice knowledge will be invaluable to the Company.

We also added a further independent non-executive director to the Board, Philippe Lamarche, who joined in October 2011. A lawyer and banker by profession, he will bring additional international perspective to the Board.

The Board is now comprised of four independent non-executive and four executive directors, with a good balance of skills and expertise. The Board met four times during 2011 and undertook one field visit to the developing Vinnytsia complex. I believe we have a strong well-functioning Board that operates in a constructive, open environment but we continue to drive up our standards and keep the efficiency of the Board under review. This year we have focused specifically on improving internal audit and control and going forward, succession planning will be a key feature on our agenda.

People

As one of the largest employers in the agricultural sector in the Ukraine, we are deeply conscious of our responsibilities towards our 24,800 staff. We invest in building strong management teams to lead and motivate them and are continuously seeking to improve our human resources practices. We thank each and every one of them for their hard work and contribution to these impressive results.

Outlook

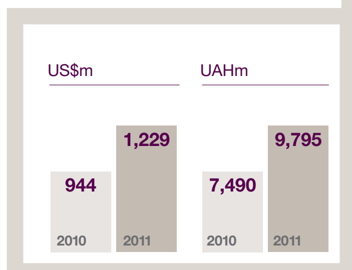
Overall, we are expecting a stable year with grain and chicken prices likely to continue rising. We have survived the imposition of export duties for crops in the middle of the year and continue to build a strong, responsive organisation.

2012 will be a year of preparation for the great leap forward in 2013 as Vinnytsia comes on stream, transforming the business over the next few years. Of course, this presents a challenge as well as an opportunity so we are strengthening the management team to support our rapid growth and ensuring we increase our sales and marketing expertise well in advance of the doubling of our capacity.

Although the potential devaluation of the Hryvnia would present a financial risk to the Company, we believe we are well protected from the impact of depreciation as 95% of our costs are in local currency and we would benefit from an increase in foreign currency revenues from our exports (sunflower oil, grain and chicken), which generated US$354 million in 2011 (2010: US$240 million). Poultry would represent better value for money for consumers compared with beef and pork if there was a any negative shift in living standards. In addition, prices would rise as the price of chicken domestically is dictated by demand and supply and import prices, which correlate with international poultry prices. At the same time Ukraine is one of the biggest grain producers in the world and exports lots of grain annually. Therefore domestic grain prices correlate with international one and usually are in hard currency. I am personally excited about the future and confident that the Company is in good shape to take advantage of the opportunities ahead.

30%

Revenue
Percentage increase
2010-2011



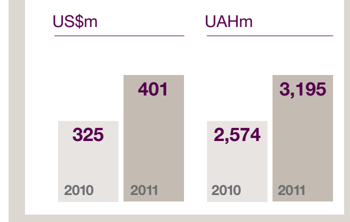
Meeting market demands

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

Yuriy Kosyuk
Chief Executive

24%

EBITDA
Percentage increase
in US$2010-2011



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 commence 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 of 384,000 tonnes.

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$944 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) and higher prices for sunflower oil worldwide.

EBITDA also grew strongly to US$401 million, a 24% 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$979million 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 stable poultry prices in the first half of 2011 in line with international poultry price trends. 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 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.

Financial review

MHP is one of Ukraine's leading agro-industrial companies, focused on producing of chicken and chicken products, processed meat products and grain growing. 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 Ukraine and around 33% of poultry consumption in 2011.

We also have one of the country's largest portfolios of agricultural land. At the end of 2011 we had more than 280,000 hectares of land under control, including 100,000 hectares acquired in 2010 and first time cultivated and harvested in 2011.

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 and related operations, Grain growing operations and Other agricultural operations.

Poultry and related operations segment produces and sells chicken and chicken products, sunflower oil, convenience food, mixed fodder and other products related to the poultry production process. In 2011 it accounted for 79.6% of total sales (2010: 84.8%) and 72.4% of total EBITDA (2010: 84.0%).

Grain growing operations segment produces feed grain for our own operations; a proportion is also sold to third parties. In 2011 grain sold to third parties constituted 8.4% of MHP's total revenue (2010: 3.8%) and 30.1% of total EBITDA (2010: 20.7%).

Other agricultural operations segment produces and sells sausages and cooked meat, as well as goose, foie gras, milk and other agricultural products. The segment was responsible for 11.9% of 2011 total sales (2010: 11.5%) and 4.1% of total EBITDA (2010: 2.9%).

Results

	2011 US$000	2010 US$000	Change %
Revenue	**1,229,090**	944,206	30%
Net change in fair value of bio-assets and agricultural produce	**21,288**	29,014	(27%)
Cost of sales	**(889,127)**	(680,637)	31%
Gross profit	**361,251**	292,583	23%
Gross margin, %	**29%**	31%	(2 pps)*
Selling, general and administrative expenses	**(106,447)**	(102,107)	4%
Government grants recognised as income	**87,985**	82,058	7%
Other operating expenses and income, net	**(22,045)**	(15,750)	40%
Operating profit	**320,744**	256,784	25%
Depreciation	**80,341**	67,902	18%
EBITDA	**401,085**	324,686	24%
EBITDA margin, %	**33%**	34%	(1 pps)*
Operating profit	**320,744**	256,784	25%
Finance costs	**(65,918)**	(62,944)	5%
Finance income	**6,356**	13,309	(52%)
Foreign exchange gains/(losses), net	**2,318**	10,965	(79%)
Other expenses and income, net	**(1,385)**	(793)	75%
Profit before tax	**262,115**	217,321	21%
Taxes	**(2,760)**	(1,873)	47%
Net income	**259,355**	215,448	20%
Net margin, %	**21%**	23%	(2 pps)*

* pps - percentage points.

All the key financial indicators during 2011 increased year-on-year as reported in local currency (hryvnia – UAH) as well as in US dollars, while margins slightly decreased.

In 2011, MHP's consolidated revenue from operations in UAH increased by 31% to UAH 9,795 million (2010: UAH 7,490 million), which was a result of the growth of chicken meat sales volumes and average price, growth of sunflower oil prices, high grain yields and increase of land harvested, providing additional volumes of grains for external sales. In US dollars the revenue was US$1,229.1 million, which is 30% more than US$944.2 million in 2010.

Gross profit from operations increased by 23% in hryvna's the same as in US dollars. Gross profit was UAH2,879 million or US$361.3 in 2011 against UAH2,319 million or US$292.6 million in 2010. Gross margin decreased from 31% in 2010 to 29% in 2011 mainly on account of Poultry segment's financial results.

EBITDA in local currency increased by 24% to UAH3,197 million (2010: UAH2,574 million) and in US dollars it increased by 24% to US$401.1 (2010: US$324.7 million). EBITDA margin slightly decreased from 34% to 33%.

Net income for the year from operations in UAH increased by 21% to UAH2,067 million (2010: of UAH1,708 million). In US dollars it grew by 20% to US$259.4 million (2010: US$215.4 million). Net margin decreased from 23% to 21%.

Income statement by segments in 2011

	Poultry US$000	Grain US$000	Other agricultural US$000	Unallocated US$000	Total US$000
Revenue					
Total revenue	1,015,252	221,570	151,683	–	1,388,505
Inter-segment eliminations	(36,381)	(117,831)	(5,203)	–	(159,415)
Sales to external customers	978,871	103,739	146,480	–	1,229,090
Net change in fair value of biological assets and agricultural produce	2,665	17,322	1,301	–	21,288
Gross Profit*	260,779	85,934	14,538	–	361,251
Selling, general and administrative expenses	(74,571)	–	(9,096)	(22,780)	(106,447)
Government grants, recognised as income	65,023	18,947	4,015	–	87,985
Other operating income/expenses, net	(14,629)	(595)	194	(7,015)	(22,045)
Segment result/operating profit	236,602	104,286	9,651	(29,795)	320,744
EBITDA	290,481	120,708	16,393	(26,497)	401,085
Finance cost					(65,918)
Finance income					6,356
Foreign exchange gains					2,318
Other expenses and income, net					(1,385)
Profit before tax					262,115
Income tax expenses					(2,760)
Net profit from operations					259,355

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

General tax system – tax legislation changes

The current Tax Code of Ukraine, which was enacted in December 2010, introduced gradual decreases in income tax rates over the following years as well as certain changes to the rules of income tax assessment. Tax rate was determined at 23% effective 1 April 2011, 21% effective 1 January 2012, 19% effective 1 January 2013 and 16% effective 1 January 2014.

In accordance with the 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 2011 state support was provided in the form of special tax regimes (VAT and Corporate Income Tax).

The majority of the Group's companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with Tax Code 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. According to the Tax Code, the special VAT regime for the agricultural industry will be effective through 1 January 2018.

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.

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. Almost 29% 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 hedged by its US dollar revenue earned from the export of sunflower oil, sunflower husks, chicken meat and grains. In 2011 the Company generated US$354 million of revenue in foreign currencies, which was 48% more than in the previous year (US$240 million in 2010).

	2011 US$000	2010 US$000
Sunflower oil and related products	**222,418**	188,156
Chicken meat and related products	**67,874**	29,147
Grains	**63,101**	22,454
Other agricultural segment products	**486**	290
Total export revenue	**353,879**	240,047

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

	As of 31 December 2011	Average for 2011	As of 31 December 2010	Average for 2010	As of 31 December 2009	Average for 2009
UAH/US$	**7.9898**	**7.9677**	7.9617	7.9353	7.9850	7.7916
UAH/EUR	**10.2981**	**11.0926**	10.5731	10.5313	11.4489	10.8736

Poultry and related operations

	2011 US$000	2010 US$000	Growth rate %
Revenue	**978,871**	800,237	22%
– Chicken meat and other	**762,841**	620,255	23%
– Sunflower oil	**216,030**	179,982	20%
IAS 41 standard gains	**2,665**	9,473	(72%)
Gross profit	**260,779**	239,717	9%
Gross margin	**27%**	30%	(3 pps)*
EBITDA	**290,481**	272,673	7%
EBITDA margin	**30%**	34%	(4 pps)*
EBITDA per 1kg of chicken meat	**0.78**	0.82	(5%)

* pps - percentage points.

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 79.6% of MHP total revenue from continuing operations (2010: 84.8%) and 72.4% of its EBITDA (2010: 84.0%).

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 2011, MHP's chicken meat sales volumes to the third parties on an adjusted-weight basis increased by 12% to 370,900 tonnes from 331,400 tonnes in 2010. The produced volume growth was a result of more effective use of existing production capacities in spite of all the MHP's existing poultry production facilities operate at their full production capacity during 2011. However Ukraine's total poultry production volumes in 2011 increased by merely 6%.

Consumer demand for chicken meat remained high in 2011 as a consequence of decrease of imported meat volumes and their substitution by locally produced poultry. All MHP's poultry production units continued to operate at 100% capacity utilisation and the Group was able to sell close to 100% of the chicken produced.

The average sales price of chicken meat increased by 10% to UAH 15.00 per kg (net of VAT) in 2011 from UAH 13.65 (net of VAT) per kg in 2010. The chicken meat price growth was the result of the grain price increase in Ukraine and worldwide at

the end of 2010 and following the world poultry price trends during 2011. Growth of chicken prices was moderate during H1 2011 due to oversupply of pork from small and ineffective producers, suffering from grain increased prices, while during H2 2011 chicken meat prices grew by 19% year-on-year.

MHP produces sunflower oil as a by-product of using sunflower seeds in the manufacture of chicken feed. Almost 100% of the produced sunflower oil is exported. In 2011 173,600 tonnes of sunflower oil were produced. In comparison to 2010 the volume of oil sold decreased by 11% that is the consequence of a partial purchase of sunflower meal at attractive price. Average price of sunflower oil increased by 35% from 919 US$/t in 2010 to 1,245 US$/t in 2011 in line with world market trends. As a result, US dollar revenue from the sale of sunflower oil rose by 20% to US$216.0 million (2010: US$180.0 million).

The total Poultry segment revenue amounted to US$978.9 million, which is 22% more than the segment revenue of US$800.2 million in 2010. The main driver of the segment revenue increase was simultaneous considerable growth of poultry sales volume and average price, as well as growth of sunflower oil prices in line with global market price.

EBITDA per 1 kg of chicken meat produced remained relatively at the same level and constituted US$0.78 (2010: US$0.82).

Poultry production costs in 2011 increased by around 15% against 2010, which is the common trend for most meat producing companies worldwide last year. Such dynamics accounted for market grain prices growth during the marketing year 2011 and utilities prices growth during 2011.

The Poultry segment's cost of raw materials and other inventory 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 Group's grain growing division.

The gross profit of the poultry segment increased only by 9% from US$239.7 million in 2010 to US$260.8 million in 2011, while the gross profit margin decreased from 30% in 2010 to 27% in 2011.

EBITDA of poultry segment increased by 7% to US$290.5 million in 2011 (2010: US$272.7 million). EBITDA margin decreased from 34% in 2010 to 30% in 2011 due to the modest chicken price growth in H1 2011. However, the decline of EBITDA margin in Poultry segment was compensated by higher financial results in Grain growing segment.

Grain growing

	2011 US$000	2010 US$000	Growth rate %
Revenue	**103,739**	35,631	191%
IAS 41 standard gains	**17,322**	17,019	2%
Gross profit	**85,934**	46,378	85%
EBITDA	**120,708**	67,162	80%
EBITDA per 1 hectare harvested	**482**	458	5%

In 2011, the division harvested 250,200 hectares of crops, whereas only 150,000 hectares were cultivated in Grain growing segment in 2010. The Company's total land bank remained 280,000 hectares, the same as at the end of 2010 while harvest increased to 1.7 million tonnes of grains, almost twice higher compared to 2010.

MHP grows four major crops: corn and sunflowers, which are used in its own operations; and wheat and rape, which are sold to the third parties. About 40% of corn harvested in 2011 is also selling externally, increasing the reports revenue of grain growing segment in 2011 with the rest to be sold in 2012.

Ukraine's harvest as well as MHP's harvest in 2011 was considerable due to good weather conditions. Ukraine's average yields of corn and wheat were very high, moreover, MHP obtained even higher yields per hectare.

Revenue from the Grain division was US$103.7 million in 2011, which is 191% more than in 2010. The reasons of high growth of revenue were the increase of cropped land, the great increase in yields and external sales of excess of corn. MHP currently uses the majority of the grain it produces in its own operations, but a considerable part of grain was sold to third parties and constituted the revenue of Grain growing segment.

EBITDA per 1 hectare in 2011 remained almost the same as in 2010 (US$482 per ha in 2011 versus US$458 per ha in 2010), taking into account that 100,000 hectares added in 2010 were first year cultivated by MHP in 2011.

The Grain growing segment'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.

Financial review continued

Other agricultural operations

	2011 US$000	2010 US$000	Change %
Revenue	**146,480**	108,338	35%
– Meat processing	**99,740**	79,185	26%
– Other	**46,740**	29,153	60%
IAS 41 standard gains	**1,301**	2,522	(48%)
Gross profit	**14,538**	6,488	124%
Gross margin	**10%**	6%	4 pps*
EBITDA	**16,393**	9,323	76%
EBITDA margin	**11%**	9%	2 pps*

* pps - percentage points. In %, unless otherwise indicated.

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

Revenue from Other agricultural operations amounted to US$146.5 million, which is 35% more than in previous year (2010: US$108.3 million). The considerable growth of segment's revenue was mainly a result of even increase in sales volumes and prices of meat processing products during 2011. MHP's sausage and cooked meat production volumes increased by 12% to 37,000 tonnes in 2011 compared to 32,900 tonnes in 2010.

Average sausage and cooked meat prices rose by 14% to UAH 20.01 per kg excluding VAT in 2011 from UAH 17.59 UAH per kg in 2010. MHP is a market leader in meat processing in Ukraine and current market share of MHP constitutes about 10%.

The cost of raw materials and other inventory primarily consists of seeds, fertilisers, pesticides (as a part of own produced feed for animals) and also bio additions, veterinary. In addition, costs include payroll expenses, depreciation of agricultural machinery, equipment and buildings, and fuel, electricity and natural gas used in the production process.

More than 50% of the meat required for the Company's meat processing operations is internally produced chicken meat.

Financial results of Other agricultural segment in 2011 were mainly driven by meat processing operations, fruits and farming activities. Gross profit of Other agricultural operations segment was US$14.5 million in 2011, which is 124% more than in 2010 (2010: US$6.5 million). Divisional EBITDA increased by 76% to US$16.4 million in 2011 from US$9.3 million in 2010 and EBITDA margin increased to 11% in 2011 (2010: 9%).

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 from changes in working capital. Cash generated from operating activities before change in working capital was US$322.8 million (2010: US$263.2 million).

In 2011, the total increase in working capital was US$125 million. The main contributors to this increase were:

- VAT recoverable related to intensive CAPEX programme (US$47.1 million)
- Increase in agricultural produce, mainly grains (US$43.2 million)
- Some technology changes in grain growing segment with increased proportion of fertilizers application in autumn in 2011/2012 sowing campaign (US$20.0 million)
- Trade accounts receivables increase due to higher chicken meat and sunflower oil prices (US$13.0 million).

Cash flows

	2011 US$000	2010 US$000
Operating Activities		
Operating profit before movements in working capital changes	**322,809**	263,231
Change in working capital	**(125,148)**	(166,651)
Net cash generated from operating activities	**197,661**	96,580
Investing Activities		
CAPEX	**(332,453)**	(222,819)
Including non-cash investments	**85,902**	20,335
Assets sale and other	**(729)**	(190)
Deposits	**126,143**	(127,054)
Net cash used in investing activities	**(121,137)**	(329,728)
Financing Activities		
Net cash generated from financing activities	**(21,114)**	250,150
Including Treasury shares acquisition	**–**	(46,288)
Net increase in cash and cash equivalents	**55,410**	17,002
Effects of exchange rates	**27**	71
Total change in cash	**55,437**	17,073

In 2011 our total capital expenditure of US$332.5 million was mostly related to the Vinnytsia project financing. Since the start of the Vinnytsia project in the second half of 2010, approximately US$360.0 million was invested in the project at the end of 2011.

Debt

	31.12.2011	31.12.2010
Total Debt US$, m	**898**	832
Long Term Debt	**708**	658
Short Term Debt	**190**	174
Cash and bank deposits	**(97)**	(174)
Net Debt	**801**	658
EBITDA	**401**	325
Debt/EBITDA	**2.24**	2.56
Net Debt/EBITDA	**2.00**	2.03

As at 31 December 2011, the Company's total debt was US$898.0 million, most of which was denominated in US dollars. The weighted average interest rate was approximately 9%.

Currently US$567.0 million of debt is in Eurobonds, which are not redeemable until April 2015.

US$100.0 million of our long-term debt is principally represented by loans, covered by ECA; it matures at various times up to 2018 according to the schedule.

US$37.0 million of our long-term debt is accounted for by IFC and EBRD three year loans for financing the Company's working capital needs.

US$52.0 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 the export of sunflower oil, sunflower husks and chicken meat are denominated in US dollars, fully covering debt service expenses.

At the end of 2011 MHP had US$96.5 million in cash and short term bank deposits including approximately US$72.0 million denominated in US dollar.

Outlook

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

In the middle of 2012 we plan to commence trial production at Vinnytsia, testing equipment, processes and resources, to be ready for a strong launch in early 2013. Until production at Vinnytsia commences in 2013 our poultry production growth will be limited as operations are already at 100% capacity. Therefore, we are going to concentrate our efforts on increasing our share of value added high margin products in our product mix.

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

In Grain growing segment in 2012 we expect good harvest in spite of challenging weather conditions during autumn and winter.

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 keep on delivering strong financial results solidifying our position as one of the leading agro-industrial companies in Ukraine.

Board of directors

Charles E Adriaenssen, Age 55
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. Between 2000 and 2004 he was between 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 degree in Law from the University of Antwerp.

Yuriy Kosyuk, age 43
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 42
Chief Financial Officer
Executive Director
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.

Philippe Lamarche, age 43
Non-Executive Director
Mr. Philippe Lamarche joined the board in 2011. He is Private Banker of Banque Puilaetco Dewaay, Luxembourg and has been involved in wealth management and structuring in Luxembourg since 1997. He previously worked as a solicitor in the shipping business in Belgium and Luxembourg, has a degree in Law and Economics of The Catholic University of Louvain. Philippe Lamarche also holds a degree of the European Association of Financial Analysts.

Yuriy Melnyk, age 49
Executive Director
Yuriy Melnik is a scientist focusing on animals breeding and selection, doctor of agricultural sciences, senior researcher, academician of Ukrainian National Academy of Agricultural Sciences.
He was born 5 August, 1962 in Cherkassy region. In 1985 he graduated Ukrainian Agricultural Academy, Zooengineering faculty, breeding department. From 1997 to 1998 he headed the Office of production and marketing of animal products with state breeding inspection of Ministry of Agriculture. He hold the position of Deputy Minister of agriculture until March 2000, Deputy Minister of Agrarian policy, adviser to the Prime Minister of Ukraine. From 2006 to 2010 he hold the post of Minister of Agrarian Policy of Ukraine. Since March 2010 Yuriy Melnik is the First Deputy CEO of "MHP."

Yuriy Logush, age 66
Executive Director
Dr. Logush became Vice President and Director of the Consumer Products Division in August 2011. Before MHP, while at Kraft Foods for 16 years, he was Vice President for Ukraine, Eastern Europe, and Central Asia, as well as a member of the Board of Management for Central and Eastern Europe, Middle East, Africa. Prior to that, Yuriy had founded RJ Reynolds Tobacco (1992) and KPMG (1994) in Ukraine. In the US, he was Professor and Associate Dean at the Graduate School of Business of Fordham University, New York City, from 1975 to 1992. He also started-up and served as COO and CFO of the Garden State Health Plan HMO (1980-1992). Yuriy has had extensive consulting experience in the US, Poland, and Romania. He holds a doctorate in Econometrics and Mathematical Economics from New York University (1973).

Dr John C Rich, age 58
Non-Executive Director
Dr Rich joined the board in 2006. He is acting CEO and member of the board of Soktas (Agribusiness and Textile Group in Turkey and India) Director of Australian Agricultural Nutrition and Consulting Pty Ltd (AANC) and is a specialist agri-business consultant for the IFC (World Bank Group) and IFC invested clients. From 1990 to 2003, he was the founding shareholder and 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 specialized 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.

John Grant, age 66
Non-Executive Director
Chairman of the Audit Committee
Mr Grant is a non-executive director of Melrose plc, Pace plc and Wolfson Microelectronics plc. He was previously Chairman of Gas Turbine Efficiency plc , Torotrak plc and a number of private companies, and a non-executive director of National Grid plc and Corac Group plc. In his executive career, he was Chief Executive of Ascot plc from 1997 to 2000, prior to which he was Finance Director of Lucas Industries plc and 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 and in the UK Corporate Governance Code. MHP has a clear and transparent corporate governance framework and provides adequate disclosure.

Board of directors

The Board is responsible for the overall conduct of the Company's business and has the powers, authorities and duties vested in it by and pursuant to the relevant Luxembourg law and the articles of association of the Company.

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 eight directors, four of which are independent and elected until 31 December 2012. In November 2011 the Board designated Mr John Grant as the Senior Independent Director. The Senior Independent Director is available to shareholders if they have any concerns that they cannot resolve through the normal channels of contact. The Senior Independent Director also provides a sounding board for the Chairman, is responsible for the evaluation of the Chairman and serves as a trusted intermediary for non-executive directors as and when necessary.

In 2011, the Board conducted an annual effectiveness review in order to evaluate its performance as well as that of its committees and individual Directors. The evaluation process was initiated by a questionnaire and then supplemented by individual interviews by the Chairman with each of the Directors. The conclusions will be analysed by the Board to further strengthen its composition and performance.

During the year, the Board comprised:
Charles E Adriaenssen, Non-executive Chairman
Yuriy A Kosiuk, Chief Executive Officer
Viktoria B Kapeliushnaia, Chief Financial Officer
Yuriy Melnyk, Director (since 19 October 2011)
Yuriy Logush, Director (since 19 October 2011)
Artur Futyma, (until 20 September 2011)
Yevhen Shatokhin (until 10 May 2011)
Dr John C Rich, Non-executive Director
John Grant, Non-executive Director,
Senior Independent Director
Philippe Lamarche, Non-executive Director
(since 19 October 2011)

The average attendance by Directors of the Board's meetings during 2011 was at the level of 95%.

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 2012. 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, Mr Grant and Mr Lamarche provide for payment of compensation and the reimbursement of certain expenses.

Ms Kapeliushnaua, Mr Melnyk and Dr Logush do not receive compensation for their service as directors of MHP S.A. in addition to their remuneration as executive management of PJSC MHP or the relevant subsidiary. The terms and conditions for Mr Kosiuk'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 Kosiuk 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 Kosiuk 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. During 2011, the committee held four meetings, and all of the committee members attended.

Audit committee

John Grant, Chairman
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 internal audit function, financial reporting and internal control principles, and the appointment, compensation, retention and oversight of the company's independent auditors.

Starting from May 2011, the audit committee is comprised exclusively of non-executive directors. Decisions are taken by a majority vote. In the event of an unequal vote, the Chairman of the committee has the casting vote.

During 2011, the committee held four meetings, and all of the committee members attended.

Remuneration of auditors

Remuneration of auditors amounted to US$1.0 million, US$1.0 million, US$1.0 million in 2011, 2010 and 2009 respectively.

Auditor's remuneration is mainly attributable to the audit services and services provided in respect to bonds issued in 2010 but also includes tax consulting fees of around 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 and with the UK Corporate Governance Code. The Audit Committee is responsible for overseeing internal control and risk management, and for monitoring its effectiveness. In 2011, the Company established an independent internal audit function whose activities are overseen by the Audit Committee.

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 (excluding compensation to Yuriy Kosiuk), included in selling, general and administrative expenses in the accompanying consolidated statements of comprehensive income, amounted to US$8,741 thousand, US$15,514 thousand and US$8,652 thousand for the years ended 31 December 2011, 2010 and 2009, respectively. Total compensation consists of contractual salary and performance bonuses.

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 new reporting standards and works closely with the external auditors in evaluating in advance the potential impact of these standards.

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 PJSC MHP has a share option plan and no share options have been granted to members of the Board of Directors, members of MHP's senior management or employees.

Directors report

The directors present their annual report and audited financial statements for the year ended 31 December 2011.

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 280,000 hectares of land. It incorporates a number of arable farms and grain storage facilities.

Other agricultural operations segment

This division produces and sells sausages and cooked meat, beef, goose and foie gras, and fruits. It incorporates one mixed farm, a goose farm and two facilities for producing prepared meat products. More information about the operations of the business is set out in the Chairman's Statement on page 7, the Chief Executive Officer's review on pages 11-13, and the Business review on pages 14-23.

Future developments

The group's strategy is:

- to expand its capacity to produce chicken and chicken products in a domestic market which has a 46 million population and one of the world's lowest rates of meat consumption per capita;
- to expand its grain production to around 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.

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 2012 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 during the year

The following served as directors of the company during the year ended 31 December 2010.
Charles E Adriaenssen, Non-executive Chairman
Yuriy Kosiuk, Chief Executive Officer
Viktoria B Kapelyushnaia, Chief Financial Officer
Yuriy Melnyk, Deputy CEO (since 19 October 2011)
Yuriy Logush, Vice President, Consumer Products Division (since 19 October 2011)
Artur Futyma, Deputy CEO (until 20 September 2011)
Yevhen H Shatokhin, Deputy Chairman, Head of Sales (until 10 May 2011)
Dr John C Rich, Non-executive Director
John Grant, Non-executive Director
Philippe Lamarche, Non-executive Director (since 19 October 2011)

The directors' biographies are on pages 12-13 of this report.

Election and re-election of directors

Details of the procedure for election and re-election of directors is in the Corporate governance report on page 36 of this report.

Annual General Meeting (AGM)

The AGM will be held at the company's registered office in Luxembourg at 12 noon on 27 April 2012.

Disclosure of information to auditors

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

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

For the year ended 31 December 2011

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 2011 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, 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.

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 2011 were authorized for issue by the Board of Directors on 19 March 2012.

On behalf of the Board:

Yuriy Kosiuk
Chief Executive Officer

Viktoria Kapeliushnaia
Chief Financial Officer

Independent Auditors' Report

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

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated 27 April 2011, we have audited the accompanying consolidated financial statements of MHP S.A., which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors' 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, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted 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 consolidated financial position of MHP S.A. as of 31 December 2011, and of its financial performance and its consolidated 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.

The corporate governance statement in the annual report, which is the responsibility of the Board of Directors, includes the information required by the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to article 68bis paragraphs c and d of the aforementioned law is consistent with the consolidated financial statements.

For Deloitte Audit
société à responsabilité limitée
Cabinet de révision agréé

Sophie Mitchell
Réviseur d'enterprises agréé
Partner

19 March 2012
560, rue de Neudorf
L-2220 Luxembourg

Consolidated statements of comprehensive income

for the year ended 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

	Notes	2011	2010	2009
Revenue	6	**1,229,090**	944,206	711,004
Net change in fair value of biological assets and agricultural produce	5	**21,288**	29,014	35,236
Cost of sales	7	**(889,127)**	(680,637)	(499,163)
Gross profit		**361,251**	292,583	247,077
Selling, general and administrative expenses	8	**(106,447)**	(102,107)	(80,972)
VAT refunds and other government grants income	9	**87,985**	82,058	67,812
Other operating expenses, net	10	**(22,045)**	(15,750)	(14,633)
Operating profit before impairment of property, plant and equipment		**320,744**	256,784	219,284
Impairment of property, plant and equipment		**–**	–	(1,304)
Operating profit		**320,744**	256,784	217,980
Finance income		**6,356**	13,309	3,823
Finance costs	11	**(65,918)**	(62,944)	(50,817)
Foreign exchange gain/(loss), net		**2,318**	10,965	(23,580)
Other (expenses)/income		**(1,385)**	(793)	696
Gain realized from acquisitions and changes in non-controlling interest in subsidiaries, net		**–**	–	5,413
Other expenses, net		**(58,629)**	(39,463)	(64,465)
Profit before tax		**262,115**	217,321	153,515
Income tax (expense)/benefit	12	**(2,760)**	(1,873)	6,488
Profit for the year		**259,355**	215,448	160,003
Other comprehensive income/(loss)				
Effect of revaluation of property, plant and equipment		**–**	–	11,912
Deferred tax charged directly to revaluation reserve		**–**	–	(2,541)
Cumulative translation difference		**(3,040)**	770	(15,822)
Other comprehensive (loss)/income for the year		**(3,040)**	770	(6,451)
Total comprehensive income for the year		**256,315**	216,218	153,552
Profit attributable to:				
Equity holders of the Parent		**243,376**	205,395	148,564
Non-controlling interest		**15,979**	10,053	11,439
		259,355	215,448	160,003
Total comprehensive income attributable to:				
Equity holders of the Parent		**240,336**	206,165	142,113
Non-controlling interest		**15,979**	10,053	11,439
		256,315	216,218	153,552
Earnings per share				
Basic and diluted earnings per share (USD per share)	36	**2.26**	1.88	1.34

On behalf of the Board:

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The accompanying notes on the pages 24 to 58 form an integral part of these consolidated financial statements

Consolidated statements of financial position

as of 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

	Notes	**31 December 2011**	31 December 2010	31 December 2009
ASSETS				
Non-current assets				
Property, plant and equipment	13	**1,008,923**	744,965	634,269
Land lease rights, net	14	**27,227**	23,216	854
Deferred tax assets	12	**7,795**	5,190	10,183
Long-term VAT recoverable, net	15	**24,850**	24,017	20,670
Non-current biological assets	16	**46,327**	43,288	36,235
Long-term bank deposits		6,017	**–**	–
Other non-current assets	17	**14,476**	14,251	8,717
		1,135,615	**854,927**	710,928
Current assets				
Inventories	18	**182,240**	132,591	106,805
Biological assets	16	135,990	**116,310**	98,433
Agricultural produce	19	**169,022**	113,850	66,227
Other current assets, net	20	**21,989**	21,331	15,297
Taxes recoverable and prepaid, net	21	**137,175**	107,824	66,958
Trade accounts receivable, net	22	**65,794**	53,395	43,377
Short-term bank deposits	23	**1,777**	134,460	7,632
Cash and cash equivalents	24	**94,758**	39,321	22,248
		808,745	**719,082**	426,977
TOTAL ASSETS		1,944,360	**1,574,009**	1,137,905
EQUITY AND LIABILITIES				
Equity				
Share capital	25	**284,505**	284,505	284,505
Treasury shares		(40,555)	**(40,555)**	–
Additional paid-in capital		179,565	**179,565**	178,815
Revaluation reserve		18,781	**18,781**	18,781
Retained earnings		679,815	**436,439**	231,044
Translation reserve		(240,791)	**(237,751)**	(238,521)
Equity attributable to equity holders of the Parent		881,320	**640,984**	474,624
Non-controlling interests		44,489	**29,384**	19,784
Total equity		925,809	**670,368**	494,408
Non-current liabilities				
Bank borrowings	26	**109,108**	58,426	56,043
Bonds issued	27	**567,000**	562,886	248,046
Finance lease obligations	28	**32,558**	37,389	44,856
Deferred tax liabilities	12	**2,207**	2,502	8,970
		710,873	**661,203**	357,915
Current liabilities				
Trade accounts payable	29	**52,689**	19,012	72,380
Other current liabilities	30	**53,269**	38,042	45,428
Bank borrowings	26	**170,380**	140,092	139,790
Bonds issued	27	**–**	9,892	–
Accrued interest	27	12,073	**11,573**	3,526
Finance lease obligations	28	**19,267**	23,827	24,458
		307,678	**242,438**	285,582
TOTAL LIABILITIES		1,018,551	**903,641**	643,497
TOTAL EQUITY AND LIABILITIES		1,944,360	**1,574,009**	1,137,905

On behalf of the Board:

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The accompanying notes on the pages 24 to 58 form an integral part of these consolidated financial statements

Consolidated statements of changes in equity

for the year ended 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

	Attributable to equity holders of the Parent								
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve	Retained earnings	Translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2009	284,505	–	178,815	9,410	82,480	(222,699)	332,511	13,706	346,217
Profit for the year	–	–	–	–	148,564	–	148,564	11,439	160,003
Other comprehensive income/(loss)	–	–	–	9,371	–	(15,822)	(6,451)	–	(6,451)
Total comprehensive income/(loss) for the year	–	–	–	9,371	148,564	(15,822)	142,113	11,439	153,552
Acquisition and changes in non-controlling interests in subsidiaries (Note 2)	–	–	–	–	–	–	–	(5,361)	(5,361)
Balance at 31 December 2009	284,505	–	178,815	18,781	231,044	(238,521)	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	–	–	–	–	205,395	770	206,165	10,053	216,218
Acquisition of treasury shares (Note 25)	–	(46,288)	–	–	–	–	(46,288)	–	(46,288)
Treasury shares disposed of under a compensation scheme (Note 25)	–	5,733	750	–	–	–	6,483	–	6,483
Dividends declared by subsidiary	–	–	–	–	–	–	–	(453)	(453)
Balance at 31 December 2010	284,505	(40,555)	179,565	18,781	436,439	(237,751)	640,984	29,384	670,368
Profit for the year	–	–	–	–	243,376	–	243,376	15,979	259,355
Other comprehensive loss	–	–	–	–	–	(3,040)	(3,040)	–	(3,040)
Total comprehensive income for the year	–	–	–	–	243,376	(3,040)	240,336	15,979	256,315
Dividends declared by subsidiary	–	–	–	–	–	–	–	(601)	(601)
Acquisition and changes in non-controlling interests in subsidiaries	–	–	–	–	–	–	–	(273)	(273)
Balance at 31 December 2011	284,505	(40,555)	179,565	18,781	679,815	(240,791)	881,320	44,489	925,809

On behalf of the Board:

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The accompanying notes on the pages 24 to 58 form an integral part of these consolidated financial statements

Consolidated cash flow statements

for the year ended 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

	2011	2010	2009
Operating activities			
Profit before tax	**262,115**	217,321	153,515
Non-cash adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortization expense	**80,341**	67,902	51,677
Net change in fair value of biological assets and agricultural produce	**(21,288)**	(29,014)	(35,236)
Gain realized from acquisitions and changes in non-controlling interest in subsidiaries, net	**–**	–	(5,413)
Change in allowance for irrecoverable amounts and direct write-offs	**18,888**	8,264	9,594
Impairment of property, plant and equipment	**–**	–	1,304
Loss/(gain) on disposal of property, plant and equipment and other non-current assets	**551**	1,931	(8)
Bonus to key management personnel settled in treasury shares	**–**	6,483	–
Finance income	**(6,356)**	(13,309)	(3,823)
Finance costs	**65,918**	62,944	50,817
Unrealised foreign exchange (gain)/loss, net	**(2,519)**	(10,965)	23,580
Operating cash flows before movements in working capital	**397,650**	311,557	246,007
Working capital adjustments			
Change in inventories	**(29,033)**	(23,962)	(62,259)
Change in biological assets	**(13,011)**	(4,868)	(10,580)
Change in agricultural produce	**(43,290)**	(21,768)	(8,767)
Change in other current assets	**(886)**	(5,130)	439
Change in taxes recoverable and prepaid	**(47,103)**	(47,919)	(42,340)
Change in trade accounts receivable	**(12,666)**	(10,744)	(14,459)
Change in other liabilities	**7,491**	256	12,191
Change in trade accounts payable	**13,350**	(52,516)	48,051
Cash generated by operations	**272,502**	144,906	168,283
Interest received	**6,645**	12,924	3,737
Interest paid	**(77,239)**	(58,134)	(47,494)
Income taxes paid	**(4,247)**	(3,116)	(1,464)
Net cash flows from operating activities	**197,661**	96,580	123,062
Investing activities			
Purchases of property, plant and equipment	**(234,895)**	(139,157)	(135,257)
Acquisition of land lease rights	**(5,424)**	(4,767)	–
Purchases of other non-current assets	**(4,093)**	(2,883)	(3,445)
Proceeds from disposals of property, plant and equipment	**369**	703	1,545
Purchases of non-current biological assets	**(2,139)**	(3,610)	(5,604)
Acquisition of subsidiaries, net of cash acquired	**–**	(38,659)	–
Financing provided in relation to acquisition of subsidiaries	**–**	(13,408)	–
Investments in long-term deposits	**(6,017)**	–	–
Investments in short-term deposits	**(52,259)**	(164,662)	(7,608)
Withdrawals of short-term deposits	**184,419**	37,608	25,330
Loans provided to employees, net	**(1,098)**	(993)	(758)
Loans repaid by/(provided to) related parties, net	**–**	100	(70)
Net cash flows used in investing activities	**(121,137)**	(329,728)	(125,867)

Consolidated cash flow statements continued

for the year ended 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

	2011	2010	2009
Financing activities			
Proceeds from bank borrowings	**158,071**	565,134	447,037
Repayment of bank borrowings	**(142,867)**	(560,309)	(446,068)
Proceeds from bonds	**–**	323,018	–
Repayment of bonds	**(9,976)**	–	–
Repayment of finance lease obligations	**(25,740)**	(24,532)	(22,957)
Proceeds from other financing received	**–**	–	6,366
Repayment of other financing	**–**	(6,420)	(12,554)
Dividends paid by subsidiary to non-controlling shareholders	**(602)**	(453)	–
Acquisition of treasury shares	**–**	(46,288)	–
Net cash flows from financing activities	**(21,114)**	250,150	(28,176)
Net increase/(decrease) in cash and cash equivalents	**55,410**	17,002	(30,981)
Net foreign exchange difference	**27**	71	(843)
Cash and cash equivalents at 1 January	**39,321**	22,248	54,072
Cash and cash equivalents at 31 December	**94,758**	39,321	22,248
Non-cash transactions			
Additions of property, plant and equipment under finance leases	**13.895**	16,365	22,118
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor	**72,007**	3,970	4,489

On behalf of the Board:

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

The accompanying notes on the pages 24 to 58 form an integral part of these consolidated financial statements

Notes to the consolidated financial statements

For the year ended 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

1. Corporate information

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 PJSC "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-1882 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 the year ended 31 December 2011 the Group employed about 24,800 people (2010: 22,000 people, 2009: 22,000 people).

The Group has been undertaking a large-scale investment program 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 the 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 Vinnytsya poultry complex. During the year ended 31 December 2011 construction works at Vinnytsia complex was performed as scheduled and the Group completed construction of two grain storage facilities of the 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 14).

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent's effective ownership interest as of 31 December 2011, 2010 and 2009 were as follows:

Name	Country of registration	Year established/ acquired	Principal activities	2011	2010	2009
Raftan Holding Limited	Cyprus	2006	Sub-holding Company	**100.0%**	100.0%	100.0%
MHP	Ukraine	1998	Management, marketing and sales	**99.9%**	99.9%	99.9%
Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv	Ukraine	1998	Fodder and sunflower oil production	**88.5%**	88.5%	88.5%
Peremoga Nova	Ukraine	1999	Chicken farm	**99.9%**	99.9%	99.9%
Druzhba Narodiv Nova	Ukraine	2002	Chicken farm	**99.9%**	99.9%	99.9%
Oril-Leader	Ukraine	2003	Chicken farm	**99.9%**	99.9%	99.9%
Tavriysky Kombikormovy Zavod	Ukraine	2004	Fodder production	**99.9%**	99.9%	99.9%
Ptahofabryka Shahtarska Nova	Ukraine	2003	Breeder farm	**99.9%**	99.9%	99.9%
Myronivska Pticefabrica	Ukraine	2004	Chicken farm	**99.9%**	99.9%	99.9%
Starynska Ptahofabryka	Ukraine	2003	Breeder farm	**94.9%**	94.9%	94.9%
Ptahofabryka Snyatynska Nova	Ukraine	2005	Geese breeder farm	**99.9%**	99.9%	99.9%
Zernoproduct	Ukraine	2005	Grain cultivation	**89.9%**	89.9%	89.9%
Katerynopilsky Elevator	Ukraine	2005	Fodder production and grain storage, sunflower oil production	**99.9%**	99.9%	99.9%
Druzhba Narodiv	Ukraine	2006	Cattle breeding, plant cultivation	**99.9%**	99.9%	99.9%
Crimean Fruit Company	Ukraine	2006	Fruits and grain cultivation	**81.9%**	81.9%	81.9%
NPF Urozhay	Ukraine	2006	Grain cultivation	**89.9%**	89.9%	89.9%
Agrofort	Ukraine	2006	Grain cultivation	**86.1%**	86.1%	86.1%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	**99.9%**	99.9%	n/a
Ukrainian Bacon	Ukraine	2008	Meat processing	**79.9%**	79.9%	79.9%

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

2. Changes in the group structure

The Group did not make any significant acquisitions or disposals during the year ended 31 December 2011, although there was an immaterial acquisition of a non-controlling interests, which was recognised in equity.

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 and 2009.

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 following the acquisition and as of 31 December 2010 was 99.9%.

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

	2010
Property, plant and equipment	16,463
Land lease rights, net	18,801
Non-current biological assets	3,482
Agricultural produce	5,274
Biological assets	5,827
Inventories	1,076
Taxes recoverable and prepaid, net	1,086
Trade accounts receivable, net	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 17)*	2,812
Cash consideration paid	(38,713)
Cash acquired	54
Net cash outflow 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. Had the transactions related to acquisitions as discussed above, occurred on 1 January 2010 , "Pro forma" revenue and profit for the year ended 31 December 2010 would have been USD 957,497 thousand and USD 217,734 thousand, respectively. "Pro forma" earnings per share would have been USD 1.9 per share.

These "pro forma" revenue and profit measures for the year 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 annualized 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.

Changes in non-controlling interests in subsidiaries

Druzhba Narodiv Nova

In September 2009, as a result of transfer of treasury shares held by Druzhba Narodiv Nova ("Druzhba") to MHP, the Group increased its effective ownership in Druzhba to 99.9%. The gain on the transfer in the amount of USD 304 thousand was recognized in these consolidated financial statements in "Gain realized from acquisitions and changes in non-controlling interests in subsidiaries" line of statement of comprehensive income.

Starynska Ptahofabryka

In April 2009 the Group increased the share capital of Starynska Ptahofabryka by USD 2,594 thousand, which resulted in dilution of the non-controlling interests. As a result, the Group's effective ownership interest increased to 94.9%. The resulting effect of change in non-controlling interests in the amount of USD 5,109 thousand was recognized in these consolidated financial statements in "Gain realized from acquisitions and changes in non-controlling interests in subsidiaries, net" line of statement of comprehensive income.

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, either individually or in aggregate.

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 accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:
- IAS 24 "Related Party Disclosures" – Revised definition of related parties. Effective 1 January 2011
- IAS 32 "Financial Instruments: Presentation" – Amendments relating to classification of rights issues. Effective 1 February 2010
- IFRIC 14 "Prepayments of a Minimum Funding Requirement" – Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Effective 1 January 2011

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Disclosures (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Euroland, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

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:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Replacement of "fixed dates" for certain exceptions with "the date of transition to IFRSs" and Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
Amendments to IFRS 7 "Financial instruments: Disclosures" – Transfers of financial assets	1 July 2011
Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets	1 July 2012
Amendments to IAS 1 "Presentation of Financial Statements" – To revise the way other comprehensive income is presented	1 July 2012
IAS 27 "Separate Financial Statements" (revised 2011)	1 January 2013
IAS 28 "Investments in Associates and Joint Ventures" (revised 2011)	1 January 2013
IFRS 10 "Consolidated Financial Statements"	1 January 2013
IFRS 11 "Joint Arrangements"	1 January 2013
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2013
IFRS 13 "Fair Value Measurement"	1 January 2013
Amendments to IAS 19 "Employee benefits" – Post employment benefits and termination benefits projects	1 January 2013
Amendments to IFRS 7 "Financial instruments: Disclosures" – Offsetting of financial assets and financial liabilities	1 January 2013
Amendments to IAS 32 "Financial instruments: Presentation" – Application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS 9	1 January 2015
IFRS 9 "Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition"	1 January 2015

Management is currently evaluating the impact of the adoption of IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement", amendment to IFRS 7 "Financial instruments: Disclosures" and amendments to IAS 12 "Income Taxes". For other Standards and Interpretations management anticipates that their adoption in future periods will not have material effect on the 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 reporting date. All realized and unrealized gains and losses arising on exchange differences are recognised in the consolidated statement of comprehensive income for the period.

These consolidated financial statements are presented in US Dollars ("USD"), 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 statement of financial position 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 recognized 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 the results translated at exchange rates prevailing at the dates of the transactions.

The relevant exchange rates were:

Currency	**Closing rate as of 31 December 2011**	**Average for 2011**	Closing rate as at 31 December 2010	Average for 2010	Closing rate as at 31 December 2009	Average for 2009
UAH/USD	7.9898	7.9677	7.9617	7.9353	7.7916	7.9850
UAH/EUR	10.2981	11.0926	10.5731	10.5313	10.8736	11.4489

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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All significant intercompany transactions, balances and unrealized gains/(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 recognized in statement of comprehensive income as incurred.

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

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 recognized 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 IFRS standards.

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

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

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 capitalization.

All other borrowing costs are recognized in the statement of comprehensive income in the period in which they are incurred.

Contingent liabilities and assets

Contingent liabilities are not recognized 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 recognized only when the contingency is resolved.

Segment information

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

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

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

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

Revenue recognition

The Group generates revenue primarily from the sale of agricultural products to the end customers. Revenue is recognized 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.

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 recognized as income over the periods necessary to match them with the related costs, or as an offset against finance costs when received as compensation for the finance costs for agricultural producers. To the extent the conditions attached to the grants are not met at the reporting date, the funds received are recorded in the Group's consolidated financial statements as deferred income. Other government grants are recognized at the moment when the decision to disburse the amounts to the Group is made.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

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 capitalized in accordance with the Group's accounting policy.

Subsequently capitalized costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the consolidated statement of 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 reporting date. If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve. However, such increase is recognized in the statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the statement of comprehensive income. 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 statement of comprehensive income. 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 derecognized.

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 the statement of comprehensive income.

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 amortization and accumulated impairment losses.

Land lease rights acquired in a business combination and recognized separately from goodwill are initially recognized 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 amortization and accumulated impairment losses, on the same basis as land lease rights acquired separately. Amortization of intangible assets is recognized on a straight line basis over their estimated useful lives. For land lease rights, the amortization period varies from 3 to 15 years.

The amortization period and the amortization method for intangible assets with finite useful life are reviewed at least at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets other than goodwill
At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income, 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 recognized directly in the statement of comprehensive income in the consolidated statement of comprehensive income. An impairment loss recognized 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 reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are

recognises to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is charged or credited to the statement of comprehensive income, 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 recognized amounts of current tax assets and current tax liabilities;
- The Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 12).

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs comprise raw materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present locations and condition.

Cost is calculated using the FIFO (first-in, first-out) method. Net realizable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Agriculture related production process results in production of joint products: main and by-products. A by-product arising from the process is measured at net realizable value and this value is deducted from the cost of the main product.

Biological assets and agricultural produce

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

The Group recognizes a biological asset or agricultural produce when the Group controls the asset as a result of past events, it is probable that future economic benefits associated with the asset will flow to the Group, and the fair value or cost of the asset can be measured reliably.

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognized in the consolidated statement of comprehensive income. Costs to sell include all costs that would be necessary to sell the assets, including costs necessary to get the assets to market.

The difference between fair value less costs to sell and total production costs is allocated to biological assets held in stock as of each reporting date as a fair value adjustment.

The change in this adjustment from one period to another is recognized in Net change in fair value of biological assets and agricultural produce in the statement of comprehensive income.

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 statement of comprehensive income.

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) 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 recognized on the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized 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 amortized 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 recognized in the statement of comprehensive income when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Bank borrowings, corporate bonds issued and other long-term payables
Interest-bearing borrowings, bonds and other long-term payables are initially measured at fair value net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognized over the term of the borrowings and recorded as finance costs.

Derivative financial instruments
The Group enters into derivative financial instruments to purchase sunflower seeds. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives
Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not remeasured at fair value through statement of comprehensive income.

As of 31 December 2011 there were no material derivative financial instruments that were recognized in these consolidated financial statements.

Trade and other accounts payable
Accounts payable are measured at initial recognition at fair value, and are subsequently measured at amortized 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 held by the Group under finance leases are recognized 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 statement of financial position 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 expenses are recognised directly to the statement of comprehensive income and are classified as finance costs.

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

Provisions

Provisions are recognized 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.

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 recognized 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 USD 4,767 thousand and USD 18,801 thousand were acquired in assets acquisition and business combination transactions, respectively (Note 14).

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 fulfil the Group's production requirements. In accordance with the Group's accounting policy, revenue is not recognized 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 years ended 31 December 2011 and 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 recognized 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 grain, 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 recognized 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 3 and 13, 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 2011.

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 13, during the year ended 31 December 2009, the Group identified indicators of impairment associated with the assets used in the production of goose meat and foie gras 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 the group of assets and a suitable discount rate in order to calculate present value. In estimating the appropriate discount rate, the Group used the weighted average cost of capital, as adjusted for currency denomination of expected future cash flows and levels of business risks assessed for this group of assets. Details of the impairment loss calculation are set out in Note 13.

VAT recoverable

Note 15 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 realized 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 realized 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 the Ukraine.

Segment information is analyzed 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

Grain growing segment

- sales of grain

Other agricultural operations segment:

- sales of meat processing products and other meat
- other agricultural operations (sales of fruits, milk, feed grains and other)

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 under IFRS before 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2011 (in thousands of US dollars, unless otherwise indicated)

As of 31 December and for the year then ended the Group's segmental information was as follows:

Year ended 31 December 2011	**Poultry and related operations**	**Grain growing**	**Other agricultural operations**	**Eliminations**	**Consolidated**
External sales	**978,871**	**103,739**	**146,480**	**–**	**1,229,090**
Sales between business segments	**36,381**	**117,831**	**5,203**	**(159,415)**	**–**
Total revenue	**1,015,252**	**221,570**	**151,683**	**(159,415)**	**1,229,090**
Segment results	**236,602**	**104,286**	**9,651**	**–**	**350,539**
Unallocated corporate expenses					**(29,795)**
Other expenses, net					**(58,629)**
Profit before tax					**262,115**
Other information:					
Additions to property, plant and equipment[1]	**309,072**	**23,079**	**7,598**	**–**	**339,749**
Depreciation and amortization expense[2]	**53,879**	**16,422**	**6,742**	**–**	**77,043**
Net change in fair value of biological assets and agricultural produce	**2,665**	**17,322**	**1,301**	**–**	**21,288**

1) Additions to property, plant and equipment in 2011 (Note 13) include unallocated additions to property, plant and equipment in the amount of USD 2,527 thousand.
2) Depreciation and amortization for the year ended 31 December 2011 includes unallocated depreciation and amortization in the amount of USD 3,298 thousand.

Year ended 31 December 2010	Poultry and related operations	Grain growing	Other agricultural operations	Eliminations	Consolidated
External sales	800,237	35,631	108,338	–	944,206
Sales between business segments	28,584	85,668	3,353	(117,605)	–
Total revenue	828,821	121,299	111,691	(117,605)	944,206
Segment results	225,073	55,765	3,738	–	284,576
Unallocated corporate expenses					(27,792)
Other expenses, net					(39,463)
Profit before tax					217,321
Other information:					
Additions to property, plant and equipment[1]	128,972	17,360	9,825	–	156,157
Depreciation and amortization expense[2]	47,600	11,397	5,585	–	64,582
Net change in fair value of biological assets and agricultural produce	9,473	17,019	2,522	–	29,014

1) Additions to property, plant and equipment in 2010 (Note 13) include unallocated additions to property, plant and equipment in the amount of USD 4,818 thousand.
2) Depreciation and amortization for the year ended 31 December 2010 includes unallocated depreciation and amortization in the amount of USD 3,320 thousand.

Year ended 31 December 2009	Poultry and related operations	Grain growing	Other agricultural operations	Eliminations	Consolidated
External sales	577,143	45,752	88,109	–	711,004
Sales between business segments	22,438	37,673	1,496	(61,607)	–
Total revenue	599,581	83,425	89,605	(61,607)	711,004
Segment results	196,594	35,301	3,234	–	235,129
Unallocated corporate expenses					(15,845)
Impairment of property, plant and equipment					(1,304)
Other expenses, net					(64,465)
Profit before tax					153,515
Other information:					
Additions to property, plant and equipment[1]	117,685	5,559	10,338	–	133,582
Depreciation and amortization expense	37,193	9,011	5,473	–	51,677
Net change in fair value of biological assets and agricultural produce	16,670	17,862	704	–	35,236

1) Additions to property, plant and equipment in 2009 (Note 13) include unallocated additions to property, plant and equipment in the amount of USD 24,545 thousand.

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2011, 2010 and 2009:

	2011	2010	2009
Sunflower oil and related products	**222,418**	188,156	104,864
Chicken meat and related products	**67,874**	29,147	17,650
Grains	**63,101**	22,454	30,109
Other agricultural segment products	**486**	290	270
	353,879	240,047	152,893

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 markets for the Group's export sales of chicken meat are CIS, Middle East, Central and South East Asia.

6. Revenue

Revenue for the years ended 31 December 2011, 2010 and 2009 was as follows:

	2011	2010	2009
Poultry and related operations segment			
Revenue from sales of chicken meat	**693,207**	562,982	443,654
Revenue from sunflower oil and related products	**216,030**	179,982	101,274
Revenue from other poultry related sales	**69,634**	57,273	32,215
	978,871	800,237	577,143
Grain growing segment			
Revenue from sales of grain	**103,739**	35,631	45,752
	103,739	35,631	45,752
Other agricultural operations segment			
Revenue from sales of other meat	**99,740**	79,185	60,116
Other agricultural sales	**46,740**	29,153	27,993
	146,480	108,338	88,109
	1,229,090	944,206	711,004

7. Cost of sales

Cost of sales for the years ended 31 December 2011, 2010 and 2009 was as follows:

	2011	2010	2009
Poultry and related operations	**684,001**	546,494	375,525
Grain growing operations	**71,883**	29,771	38,286
Other agricultural operations	**133,243**	104,372	85,352
	889,127	680,637	499,163

For the years ended 31 December 2011, 2010 and 2009 cost of sales comprised the following:

	2011	2010	2009
Costs of raw materials and other inventory used	**620,385**	475,093	338,114
Payroll and related expenses	**131,840**	101,425	79,746
Depreciation and amortization expense	**66,675**	56,799	43,479
Other costs	**70,227**	47,320	37,824
	889,127	680,637	499,163

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

8. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Payroll and related expenses	**40,391**	43,576	30,062
Services	**24,381**	17,517	13,992
Depreciation expense	**13,666**	11,103	8,198
Fuel and other materials used	**12,433**	9,166	6,454
Representative costs and business trips	**8,330**	8,611	8,807
Advertising expense	**2,415**	9,094	10,562
Insurance expense	**1,919**	1,734	1,349
Bank services and conversion fees	**486**	535	476
Other	**2,426**	771	1,072
	106,447	102,107	80,972

Remuneration to the auditors, included into Services above, approximate to USD 1,000 thousand, USD 1,000 thousand and USD 1,000 thousand for the years ended 31 December 2011, 2010 and 2009, respectively, and comprised audit and other advisory fees.

During the year-ended 31 December 2010 payroll and related expenses included a one-off bonus paid by the Group 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 25). The amount recognized as part of selling, general and administrative expenses, was measured as the sum of the fair value of the shares at grant date of USD 6,483 thousand and the amount of payroll-related taxes of USD 1,145 thousand (Note 31).

9. 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 recognized by the Group as income during the years ended 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
VAT refunds	**87,476**	80,223	65,606
Fruits and vine cultivation	**26**	1,219	1,145
Other government grants	**483**	616	1,061
	87,985	82,058	67,812

VAT refunds for agricultural industry

According to the Tax Code of Ukraine issued in December 2010 and effective as of January 1, 2011 ("Tax Code"), 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.

In accordance with the Tax Code (Note 32), 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 2011, 2010 and 2009 were specific VAT subsidies for the production and sale of milk and live animals for further processing in the amount of USD 422 thousand, USD 2,125 thousand and USD 1,511 thousand, 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 2011, 2010 and 2009 for the creation and cultivating of orchards, vines and berry-fields.

Other government grants

Other government grants recognized as income during the years ended 31 December 2011, 2010 and 2009 mainly comprised of subsidies related to crop growing.

In addition to the government grants income recognized by the Group, the Group receives a grant to compensate agricultural producers for costs used to finance operations. Agricultural producers are entitled to the compensation of finance costs

incurred on bank borrowings in accordance with the Law "On State Budget of Ukraine" during the years ended 31 December 2011, 2010 and 2009. 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 recognized as a reduction in the associated finance costs and during the years ended 31 December 2011, 2010 and 2009 were USD 1,828 thousand, USD 4,999 thousand and USD 900 thousand, respectively (Note 11).

10. Other operating expenses, net

Other operating expenses for the years ended 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Impairment of VAT receivable	**14,776**	8,212	7,803
Impairment of accounts receivable	**898**	1,115	1,791
Loss/(gain) on disposal of property, plant and equipment and other non-current assets	**551**	1,931	(8)
Other	**6,842**	5,434	5,623
Total other operating expenses	**23,067**	16,692	15,209
Less:			
Other operating income	**(1,022)**	(942)	(576)
Total other operating expenses, net	**22,045**	15,750	14,633

11. Finance costs

Finance costs for the years ended 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Interest on corporate bonds	**64,996**	50,911	26,822
Interest on bank borrowings	**9,720**	8,539	12,996
Interest on obligations under finance leases	**5,157**	5,979	7,279
Interest on grain purchases financing arrangements	**294**	3,049	3,463
Bank commissions and other charges	**3,782**	1,921	1,301
Government grants as compensation for the finance costs of agricultural producers *(Note 9)*	**(1,828)**	(4,999)	(900)
Total finance costs	**82,121**	65,400	50,961
Less:			
Finance costs included in cost of qualifying assets	**(16,203)**	(2,456)	(144)
	65,918	62,944	50,817

For qualifying assets, the weighted average capitalization rate on funds borrowed generally during the year ended 31 December 2011 was 9.55% (2010: 10.62%; 2009: 9.87%).

Interest on corporate bonds for the years ended 31 December 2011, 2010 and 2009 includes amortization of premium and debt issue costs on bonds issued in the amounts of USD 4,124 thousand, USD 1,526 thousand and USD 1,197 thousand, respectively.

12. Income tax

Substantially all of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates. The net results of the Group companies incorporated in jurisdictions other than the Ukraine were insignificant during the years ended 31 December 2011, 2010, and 2009. The majority of the Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Tax Code. 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 recognized in the statement of comprehensive income in other operating expenses.

During the year ended 31 December 2011, the Group companies which have the status of the Corporate Income Tax (the "CIT") payers in the Ukraine were subject to income tax at: 1 January – 1 April - 25% rate, 1 April – 31 December– 23% rate. During 2010, and 2009, the Group companies which have the status of the CIT payers in the Ukraine were subject to income tax at a 25% rate.

The Tax Code of Ukraine (Note 32), introduces 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 2011 and 2010 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

The components of income tax expense/(benefit) were as follows for the years ended 31 December 2011, 2010 and 2009:

	2011	2010	2009
Current income tax charge	**5,664**	3,413	933
Deferred tax benefit	**(2,904)**	(1,540)	(7,421)
Income tax expense/(benefit)	**2,760**	1,873	(6,488)

Reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2011, 2010 and 2009 was as follows:

	2011	2010	2009
Profit before income tax	**262,115**	217,321	153,515
At the Company's statutory income tax rate of 23% – 25%	**61,010**	54,330	38,379
Tax effect of:			
Income generated by FAT payers (exempt from income tax)	**(77,043)**	(76,815)	(58,770)
Changes in tax rate and law	**–**	(18,801)	–
(Recognized)/Unrecognized deferred tax assets on property, plant and equipment	**(6,792)**	6,792	–
Non-deductible expenses	**10,332**	11,889	10,419
Expenses not deducted for tax purposes	**15,253**	24,478	3,484
Income tax expense/(benefit)	**2,760**	1,873	(6,488)

As of 31 December 2011, 2010 and 2009 the Group did not recognize deferred tax assets arising from temporary differences of USD 64,907 thousand, USD 97,912 thousand and USD 13,936 thousand, respectively, as the Group did not intend to deduct respective expenses for tax purposes in subsequent periods. As of 31 December 2010 the Group did not recognize deferred tax assets on temporary differences in respect of the property, plant and equipment of USD 27,168 thousand due to uncertainties relating to norms of Tax Code which came into effect from 1 April 2011. As of 31 December 2011, subsequently to the implementation of the new tax code, management of the Group reassessed the recoverability of the deferred tax assets on property, plant and equipment. The Group was able to utilize part of the deferred tax assets balance in 2011 and has the ability to utilize it in future periods in accordance with the provisions of the new code.

Deferred tax liabilities have not been recognized in respect of unremitted earnings of Ukrainian subsidiaries as the earnings can be remitted free from taxation currently and in future years, based on current legislation.

As of 31 December 2011, 2010 and 2009 deferred tax assets and liabilities comprised the following:

	2011	2010	2009
Deferred tax assets arising from:			
Property, plant and equipment	**5,996**	6,792	–
Other current liabilities	**1.518**	1,619	5,168
Advances received and other payables	**1,155**	4,284	5,736
Inventories	**1,011**	–	897
Expenses deferred in tax books	**288**	1,942	6,795
less:			
Unrecognized deferred tax assets	**–**	(6,792)	–
Total deferred tax assets	**9,968**	7,845	18,596
Deferred tax liabilities arising from:			
Property, plant and equipment	**(2,987)**	(2,655)	(13,999)
Inventories	**(996)**	(675)	–
Prepayments to suppliers	**(397)**	(1,827)	(3,384)
Total deferred tax liabilities	**(4,380)**	(5,157)	(17,383)
Net deferred tax assets	**5,588**	2,688	1,213

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 statement of financial position as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Deferred tax assets	**7,795**	5,190	10,183
Deferred tax liabilities	**(2,207)**	(2,502)	(8,970)
	5,588	2,688	1,213

The movements in net deferred tax assets/(liabilities) for the years ended 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Net deferred tax assets/(liabilities) as of beginning of the year	**2,688**	1,213	(4,113)
Deferred tax benefit	**2,904**	1,540	7,421
Deferred tax on property, plant and equipment charged directly to revaluation reserve	**–**	–	(2,541)
Translation difference	**(4)**	(65)	446
Net deferred tax assets as of end of the year	**5,588**	2,688	1,213

13. Property, plant and equipment

The following table represents movements in property, plant and equipment for the year ended 31 December 2011:

	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 fair value:								
At 1 January 2011	**259,799**	**32,589**	**274,024**	**52,440**	**190,943**	**16,046**	**131,551**	**957,392**
Additions	27,030	7,728	45,656	5,530	29,285	1,786	225,261	342,276
Disposals	(247)	–	(743)	(4)	(2,083)	(121)	–	(3,198)
Transfers	8,361	3,720	31,011	950	(2,263)	223	(42,002)	–
Translation difference	(945)	(125)	(1,032)	(190)	(694)	(58)	570	(2,474)
At 31 December 2011	**293,998**	**43,912**	**348,916**	**58,726**	**215,188**	**17,876**	**315,380**	**1,293,996**
Accumulated depreciation and impairment:								
At 1 January 2011	**37,189**	**1,046**	**83,171**	**13,198**	**71,068**	**6,755**	**–**	**212,427**
Depreciation charge for the year	14,517	1,331	27,602	3,325	25,323	3,322	–	75,420
Eliminated on disposals	(128)	–	(473)	(1)	(1,253)	(109)	–	(1,964)
Translation difference	(143)	(4)	(317)	(49)	(270)	(27)	–	(810)
At 31 December 2011	51,435	2,373	109,983	16,473	94,868	9,941	–	285,073
Net book value								
At 1 January 2011	**222,610**	**31,543**	**190,853**	**39,242**	**119,875**	**9,291**	**131,551**	**744,965**
At 31 December 2011	**242,563**	**41,539**	**238,933**	**42,253**	**120,320**	**7,935**	**315,380**	**1,008,923**

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 fair value:								
At 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
At 31 December 2010	259,799	32,589	274,024	52,440	190,943	16,046	131,551	957,392
Accumulated depreciation:								
At 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 disposals	(36)	–	(234)	(3)	(992)	(46)	–	(1,311)
Reclassifications	540	–	265	(805)	–	–	–	–
Translation difference	22	(3)	97	16	76	1	–	209
At 31 December 2010	37,189	1,046	83,171	13,198	71,068	6,755	–	212,427
Net book value								
At 1 January 2010	193,909	30,929	185,064	43,164	104,674	10,207	66,322	634,269
At 31 December 2010	222,610	31,543	190,853	39,242	119,875	9,291	131,551	744,965

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 fair value:								
At 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)	–
Revaluations	–	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)
At 31 December 2009	217,356	30,929	244,698	52,757	154,570	13,897	66,322	780,529
Accumulated depreciation and impairment:								
At 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 disposals	(40)	–	(285)	(2)	(1,966)	(45)	–	(2,338)
Eliminated on revaluations	–	(1,173)	–	–	–	–	–	(1,173)
Translation difference	(803)	(6)	(1,950)	(311)	(1,606)	(115)	–	(4,791)
At 31 December 2009	23,447	–	59,634	9,593	49,896	3,690	–	146,260
Net book value								
At 1 January 2009	118,447	20,615	132,933	19,555	92,353	2,513	153,417	539,833
At 31 December 2009	193,909	30,929	185,064	43,164	104,674	10,207	66,322	634,269

As of 31 December 2011, included within construction in progress were prepayments for property, plant and equipment in the amount of USD 46,086 thousand (2010: USD 25,020 thousand, 2009: USD 6,591 thousand).

As of 31 December 2011, included within property, plant and equipment were fully depreciated assets with an original cost of USD 19,647 thousand (2010: USD 12,494 thousand, 2009: USD 5,243 thousand).

As of 31 December 2011, certain of the Group's machinery and equipment with the carrying amount of USD 4,648 thousand (2010: USD 5,247 thousand, 2009: USD 5,813 thousand) were pledged as collateral to secure its bank borrowings (Note 26).

As of 31 December 2011, 2010 and 2009 the net carrying amount of property, plant and equipment, represented by vehicles and agricultural machinery, held under finance lease agreements were USD 73,798 thousand, USD 72,234 thousand and USD 61,554 thousand, respectively.

Impairment assessment

The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, indicators of impairment were identified in 2009 associated with the assets used in the production of goose meat and foie gras.

The amount of impairment losses recognized during the year ended 31 December 2009, together with information on the discount rates used in the estimation of the recoverable amount of impaired assets, is as follows:

	2009	
Production line	Discount rate used, %	Impairment
Goose meat and foie gras	31.1	1,304
		1,304

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 2011 and 2010 as, based on management's assessment, the fair value of grain storage facilities as of 31 December 2011 and 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 2011 would be USD 20,514 thousand (2010: USD 13,792 thousand, 2009: USD 12,549 thousand).

14. 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.

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

	2011	2010
Cost:		
As of 1 January	**24,439**	965
Additions (Note 2)	**5,995**	4,767
Acquired through business combinations (Note 2)	**–**	18,801
Translation difference	**(102)**	(94)
As of 31 December	**30,332**	24,439
Accumulated amortization:		
As of 31 December	**1,223**	111
Amortization charge for the year	**1,891**	1,117
Translation difference	**(9)**	(5)
As of 31 December	**3,105**	1,223
Net book value:		
As of 1 January	**23,216**	854
As of 31 December	**27,227**	23,216

15. Long-term VAT recoverable, net

As of 31 December 2011, 2010 and 2009 the balance of long-term VAT recoverable was accumulated on continuing capital expenditures. Management expects that these balances will not be recovered within twelve months of the balance sheet date.

As of 31 December 2011, an allowance for estimated irrecoverable long-term VAT of USD 4,938 thousand was recorded by the Group (2010: USD 3,746 thousand, 2009: USD 4,537 thousand).

16. Biological assets

The balances of non-current biological assets were as follows as of 31 December 2011, 2010 and 2009:

	2011		2010		2009	
	Thousand units	Carrying amount	Thousand units	Carrying amount	Thousand units	Carrying amount
Orchards, hectare	1.64	27,978	1.87	25,768	2.4	23,478
Milk cows, boars, sows, units	14.1	14,803	13.1	13,997	11.5	9,560
Other non-current bearer biological assets		906		714		530
Total bearer non-current biological assets		43,687		40,479		33,568
Non-current cattle and pigs, units	5.1	2,640	5.9	2,809	6.6	2,667
Total consumable non-current biological assets		2,640		2,809		2,667
Total non-current biological assets		**46,327**		**43,288**		36,235

The balances of current biological assets were as follows as of 31 December 2011, 2010 and 2009:

	2011		2010		2009	
	Thousand units	Carrying amount	Thousand units	Carrying amount	Thousand units	Carrying amount
Breeders held for hatchery eggs production, units	2,384	39,345	2,360	39,530	1,886	35,845
Total bearer current biological assets		39,345		39,530		35,845
Broiler poultry, units	25,273	55,411	26,371	43,287	24,258	36,957
Hatchery eggs, units	20,472	5,915	20,179	5,724	19,334	6,310
Crops in fields, hectare	71	23,876	76	17,840	58	11,715
Cattle and pigs, units	56	10,654	61	9,118	44	6,714
Other current consumable biological assets		789		811		892
Total consumable current biological assets		96,645		76,780		62,588
Total current biological assets		**135,990**		116,310		98,433

Other current consumable biological assets include geese and other livestock.

The following table represents movements in biological assets for the years ended 31 December 2011, 2010 and 2009:

	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 2009	18,875	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	111,677	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	11,715	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	155,551	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	17,840	25,768	39,530	43,287	13,997	2,809	9,118
Increase due to purchases	7,239	1,820	8,983	80	12	35	1,946
Gains/(losses) arising from change in fair value of biological assets less costs to sell	273,357	13,487	84,905	616,361	12,781	(63)	32,249
Transfer to consumable biological assets	–	–	(76,889)	76,889	(1,325)	(285)	1,610
Transfer to bearing non-current biological assets	–	–	–	–	4,072	1,269	(5,340)
Decrease due to sale	–	–	–	–	(198)	(12)	(11,291)
Decrease due to harvest	(274,383)	(12,994)	(17,045)	(681,022)	(14,484)	(1,104)	(17,601)
Translation difference	(177)	(103)	(139)	(184)	(52)	(9)	(37)
As of 31 December 2011	**23,876**	**27,978**	**39,345**	**55,411**	**14,803**	**2,640**	**10,654**

17. Other non-current assets

The balances of other non-current assets were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Packaging and containers	**7,533**	7,757	5,592
Goodwill (Note 2)	**2,812**	2,812	–
Long-term loans to employees and related parties (Note 31)	**1,297**	1,039	708
Other investments	**252**	273	273
Other non-current assets	**2,582**	2,370	2,144
	14,476	14,251	8,717

Long-term loans to employees and related parties are interest free and measured at amortized cost using the effective interest rate method (Note 31).

18. Inventories

The balances of inventories were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Components for mixed fodder production	**111,220**	83,477	70,568
Work in progress	**35,705**	19,100	14,545
Other raw materials	**19,037**	14,345	9,099
Spare parts	**5,373**	3,831	3,558
Packaging materials	**4,057**	4,092	3,283
Sunflower oil	**3,077**	4,234	2,020
Mixed fodder	**2,822**	2,231	2,156
Other inventories	**949**	1,281	1,576
	182,240	132,591	106,805

In order to present more relevant information about Group's financial position based on nature of Group's operations, management decided to reclassify expenses incurred in cultivating of not planted fields from current biological assets to inventories, retrospectively for all periods presented. As of 31 December 2011, 2010 and 2009 work in progress in the amount of USD 35,705 thousand, USD 19,100 thousand and USD 14,545 thousand comprised of expenses incurred in cultivating fields to be planted in the years 2012, 2011 and 2010 respectively.

As of 31 December 2011, inventories with carrying amount of USD 45,491 thousand (2010: USD 62,500 thousands, 2009: nil) were pledged as collateral to secure bank borrowings (Note 26).

19. Agricultural produce

The balances of agricultural produce were as follows as of 31 December 2011, 2010 and 2009:

	2011		2010		2009	
	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
Chicken meat	**5.561**	**11,716**	15.333	24,403	5.531	7,405
Other meat	**N/A***	**6,380**	N/A*	4,058	N/A*	3,167
Grain	**841**	**131,764**	455	77,069	396	48,641
Fruits, vegetables and other crops	**N/A***	**19,162**	N/A*	8,320	N/A*	7,014
		169,022		113,850		66,227

* Due to the diverse composition of noted produce unit of measurement is not applicable.

20. Other current assets, net

Other current assets, net were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Prepayments to suppliers and prepaid expenses	**17,242**	12,202	10,585
Short-term advances, finance aid to and promissory notes from related parties (Note 31)	**2,000**	2,304	1,061
Loans to employees	**1,140**	634	941
VAT bonds	**–**	5,038	–
Other receivables	**1,828**	2,320	3,447
Less: allowance for irrecoverable amounts	**(221)**	(1,167)	(737)
	21,989	21,331	15,297

As of 31 December 2010 VAT bonds were represented by debt securities with face value of USD 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. During the year ended 31 December 2010, the Group sold the VAT bonds for a cash consideration of USD 5,297 thousand.

21. Taxes recoverable and prepaid, net

Taxes recoverable and prepaid were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
VAT recoverable	**149,853**	116,534	69,890
Miscellaneous taxes prepaid	**1,350**	1,472	1,889
Less: allowance for irrecoverable VAT	**(14,028)**	(10,182)	(4,821)
	137,175	107,824	66,958

22. Trade accounts receivable, net

The balances of trade accounts receivable were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Agricultural operations	**53,750**	44,888	37,481
Due from related parties (Note 31)	**10,895**	7,756	3,176
Sunflower oil sales	**1,934**	1,536	3,432
Less: allowance for irrecoverable amounts	**(785)**	(785)	(712)
	65,794	53,395	43,377

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 a review as of 31 December 2011 the Group determined that trade accounts receivable on sales of poultry meat of USD 750 thousand (2010: USD 305 thousand, 2009: nil) were overdue but do not require allowance for irrecoverable amounts.

For the year ended 31 December 2011, 2010 and 2009 the Group has not recorded any impairment of receivables relating to amounts owed by related parties as management is certain about their recoverability.

The ageing of trade accounts receivable that were impaired as of 31 December 2011, 2010 and 2009 was as follows:

	Trade accounts receivable			Allowance for irrecoverable amounts		
	2011	2010	2009	2011	2010	2009
Trade accounts receivable on sales of poultry meat:						
Over 30 but less than 270 days	**372**	408	546	(93)	(102)	(137)
Over 270 days	**344**	79	139	(344)	(79)	(139)
	716	487	685	(437)	(181)	(276)
Trade accounts receivable on other sales:						
Over 60 but less than 360 days	**199**	141	397	(50)	(35)	(99)
Over 360 days	**298**	569	337	(298)	(569)	(337)
	497	710	734	(348)	(604)	(436)
	1,213	1,197	1,419	(785)	(785)	(712)

23. Short-term bank deposits

Short-term bank deposits were as follows as of 31 December 2011, 2010 and 2009:

	2011		2010		2009	
	Effective rate	USD' 000	Effective rate	USD' 000	Effective rate	USD' 000
UAH	**9.00 %**	**1,777**	15.93 %	59,460	16.14 %	7,632
USD	**–**	**–**	8.37 %	75,000	–	–
		1,777		**134,460**		7,632

As of 31 December 2011 and 2010, the short-term deposits were placed with Ukrainian banks for periods of six months to one year.

As of 31 December 2009, the balances of short-term deposits for the total amount of USD 7,619 thousand represented security for bank guarantees issued against the Group's liabilities under grain financing arrangements (Notes 29, 30).

24. Cash and cash equivalents

The balances of cash and cash equivalents were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Cash in hand and with banks	**47,119**	39,321	22,248
USD short-term deposits with banks	**37,000**	–	–
UAH short-term deposits with banks	**10,639**	–	–
	94,758	39,321	22,248

During the year ended 31 December 2011 UAH and USD denominated short-term deposits earn an effective interest rate at 5.29 % and 5.60 %, respectively.

25. Shareholders' equity

Share capital

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

	2011	2010	2009
Number of shares authorized for issue	**159,250,000**	159,250,000	159,250,000
Number of shares issued and fully paid	**110,770,000**	110,770,000	110,770,000
Number of shares outstanding	**107,854,856**	107,854,856	110,770,000

The authorized share capital as of 31 December 2011, 2010 and 2009 was EUR 318,500 thousand represented by 159,250,000 shares with par value of EUR 2 each.

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

Treasury shares

During the year ended 31 December 2010, the Group acquired, under the share buy-back program, 3,370,144 shares for a cash consideration of USD 46,288 thousand, of which 455,000 shares were further partially used for the compensation scheme (Note 8). The excess of the fair value of shares transferred over the carrying value of the shares bought back in the amount of USD 750 thousand was recognized as an adjustment to additional paid-in capital.

26. Bank borrowings

The following table summarizes bank borrowings and credit lines outstanding as of 31 December 2011, 2010 and 2009:

		2011		2010		2009	
Bank	Currency	**WAIR***	**USD' 000**	WAIR*	USD' 000	WAIR*	USD' 000
Foreign banks	USD	**4.39%**	**95,979**	5.52%	78,642	–	
Foreign banks	EUR	**3.13%**	**97,009**	3.12%	56,712	3.24%	81,873
			192,988		**135,354**		**81,873**
Ukrainian banks	USD	**5.39%**	**86,500**	6.25%	36,750	8.86%	94,000
Ukrainian banks	UAH	**–**	–	**7.75%**	26,414	23.82%	19,960
			86,500		**63,164**		**113,960**
Total bank borrowings			279,488		**198,518**		**195,833**
Less: Short-term bank borrowings and current portion of long-term bank borrowings			**(170,380)**		(140,092)		(139,790)
Total long-term bank borrowings			**109,108**		58,426		56,043

* WAIR represents the weighted average interest rate on outstanding borrowings.

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. The interest on the borrowings drawn with the Ukrainian banks is payable on a monthly 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 2011, 2010 and 2009:

	2011	2010	2009
Credit lines	**146,500**	**141,806**	129,103
Term loans	**132,988**	**56,712**	66,730
	279,488	**198,518**	195,833

The following table summarizes fixed and floating interest rates bank loans and credit lines held by the Group as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Floating interest rate	**276,712**	158,750	148,447
Fixed interest rate	**2,776**	39,768	47,386
	279,488	198,518	195,833

Bank loans and credit lines outstanding as of 31 December 2011, 2010 and 2009 were repayable as follows:

	2011	2010	2009
Within one year	**170,380**	140,092	139,790
In the second year	**30,951**	22,001	25,090
In the third to fifth year inclusive	**60,871**	31,377	23,958
After five years	**17,286**	5,048	6,995
	279,488	198,518	195,833

As of 31 December 2011, the Group had available undrawn facilities of USD 251,315 thousand (2010: USD 168,323 thousand; 2009: USD 6,413 thousand). These undrawn facilities expire during the period from January 2012 until June 2020.

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 with 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 from lenders regarding the property to be used as collateral.

As of 31 December 2011, the Group had borrowings of USD 52,191 thousand (2010: USD 55,751 thousand, 2009: USD 9,980 thousand) that were secured. These borrowings were secured by property, plant and equipment with a carrying amount of USD 4,648 thousand (2010: USD 5,247 thousand, 2009: USD 5,813 thousand) (Note 13) and inventories with a carrying amount of USD 45,491 thousand (2010: USD 62,500 thousand, 2009: nil) (Note 18).

27. Bonds issued

Bonds issued and outstanding as of 31 December 2011, 2010 and 2009 were as follows:

	2011	2010	2009
10.25% Senior Notes due in 2011	**–**	9,967	250,000
10.25% Senior Notes due in 2015	**584,767**	584,767	–
Unamortized premium on bonds issued	**3,755**	4,640	–
Unamortized debt issue cost	**(21,522)**	(26,596)	(1,954)
	567,000	572,778	248,046
Less:			
Current portion of bonds issued	**–**	(9,892)	–
Total long-term portion of bonds issued	**567,000**	562,886	248,046

As of 31 December 2011, 2010 and 2009 amount of accrued interest on bonds issued were USD 10,157 thousand, USD 10,244 thousand and USD 2,180 thousand, respectively.

10.25% Senior Notes

In November 2006, MHP S.A. issued USD 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 Nova , Druzhba Narodiv Nova, Oril-Leader, Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv, Zernoproduct and Druzhba Narodiv. 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 a change of control occurs the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

On 29 April 2010, MHP S.A. issued USD 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 MHP S.A. exchanged 96.01% (USD 240,033 thousand) of USD 250,000 thousand of the existing 10.25% Senior Notes due in 2011 for the new Notes due in 2015. As a result of the exchange, new Senior Notes were issued for the total par value of USD 254,767 thousand.

28. 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 2011, the weighted average interest rates on finance lease obligations were 8.88% and 7.68% for finance lease obligations denominated in EUR and USD, respectively (2010: 8.92% and 7.91% 2009: 8.61% and 7.81%).

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2011, 2010 and 2009:

	Minimum lease payments			Present value of minimum lease payments		
	2011	2010	2009	**2011**	2010	2009
Payable within one year	**22,736**	28,350	31,094	**19,267**	23,827	24,458
Payable in the second year	**16,391**	18,775	25,535	**14,706**	16,705	21,619
Payable in the third to fifth year inclusive	**19,145**	22,353	26,187	**17,852**	20,684	23,237
	58,272	69,478	82,816	**51,825**	61,216	69,314
Less: Future finance charges	**(6,447)**	(8,262)	(13,502)	**–**	–	–
Present value of finance lease obligations	**51,825**	61,216	69,314	**51,825**	61,216	69,314
Less: Current portion				**(19,267)**	(23,827)	(24,458)
Finance lease obligations, long-term portion				**32,558**	37,389	44,856

29. Trade accounts payable

Trade accounts payable were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Trade accounts payable to third parties	**52,655**	18,986	72,361
Payables due to related parties	**34**	26	19
	52,689	19,012	72,380

As of 31 December 2011 trade accounts payable included liabilities that bear a floating rate of interest under grain purchase financing arrangements in the amount of USD 11,184 thousand and accrued interest of USD 126 thousand (2010: nil , 2009: in the amount of USD 51,970 thousand and accrued interest of USD 1,932 thousand).

30. Other current liabilities

Other current liabilities were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Accrued payroll and payroll related taxes	**32,886**	24,528	25,268
Amounts payable for property, plant and equipment	**10,236**	4,396	6,340
Advances from and other payables due to third parties	**1,921**	4,137	3,629
Advances from related parties (Note 31)	**200**	200	200
Payables on other financing arrangements	**–**	–	6,370
Other payables	**8,026**	4,781	3,621
	53,269	38,042	45,428

As of 31 December 2009 payables on other financing arrangements represented short-term credit facility received from a grain supplier at LIBOR+3.27%.

31. 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 or transaction. Management believes that amounts receivable due from related parties do not require an 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 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Sales of goods to related parties	**10,649**	7,476	6,937
Sales of services to related parties	**89**	51	40
Purchases from related parties	**127**	194	112

The balances owed to and due from related parties were as follows as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Trade accounts receivable (Note 22)	**10,895**	7,756	3,176
Advances received (Note 30)	**200**	200	200
Short-term advances, finance aid and promissory notes (Note 20)	**2,000**	2,304	1,061

Long-term loans to related parties are included in Note 17.

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 USD 8,741 thousand, USD 15,514 thousand and USD 8,652 thousand for the years ended 31 December 2011, 2010 and 2009, respectively. Compensation of 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 USD 7,628 thousand (Note 8).

Key management personnel totalled 34 individuals as of 31 December 2011 and 38 individuals as of 31 December 2010 and 2009, including 3 independent directors in each year.

32. Contingencies and contractual commitments

Operating environment
The principal business activities of the Group are within the Ukraine. Emerging markets such as the 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 the Ukraine and the Ukraine's economy in general. Laws and regulations affecting business operating in the 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 Ukraine's economic recovery after the crisis year 2009 is slow but stable. The GDP growth constituted 6.6% in the third quarter of 2011, following 3.8% of GDP growth in the second quarter and 5.2% of GDP growth in the first quarter of 2011. Overall in 2011 the Ukrainian economy grew by about 5% mainly due to the increase in private consumption.

The Ukrainian currency remained relatively stable during 2011, following the trends of 2009 and 2010. The Ukrainian Hryvnia demonstrated moderate growth against EUR during the second half of 2011 through the EUR devaluation against the US dollar because of the sovereign-debt crisis of European Union.

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 the 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 became effective on 1 January 2011, while some of its provisions took 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 12 and 21, respectively, the Tax Code also changed various other taxation rules.

Legal issues
In the ordinary course of business, the Group is subject to legal actions and complaints. As of 31 December 2011, the Group companies had ongoing litigations with the tax authorities related to disallowance of certain amounts of VAT refunds claimed by the Group. According to the assessment performed by the management of the Group on a case by case basis the possible exposure relating to these court cases amounted to approximately USD 2,000 thousand as of 31 December 2011. Management believes that, based on past history of court resolutions of similar lawsuits by the Group the risk is remote for all other cases.

Contractual commitments on purchase of property, plant and equipment
During the years ended 31 December 2011, 2010 and 2009, 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 2011, purchase commitments on such contracts were primarily related to construction of the Vinnytsya poultry complex and amounted to USD 80,168 thousand (2010: USD 79,746 thousand, 2009: USD 2,307 thousand).

Commitments on land operating leases

The Group has the following contractual obligations in respect of land operating leases as of 31 December 2011, 2010 and 2009:

	2011	2010	2009
Within one year	**12,480**	11,855	6,886
In the second to the fifth year inclusive	**41,457**	37,037	23,868
Thereafter	**64,713**	51,688	38,256
	118,650	100,580	69,010

Ukrainian legislation provides for a ban on sales of agricultural land plots till 1 January 2013. There are significant uncertainties as to the subsequent extension of the ban.

33. Fair value of financial instruments

Fair value disclosures in respect of financial instruments are 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 realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value is estimated to be the same as the carrying value for cash and cash equivalents, short-term bank deposits, trade accounts receivable, and trade accounts payable due to the short-term nature of the financial instruments.

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the consolidated statement of financial position:

	Carrying amount			Fair value		
	2011	2010	2009	**2011**	2010	2009
Financial liabilities						
Bank borrowings	**279,488**	198,518	195,833	**283,677**	199,185	180,675
Finance lease obligations	**51,825**	61,216	69,314	**51,418**	63,420	63,407
Senior Notes due in 2015	**567,000**	562,886	–	**513,697**	613,339	–
Senior Notes due in 2011	**–**	9,892	248,046	**–**	10,092	228,875

Fair value of bank borrowings and Finance lease obligations was estimated by discounting the expected future cash outflows by a market rate of interest.

The fair value of Senior Notes was estimated based on market quotations.

34. 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 through the issue of new debt or the redemption of existing debt.

The Group's target is to achieve a leverage ratio (Net debt to adjusted operating profit) 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 2011, 2010 and 2009 the leverage ratio was as follows:

	2011	2010	2009
Bank borrowings *(Note 26)*	**279,488**	198,518	195,833
Bonds issued *(Note 27)*	**567,000**	572,778	248,046
Finance lease obligations *(Note 28)*	**51,825**	61,216	69,314
Payables on other financing arrangements *(Note 29)*	**–**	–	6,370
Debt	**898,313**	832,512	519,563
Less:			
Cash and cash equivalents and Short-term bank deposits	**(96,535)**	(173,781)	(29,880)
Net debt	**801,778**	658,731	489,683
Operating profit	**320,744**	256,784	217,980
Adjustments for:			
Depreciation and amortization expense *(Notes 7,8)*	**80,341**	67,902	51,677
Loss on impairment of property, plant and equipment *(Note 13)*	**–**	–	1,304
Adjusted operating profit	**401,085**	324,686	270,961
Debt to adjusted operating profit	**2.24**	2.56	1.92
Net debt to adjusted operating profit	**2.00**	2.03	1.81

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 short-term bank deposits. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 29). Adjusted operating profit is defined as operating profit adjusted for the depreciation and amortization 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

	2011	2010	2009
Financial assets:			
Long-term bank deposits	**6,017**	–	–
Cash and cash equivalents (Note 24)	**94,758**	39,321	22,248
Short-term bank deposits (Note 23)	**1,777**	134,460	7,632
Trade accounts receivable, net (Note 22)	**65,794**	53,395	43,377
Loans to employees and related parties (Notes 17, 20)	**2,437**	1,673	1,649
VAT bonds (Note 20)	**–**	5,038	–
Other receivables (Note 20)	**1,828**	2,320	3,447
	172,611	236,207	78,353
Financial liabilities:			
Bank borrowings (Note 26)	**279,488**	198,518	195,833
Bonds issued (Note 27)	**567,000**	572,778	248,046
Finance lease obligations (Note 28)	**51,825**	61,216	69,314
Amounts payable for property, plant and equipment (Note 30)	**10,236**	4,396	6,340
Interest accrued	**12,073**	11,573	3,526
Trade accounts payable (Note 29)	**52,689**	19,012	72,380
Other current liabilities (Note 30)	**8,026**	4,781	9,991
	981,337	872,274	605,430

The main risks inherent to the Group's operations are those related to credit risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk, and commodity price and procurement risk.

Credit risk
The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer or group of customers. The approved credit period for major groups of customers, which include franchisees, distributors and supermarkets, is set at 5-21 days.

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 32% of trade accounts receivable 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 using the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2011. The amounts in the table may not be equal to the statement of financial position carrying amounts since the table includes all cash outflows on an undiscounted basis.

Year ended 31 December 2011	Carrying amount	Contractual amounts	Less than 1 year	From 2nd to 5th year	After 5th year
Bank borrowings	279,488	299,418	177,506	103,210	18,702
Bonds issued	567,000	794,552	59,939	734,613	–
Finance lease obligations	51,825	58,272	22,736	35,536	–
Total	898,313	1,152,242	260,181	873,359	18,702

The Group's target is to maintain its current ratio, defined as the proportion of current assets to current liabilities, at the level of not less than 1.2. As of 31 December 2011, 2010 and 2009, the current ratio was as follows:

	2011	2010	2009
Current assets	**808,745**	719,082	426,977
Current liabilities	**307,678**	242,438	285,582
	2.63	2.97	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 to foreign currency fluctuations.

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

	2011		2010		2009	
	USD	**EUR**	USD	EUR	USD	EUR
ASSETS						
Long-term bank deposits	**–**	**6,017**	–	–	–	–
Trade accounts receivable	**3,794**	**–**	1,954	–	3,910	–
Other current assets, net	**688**	**–**	386	–	–	–
Short-term bank deposits	**–**	**–**	75,000	–	–	–
Cash and cash equivalents	**71,766**	**1,165**	27,217	128	17,088	37
	76,248	**7,182**	104,557	128	20,998	37
LIABILITIES						
Current liabilities						
Trade accounts payable	**12,146**	**3,522**	104	2,798	54,482	4,127
Other current liabilities	**266**	**7,389**	–	2,587	6,385	4,232
Accrued interest	**11,416**	**657**	11,163	311	2,686	591
Short-term bank borrowings	**151,918**	**17,264**	89,371	23,627	94,000	25,830
Short-term finance lease obligations	**9,605**	**9,662**	8,323	15,504	5,448	19,010
Current portion of bonds issued	**–**	**–**	9,967	–	–	–
	185,351	**38,494**	118,928	44,827	163,001	53,790
Non-current liabilities						
Long-term bank borrowings	**30,561**	**79,745**	26,021	33,085	–	56,043
Bonds issued	**584,767**	**–**	584,767	–	250,000	–
Long-term finance lease obligations	**25,581**	**6,977**	24,219	13,170	16,106	28,750
	640,909	**86,722**	635,007	46,255	266,106	84,793
	826,260	**125,216**	753,935	91,082	429,107	138,583

The below details the Group's sensitivity to strengthening of the Ukrainian Hryvnia against US Dollar and EUR is depicted in the table below. 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 possible change in foreign currency rates.

	Change in foreign currency exchange rates	Effect on profit before tax
2011		
Increase in USD exchange rate	10%	(75,001)
Increase in EUR exchange rate	10%	(11,803)
Decrease in USD exchange rate	5%	37,501
Decrease in EUR exchange rate	5%	5,902
2010		
Increase in USD exchange rate	10%	(64,938)
Increase in EUR exchange rate	10%	(9,095)
Decrease in USD exchange rate	5%	32,469
Decrease in EUR exchange rate	5%	4,548
2009		
Increase in USD exchange rate	15%	(61,216)
Increase in EUR exchange rate	15%	(20,782)
Decrease in USD exchange rate	5%	20,405
Decrease in EUR exchange rate	5%	6,927

The effect of foreign currency sensitivity on shareholders' equity is equal to that reported in the statement of comprehensive income.

During the year ended 31 December 2011, the Ukrainian Hryvnia appreciated against the EUR by 5.3% and appreciated against the US Dollar by 0.4% (2010: 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 Dollar by 5.5% and 3.7%, respectively). As a result, during the year ended 31 December 2011 the Group recognized net foreign exchange gains in the amount of USD 2.318 thousand (2010: foreign exchange gains in the amount of USD 10,965 thousand, 2009: foreign exchange losses of USD 23,580 thousand) in the consolidated statement of comprehensive income.

Group management believes that the currency risk is mitigated by the existence of USD-denominated proceeds from sales of sunflower oil, grain and chicken meat, which are substantially sufficient for servicing the Group's foreign currency denominated liabilities and were as follows during the years, ended 31 December 2011, 2010 and 2009:

	2011	2010	2009
Sunflower oil and related products	**222,418**	188,156	104,864
Chicken meat and related products	**67,874**	29,147	17,650
Grains	**63,101**	22,454	30,109
Other agricultural segment products	**486**	290	270
	353,879	240,047	152,893

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. For variable rate borrowings, interest is linked to LIBOR or EURIBOR.

The below table details the Group's sensitivity to increases or decreases by 5% (2010: 10%; 2009: 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 reporting date was outstanding for the whole year.

	Increase/ (decrease) of floating rate	Effect on profit before tax USD ' 000
2011		
LIBOR	5%	(9,263)
LIBOR	–5%	9,263
EURIBOR	5%	(4,781)
EURIBOR	–5%	4,781
2010		
LIBOR	10%	(11,825)
LIBOR	–10%	11,825
EURIBOR	10%	(5,778)
EURIBOR	–10%	5,778
2009		
LIBOR	10%	(9,741)
LIBOR	–10%	9,741
EURIBOR	10%	(6,490)
EURIBOR	–10%	6,490

The effect of interest rate sensitivity on shareholders' equity is equal to that on statement of comprehensive income.

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 minimize and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

Commodity price and procurement risk
Commodity price risk arises from the risk of an adverse effect on current or future earnings from fluctuations in the prices of commodities. To mitigate this risk the Group continues expansion of its grain growing segment, as part of vertical integration strategy, and also accumulates sufficient commodity stock to meet its production needs.

35. Pensions and retirement plans
The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of the Ukraine. The Group's contributions to the State Pension Fund for the year ended 31 December 2011 comprised USD 48,563 thousands and are recorded in the consolidated statement of comprehensive income on an accrual basis (2010: USD 34,024 thousand; 2009: USD 23,840 thousand). In January 2011 in accordance with the Law of Ukraine "On charge and accounting of unified social contribution" certain changes in administration of social charges was made and social charges are become payable in form of Unified Social Contribution, including contribution to the State Pension Fund in range of 36.76%-49.7%. The Group companies are not liable for any other supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses.

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

	2011	2010	2009
Profit for the year attributable to equity holders of the Parent	**243,376**	205,395	148,564
Earnings used in calculation of earnings per share from continuing operations	**243,376**	205,395	148,564
Weighted average number of shares outstanding	**107,854,856**	109,411,408	110,770,000
Basic and diluted earnings per share (USD per share)	**2.26**	1.88	1.34

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

37. Authorization of the consolidated financial statements
These consolidated financial statements were authorized for issue by the Board of Directors of MHP S.A. on 19 March 2012.

Corporate information

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