Myronivsky Hliboproduct

One of Ukraine's leading agro-industrial companies

Annual Report and Accounts 2013

Who are MHP?

MHP is a Ukrainian vertically integrated company, operating each stage of the poultry production process: from cultivation of land to production and distribution of chicken meat.

Our Values

- We contribute to the development of Ukraine by combining the best professionals and advanced technologies
- We enhance the knowledge and talents of our people to enhance their careers with us
- We take responsibility for those who create and secure the success of our company
- We strive to achieve best results by managing environmental and financial resources wisely
- We create trust and cooperation by providing full information to stakeholders on a regular basis

Our Vision

We are:

- dynamic in developing our business through our vertically integrated model
- the leading player in the Ukrainian poultry market
- unique as a centre of knowledge to provide industry leadership
- unique in our use of vertical integration, professional management and financial skill to drive our success
- an excellent employer, a contributor to local communities and an organisation that operates with due regard to the environment

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Financial and operational highlights

Company results and profitability

Percentage increase
2012–2013

6%
Revenue

Percentage increase
2012–2013

17%
Poultry production

Percentage increase
2012–2013

23%
Grain production

Result
2013

26%
EBITDA margin

Poultry

- During 2013 the Vinnytsia project has been gradually launched into operations in line with operational and investment plans. By the end of 2013, nine of the 12 brigades were operational and worked at full capacity.
- MHP's production volume increased by 17% to 472,800 tonnes (2012: 404,000 tonnes) mostly due to the Vinnytsia poultry farm production growth. Sales volume increased by 19% to 447,000 tonnes (2012: 375,300 tonnes).
- MHP's market share was around 50% of industrially produced chicken in Ukraine, which is one third of poultry consumption in Ukraine.
- The average price decreased by 7% year-on-year to UAH 15.99 per kg (net VAT) compared to UAH 17.19 (net VAT) in 2012 mainly due to relatively stable domestic poultry prices during 2013 and significant increase of share of export sales volumes from 15% in 2012 to 28% in 2013 as well as lower export price in H2 2013 as a result of new markets penetration.
- Export sales of poultry increased significantly by over 110% year-on-year and constituted close to 123,000 tonnes (2012: 58,000 tonnes).
- The Company opened around 20 new export markets both in Asia, the Middle East and Africa, simultaneously increasing its exports trades across all regions.
- In July 2013, MHP was accredited (received "EU numbers") by the EU authorities for exports of poultry products to the European countries. Since October 2013, MHP has exported its poultry products to the European market.
- MHP sold 240,100 tonnes of sunflower oil (2012: 195,000 tonnes), which is 23% more year-on-year, due to the increased production of fodder mill at the Vinnytsia complex. All sunflower oil produced was sold to external customers at an average price of US$1,033 per tonne (2012: US$1,109) in line with international pricing trends.
- Revenue from sunflower oil and chicken export sales denominated in US dollars in 2013 grew by 38% year-on-year.

Grain Growing

- By the end of 2013, MHP total land bank was 360,000 ha.
- In 2013 MHP acquired its first 40,000 ha agri asset beyond Ukraine in the Russian Federation (Voronezh region) and also increased its land bank in Ukraine by 35,000 ha.
- In 2013 MHP gathered around 2 million tonnes of crops (2012: 1,607,900 tonnes) from 287,000 ha (2012: 250,000 ha).
- Due to MHP's operational efficiency and employment of best practice, grain yields in 2013 are strong and significantly higher than Ukraine's average.

Other Agricultural

- MHP sales volumes of meat processing products decreased by 6% to 33,210 tonnes (2012: 35,200 tonnes) due to the product portfolio optimisation during the year.
- Average sausage and cooked meat prices increased by 6% to UAH 23.53 per kg (net VAT) compared to UAH 22.20 per kg (net VAT) in 2012.
- MHP is a sustainable market leader in meat processing in Ukraine with up to 10% market share.

Our Enterprises and Product portfolio

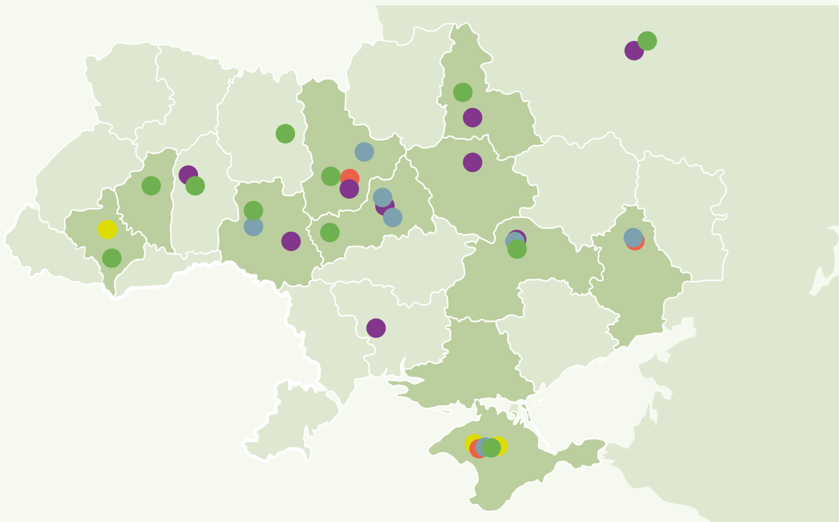
An introduction from the Chief Executive

"Our robust and broadly based operation served us well during the year. It was a year when we produced more poultry and penetrated more international markets than ever before. We will continue this progress in 2014 and beyond."

Yuriy Kosyuk
Chief Executive

Our Enterprises

MHP's enterprises are located in 13 regions of Ukraine and in the Russian Federation (Voronezh region). Vertical integration, economy of scale and efficiency are key elements in our business model.



Poultry

- Vinnytsia Poultry Farm
- Myronivska Poultry Farm
- Druzhba Narodiv Nova Poultry Farm
- Oril Leader Poultry Farm
- Peremoga Nova Poultry Farm
- Shahtarska Nova Poultry Farm
- Starynska Poultry Farm

Grain

- Zernoproduct MHP
- Urozhay
- Agrofort
- Perspective
- Urozhaina Kraina
- Lypivka
- Ridny Kray
- Zernovy Kray
- AgroKryazh
- Voronezh Agro Holding (the Russian Federation)

Fodder

- Fodder Complex "Ladyzhinsky"
- Myronivsky Plant for Manufacturing Groats & Feeds (MFC)
- Katerynopilsky Elevator
- Tavriysky Plant for Manufacturing Feeds
- Elevators

Meat

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

Other Agricultural operations

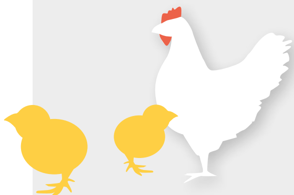
- Druzhba Narodiv (cattle and pig farms)
- Crimean Fruit Company
- Snyatynska Nova Poultry Farm (goose)

Product portfolio

Our brands are among the most recognised and trusted in Ukraine. We continually seek to improve our products, and regularly introduce new lines of products designed to appeal to the end buyer. Our aim is to build and maintain the respect and trust of our consumers.

Poultry

MHP is a leader of the Ukrainian market producing all range of chicken products from chilled to frozen, from whole and cuts to convenience food.



Key products and brands

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

US$, million

1,201

Sales in 2013

Domestic brands:

Export brands:

Grain Growing

MHP cultivates one of the biggest land banks in Ukraine with high efficiency and technology of best practice.

Key products

- Corn
- Sunflowers
- Wheat
- Rapeseeds
- Soyabeans and other crops

US$, million

133

External sales in 2013

Total land bank

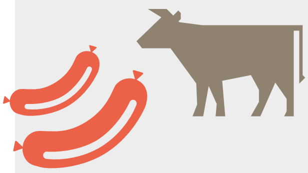
360,000

hectares by the end of 2013

Other Agricultural

Meat processing is a logical step in vertical integration of MHP.

Foie gras and goose meat are accredited for export to the EU.



Key products and brands

- Sausages
- Cooked meats
- Premium fresh beef
- Foie gras
- Goose meat
- Fruit and Milk

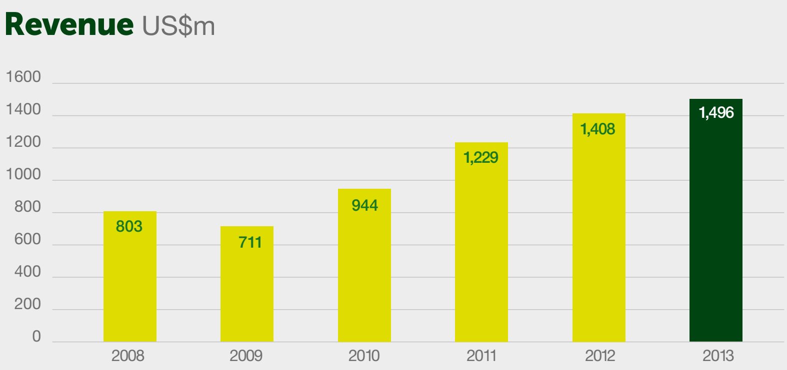
US$, million

162

Sales in 2013

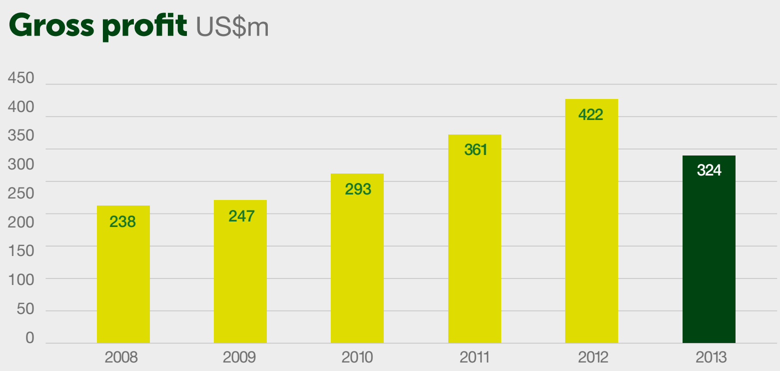
How do we measure our success?

Key Performance Indicators



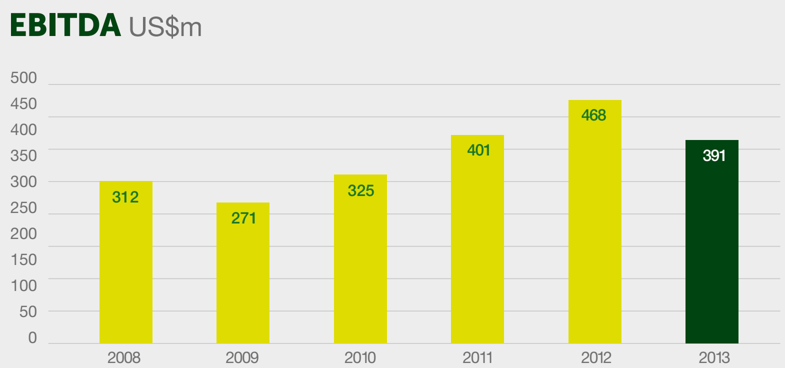
Revenue in 2013
The Company has shown a steady development, evidenced by a progressive increase in revenues. In 2013 they reached US$1,496 million (2012: US$1,408 million), 38% of which was received in hard currency derived from the export sales of, in particular, sunflower oil, chicken meat and grains.

Future
MHP will continue to grow its operations across all its business segments - in particular, Poultry and Grain - as well as boost its hard currency revenues in line with the Company's operational expansion strategy.



Gross profit in 2013
Gross profit in 2013 decreased to US$324 million, driven mainly by lower earnings in the Grain segment. Gross margin decreased from 30% in 2012 to 22% in 2013.

Future
The Company expects higher gross profit as a result of greater production volumes, efficiencies, economies of scale and growth in prices.

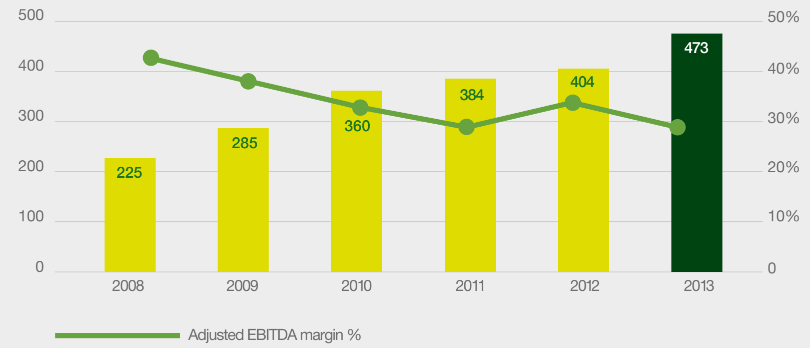


EBITDA in 2013
EBITDA totalled US$391 million, 16% lower than in 2012 (US$468 million). This was mostly due to low grain prices for the 2013 harvest and high fodder costs for poultry during the first 9 months of the year. EBITDA margin decreased from 33% in 2012 to 26% in 2013.

Future
The Company expects EBITDA to increase, taking into account the low grain prices in 2013. These will filter through to lower production costs in 2014. There is also the potential for increased poultry and grain prices in Ukraine, at a time when MHP is looking forward to greater production volumes in both of these segments.

Key Performance Indicators by segment

Poultry: production thousand tonnes and EBITDA margin %



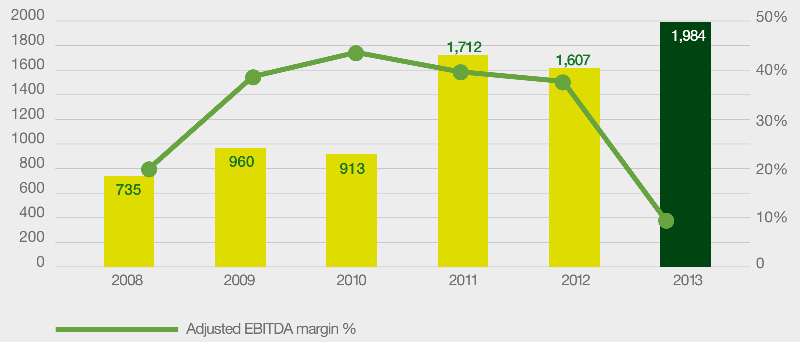
Poultry production development

Since 2006 MHP has been investing heavily in the construction of greenfield poultry complexes. As a result, production volumes of chicken meat over the last six years have more than doubled: from 225,000 tonnes in 2008 to 472,800 tonnes in 2013. In 2014, due to the additional production increase at the Vinnytsia complex, MHP is targeting production of more than 550,000 tonnes of chicken meat.

Adjusted EBITDA margin

The adjusted EBITDA margin in 2013 decreased to 30% (2012: 35%), mostly due to increased fodder costs and lower poultry prices compared to 2012.

Grain: production thousand tonnes and EBITDA margin %



Grain production development

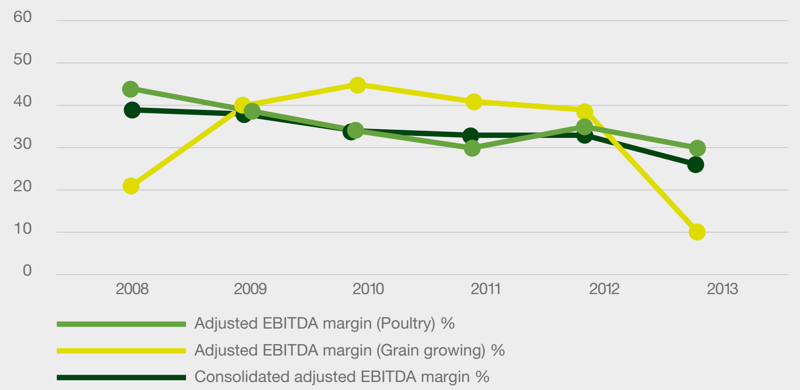
MHP has been gradually increasing its land bank since 2005. Currently it operates 360,000 hectares (ha) of land. In 2013 the Company produced around 2 million tonnes of crops, which is 23% more than in 2012. By 2016, MHP plans to have increased its land bank to around 450,000 ha.

Adjusted EBITDA margin*

The adjusted EBITDA margin in 2013 was 10% (2012: 35%), due to significantly lower international grain prices compared to 2012.

* Comprised the result of crops harvested in respective years only other expenses (net).

EBITDA margin %: consolidated and by segment



Consolidated Adjusted EBITDA margin

MHP enjoys strong and sustainable business profitability thanks to its vertically integrated model of Poultry and Grain operations. In 2013 the consolidated adjusted EBITDA margin was 26%, which is 7 percentage points lower than in 2012 and in line with EBITDA trends (see page 04).

Future

MHP expects its consolidated adjusted EBITDA margin to remain strong and, within the 25-33% range, well above those of its domestic and international peers. Again this is due to its robust vertically integrated model.

Risk management

Some of the risks the Group faces are common to all commercial operations, some are inherent in farming in general and chicken farming in particular.

The principal risks the Group faces are macroeconomic, financial and operational. MHP has effective policies in place to manage and, where possible, to avoid these risks.

Operational risks

Fluctuations in demand and market prices

Potential Impact
A drop in demand.

Mitigation
Falls in demand can generally be overcome with modest price reductions. Per capita consumption of meat is still low in comparison with other European countries and we believe demand for chicken will continue to increase. Beef and pork are mostly produced by householders and are far more expensive to produce and purchase than chicken, kg for kg.

Avian flu and other livestock diseases

Potential Impact
In recent years, avian flu has affected wild birds and poultry flocks in a number of countries. It was first discovered in Ukraine in December 2005 and was still present in the Crimea and Sumy regions in 2008.

Mitigation
We operate strict biosecurity measures, including disinfectant washes and culling wild birds in the immediate vicinity of our farms.

Fluctuations in grain prices

Potential Impact
World prices could affect our poultry production costs.

Mitigation
We grow 100% of the corn we need for feed and replace expensive protein from imported soya beans with that from sunflower seeds. We also grow around 20% of the sunflowers we need and buy the rest from domestic growers. Chicken always benefits from this when compared to other kinds of meat such as pork and beef because of the lower conversion rate (amount of grain required to produce 1kg of meat).

Increased cost for, or disruptions in, gas and fuel supplies

Potential Impact
Gas and fuel, used for production and distribution, are imported. Uncertainty in supply and fluctuating prices could affect production and costs.

Mitigation
Gas and fuel represent only about 9% of our overall costs.

We are increasing our use of co-generation and alternative energy technology. When we process sunflower seeds we are left with a huge amount of husks; we burn some to generate steam heat for our processing plant, and proportion is converted into briquettes for generating energy and these are exported.

Weather

Potential Impact
Inclement weather could affect crop yield.

Mitigation
Ukraine's weather is generally temperate, with plenty of sunshine in summer and adequate rainfall; this combines with extremely fertile earth to create excellent growing conditions. In addition, our management of our land and the use of modern technology enable us to achieve a yield which is significantly higher than the average for Ukraine.

Financial risks

Credit risk

Potential Impact
Debtors fail to make scheduled payments.

Mitigation
No single customer represents more than 8% of total sales.

The amount of credit allowed to one customer or group of customers is strictly controlled.

Credit to major groups of customers, including supermarkets and franchisees, is restricted to between five and 21 days.

Liquidity risk

Potential Impact
Lack of funds to make payments due.

Mitigation
MHP has a detailed budgeting and cash forecasting process to ensure that adequate funds are available.

Our target is to maintain our current ratio, defined as the proportion of current assets to current liabilities, no less than 1.1–1.2.

Currency exchange risk

Potential Impact
Exposure to depreciation of UAH against US dollars.

Mitigation
We earn around 40% of our total revenue in US dollars through the sale of sunflower oil, sunflower husk, chicken meat and grain.

The amount of exports sales will continue to increase with further expansion of Vinnytsia poultry complex and strengthening of positions on export markets. This will allow us to service all our dollar-denominated loans and payments for operational purchases.

Interest rate risk

Potential Impact
Changes in interest rates affecting the cost of borrowings, the value of our financial instruments, and our profit and loss and shareholders' equity.

Mitigation
While MHP borrows on both fixed and variable rates, the majority of our debt is at fixed rates. For variable rate borrowings, interest is linked to LIBOR and EURIBOR and they are generally at lower interest rates than are available in Ukraine.

Political and country risks

Potential Impact
Decrease in profitability and impairment of assets.

Mitigation
Our operations extend throughout all regions of Ukraine with wide regional diversification.

Deep vertical integration and internally developed supply chains allow our operations located in potentially distressed regions of Ukraine to remain self-sufficient with both production needs and markets, even in the case of temporary regional isolation.

Board of Directors

1. Yuriy Kosyuk

Chief Executive Officer
Mr Kosyuk founded MHP in 1998 and is also the CEO of PJSC MHP. In 1995 he founded the Business Centre for the Food Industry (BCFI) and was its 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.

2. Viktoria Kapelyushnaya

Chief Financial Officer
Ms Kapelyushnaya, who is also Financial Director of PJSC MHP, joined MHP in 1998 and was elected to the Board in 2006. She was previously Deputy Chief Accountant, and then Chief Accountant, of BCFI. She holds diplomas in Meat Processing Engineering (1992) and Financial Auditing (1998) from the Kiev Food Industry Institute.

3. Yuriy Melnyk

First Deputy CEO
Mr Melnyk is a scientist focusing on animal breeding and selection. He is a Doctor of Agricultural Sciences, Senior Researcher and Academician of the Ukrainian National Academy of Agricultural Sciences.

In 1985 he graduated from the Animal Science faculty (breeding department) of the Ukrainian Agricultural Academy. Mr Melnyk holds a Ph.D. in Agricultural Sciences, specialising in animal breeding and genetics (2000). He has been a Member of the Ukrainian Academy of Agricultural Sciences since 2002, and a Doctor of Agricultural Science in his specialism from 2010.

Since March 2010, Mr Melnyk has been the First Deputy CEO of MHP.

4. Charles E. Adriaenssen

Non-Executive Chairman of the Board, and of the Nominations and Remunerations Committee

Mr Adriaenssen joined the Board and became Chairman in 2006. He is Founder and Chairman of CA & Partners SA, a consulting company, Chairman of Outhere SA, an independent European classical music publisher, and Chairman of Bastille Investments, a private investment company. He was a director of INTERBREW between 2000 and 2004 and, since 2000, has been a director of Rayvax SA, a holding company of ABINBEV. Between 1982 and 1995 he was a diplomat in Belgium's Foreign Service. Mr Adriaenssen holds a BA in philosophy from the University of Vienna and a law degree from the University of Antwerp.

5. John Grant

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.

6. Dr John C. Rich

Non-Executive Director

Dr Rich joined the Board in 2006. He is the senior regional consulting agribusiness industry specialist for the International Finance Corporation (EMENA and West Africa), a non-executive director of Axzon Denmark and an executive director of Australian Agricultural Nutrition and Consulting Pty Ltd. In addition, he is a senior board consultant for a number of agribusiness companies worldwide. Dr Rich holds a BSc and a BVSc from the University of Sydney, is a member of the Australian College of Veterinary Scientists and a registered member of the Royal College of Veterinary Scientists with post graduate experience in the food and finance industry.

7. Philippe Lamarche

Non-Executive Director

Mr Lamarche joined the Board in 2011. He is a private banker of Banque Puilaetco Dewaay, Luxembourg and has been involved in wealth management and structuring in that country since 1997. He previously worked as a solicitor in the shipping industry in Belgium and Luxembourg. He holds a degree in law and economics from The Catholic University of Louvain and a degree from the European Association of Financial Analysts.

How are we creating value?

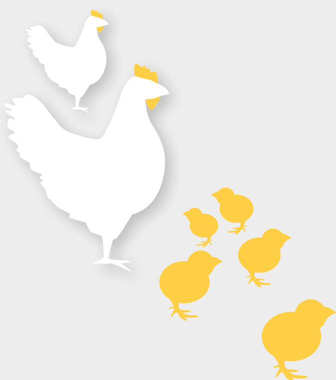
Chairman's statement

We can take a great deal of pride from our performance in 2013: it showed our capability to produce sustainable results in the face of adverse conditions.

Deal of 2013

40,000ha

MHP's first deal outside of Ukraine (in the Russian Federation)



Dividend payment in 2013

39%

of net profit

In 2013 MHP introduced its dividend policy and paid its first dividend for 2012, which constituted US$120 million

It is always pleasing to report an excellent performance, but to record impressive results against a background of challenging market conditions is particularly gratifying.

The year 2013 was notable for a collapse in commodity prices which, as a significant grower of grains, was inevitably reflected in the financial results of MHP.

Yet it says much about the quality of the Company's people, and the strength of its structure, resources and brand, that we were able to weather the storm and look forward to better conditions.

Indeed, our vertically integrated model means that this could still have silver linings. In 2014, we can look forward to significantly lower costs for our poultry production, and higher margins, just as Phase 1 of our multi-million dollar new production facility becomes fully operational.

This was a year when MHP showed professionalism, resilience and maturity; qualities that augur well as the Company seeks to realise its full potential both domestically and in new territories.

A solid financial performance
Our financial performance in 2013 illustrated our ability to deliver creditable results in even highly unfavourable conditions.

An integrated business model and careful management of costs, significant progress of the Vinnytsia complex launch during 2013 and, as a result, increased poultry sales, resulted in 6% revenue growth to US$1,496 million (2012: US$1,408 million).

However, due to the inflated poultry production cost, softening average poultry prices and lower prices for crops harvested in 2013, MHP generated EBITDA of US$391 million, 16% lower than last year (2012: US$468 million).

Achievement, internally and externally
In my report last year I said that MHP had a clear strategy: to increase our production, extend our exports and build our brands. Our performance in this reporting year has been true to each of these goals.

We have made excellent progress building out our Vinnytsia project, closing the year with nine of the 12 brigades coming into service and producing at full capacity. For the first time, we also ventured beyond Ukraine to make a strategic acquisition to increase our land bank.

We extended our exports into new territories and received the green light of EU accreditation. At home, we increased our market share to over 50% and strengthened our position for a future growth.

If a single word could categorise MHP, it is “efficient”. Our business model has efficiency at its heart, and the Company is tireless in its pursuit of optimising its activities. So during the year, from the well-above-average crop yields to the greatly improved finance terms of our renegotiated Eurobonds, 2013 brought many important successes.

This is a testament to the quality of management and high calibre of people whose efforts drove the Company forward during the year. As a Board, we thank each and every one for their skill, enthusiasm and dedication.

We were pleased to authorise a significant dividend payment for the first time in 2013. This marks a new policy, and we intend to become consistent in this regard in future years.

The Board
The Board enjoyed a year of continuity with no changes in its composition.

I continue to be impressed not only with the mix of skills and experience we have around our table but the highly productive way the Board functions and engages with the management team. This is based on clear and continuous communication and the quality of information we receive.

During 2013 measurable progress was made in ever-more demanding areas such as risk management, finance and legal issues, as well as honing and updating key policy areas such as anti-bribery, environmental and animal welfare standards.

I believe the excellent functioning of the Board and its deep knowledge of the business serves its stakeholders well. Equally, evolving its composition is always an option as fresh thinking and skills become required.

The outlook
After the challenges of 2013, which were largely outside of our control, we are looking forward to realising the upside of lower commodity prices.

This will feed through to lower production costs and higher margins, and at an especially welcome time as Phase 1 of our Vinnytsia project becomes fully open and contributing to production. This net effect will be a considerable offset to the impact of market conditions last year.

In addition, we fully intend to follow up our successful acquisition in the Russian Federation in 2013 with other exciting possibilities outside of our borders. By the EU and indeed global standards we are now a very large producer, and strategically we are focused not only on developing exports but also adding value through carefully chosen acquisitions in mature markets where we can benefit from our enhanced margins and profitability.

In 2014 we are therefore being highly active in casting our net far and wide in Europe, and possibly further afield, in search of excellent consolidation opportunities.

How are we creating value?

Chief Executive's review

2013

26%

EBITDA margin

Another year of professionalism, productivity and important gains towards our goal.

When in years to come we look back on the development of MHP, 2013 will be a year we recall with considerable satisfaction.

The word "up" is one we can use against all the key indicators. Turnover, sales, exports, markets, production, capacity – every major metric from 2013 makes pleasing reading.

It is also the mark of a strong company when it can manage adverse market conditions. During the year, and in line with all Ukrainian grain growers, we were challenged by lower market prices for our output year on year. Our robust and broadly based operation served us well, and our vertically integrated model means that those low prices are now working in our favour in the form of lower production costs for the poultry segment.

We have therefore entered 2014 with great optimism; a year when we will produce more poultry and penetrate more international markets than ever before; and more grains from new lands.

Highlights of 2013

Projects: on schedule, on budget

Our quest to strengthen our business never ceases and in 2013 we made important progress on a number of fronts. These included:

- **Efficient production capacity**
  Having previously announced our intention to increase production, we delivered on our promise with positive action. During 2013 we gradually phased in extra capacity created at our new Vinnytsia complex. By the end of the year, nine of the 12 new brigades were operational and working at full capacity, contributing to an overall production increase of 17% year-on-year. This major project, which we started in mid-2012, will soon complete its Phase 1 development and add a further three brigades during 2014. The complex also enhances our ethos of self-sufficient vertical integration, bringing together different facets of agriculture and poultry production under the efficient control of a single facility.
- **An increased land bank**
  Our agricultural capacity was boosted by our successful acquisition of 75,000 additional hectares of excellent arable land. For the first time, this included 40,000 hectares outside our borders, in the Russian Federation. In the south of the country, conditions, the soil, climate, skills and techniques – are very similar to our own, but an important difference is that the investment CAPEX required is attractively lower.

- **Development of people**
  We are determined to maximise the opportunities unfolding before us and in 2013 we took decisive steps to strengthen our senior management teams.

Our sales team was also fully reconfigured, producing immediate and tangible results: like-for-like sales increased by 6% during the reporting year in a stable market.

We also achieved record yields from our land and, as is customary, far exceeded national averages for Ukraine. The differentiating factor is always our people: their skill, and our training and support, produces results far in excess of industry norms. Add to this an ideal hot and wet growing climate in 2013, and the result was an outstanding harvest.

Excellent progress in exports
During the year we consolidated our position as the leading industrial producer of chicken meat in Ukraine, which resulted in strong 50% market share of industrially produced chicken meat in 2013.

Our revenues from poultry and related operations rose to US$1,201 million. While domestic consumption remained robust – chicken accounts for around 50% of all meat sold in Ukraine – an important contributor was a marked increase in our exports. During the year, we sold 123,000 tonnes of chicken to markets outside Ukraine, representing an increase of 112% over 2012.

This growing international reach is an important strategic advance: we were successful in taking our poultry products to around 20 new countries during the year, with a wide geographical spread ranging across Africa, the Middle East, and Asia. This widens our customer base and provides a valuable hedge against any potential domestic issues and fluctuations.

We were also delighted to receive full EU certification for our products during the year. This was the successful conclusion of five years' concerted work to satisfy all compliance issues, and it will open up important possibilities.

Our first dividend
It is also a sign of our growing maturity that we were in a position to make our first dividend payment in 2013.

With our previous phase of major capital expenditure being largely complete, we deemed the time was right to be able to share the Company's success with our loyal shareholders in a meaningful way. The funds allocated for this purpose amounted to US$120 million, or 39% of net profit.

Our intention is to maintain dividend payments in the future and follow the best international practice.

The outlook for 2014
There is much to look forward to as we build on our progress in 2013.

During 2014 we expect the final completion of Phase 1 of the Vinnytsia project. This will add a further three production brigades, taking the total annual capacity to over 550,000 tonnes of chicken meat.

Plans for Phase 2 are now being considered with the ultimate aim of elevating production to 800,000 tonnes a year. We believe this would create the most efficient chicken meat production facility in Ukraine (and indeed Europe) and deliver significant economies of scale.

We will continue to focus on our export business, cementing our new territories and allocating around 25-30% of our total production to this increasing coverage of countries and continents. Europe will also be a key growth area as we build on our initial exports made there in 2013.

The results of our biogas project to power our operations have been very encouraging. The efficiencies and good eco sense make a compelling case to roll out the concept to other MHP production facilities and we are investigating the possibilities now.

We will maintain our investment in people and build on our reputation as being a high-quality and transparent employer. This helps us to attract and retain the high performers we need. Every employee will have a career development plan and in 2014 we will trial an Employee Satisfaction Survey with the aim of rolling it out to the whole Company in due course.

MHP is also the biggest employer of talented graduates in our sector and we will strengthen our links with the major universities.

By bringing together the brightest minds and the very best facilities and technologies, we bring our goal ever-closer: to become the leading poultry producer in Europe.

Percentage increase
2012–2013

23%
in grain production

Total MHP harvest accounted for around 2 million tonnes of crops as a result of land bank increase, favourable weather conditions, and application of best agri technics.

Percentage increase
2012–2013

17%
in poultry production

Due to the significant progress of the Vinnytsia complex, MHP increased its poultry production volumes to around 473,000 tonnes (2012: 404,000 tonnes).

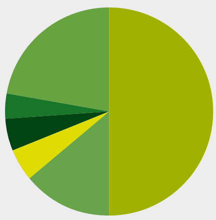
What are our objectives?

Market overview

According to the SSCU, in 2013 overall consumption of meat in Ukraine remained stable at 56 kg per capita.

Market share

Industrial production %



MHP	50%
Agromars	14%
Dniprovski	5%
Agrooven	5%
Volynska	4%
Others	22%

Source: SSCU, Poultry Producers Union of Ukraine

The domestic meat market

Meat production

In 2013, supplies of meat to the Ukrainian market, including imports, amounted to approximately 2.6 million tonnes, which remained almost at the same level as in 2012.

The majority of meat consumed in Ukraine, across all kinds, is industrially produced. According to the SSCU (State Statistics Committee of Ukraine), industrial producers accounted for 60% of total meat produced domestically in 2013. Of this, the percentage of industrially produced poultry (82%) was significantly higher than that of beef (27%), pork (47%) or of meat generally (60%).

The Company believes that this relatively high level of industrialisation continues to enable poultry producers (including MHP) to respond more efficiently than others to increased demand for meat products.

Overall production of poultry in Ukraine increased by approximately 11% in volume year-on-year and constituted around 1.2 million tonnes of chicken meat. At the same time, production of pork and beef increased by 9% and 4% accordingly, mostly due to the slight decrease in household production and increase in industrial production. In total, 765,000 tonnes of pork and 403,000 tonnes of beef were produced during the year.

Imports

Even though agriculture plays a fundamental role in the Ukrainian economy, the amount of imported meat consumed has remained significant over the last 10-15 years. In 2013, it amounted to about 14% of meat consumed in Ukraine.

In 2013, total imports of meat stood at 400,000 tonnes, of which over 43% was poultry (including unofficial imports of around 45,000 tonnes). Most imported chicken meat comprised carcasses and other low-value constituent parts, for use by meat processors.

Exports

Just as the production of poultry in Ukraine is growing annually, so are exports. In 2013 Ukraine exported around 176,000 tonnes of different meats (2012: 118,000 tonnes), 83% of which was poultry meat (see chart, p.15).

Consumption

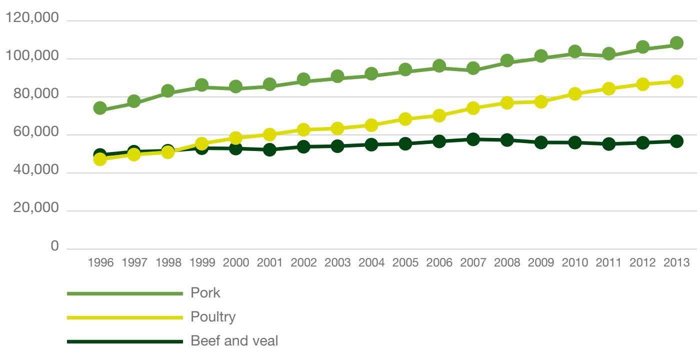
During the year, consumption of meat, and the choice of meat types, remained rather similar to 2012.

According to the SSCU and the Poultry Producers Union of Ukraine, annual intake amounted to 56 kg per capita with the amounts of poultry, pork and beef each remaining relatively static year-on-year.

The level of meat consumption in Ukraine is still below the annual recommended dietary requirement, which is approximately 80 kg per capita per annum.

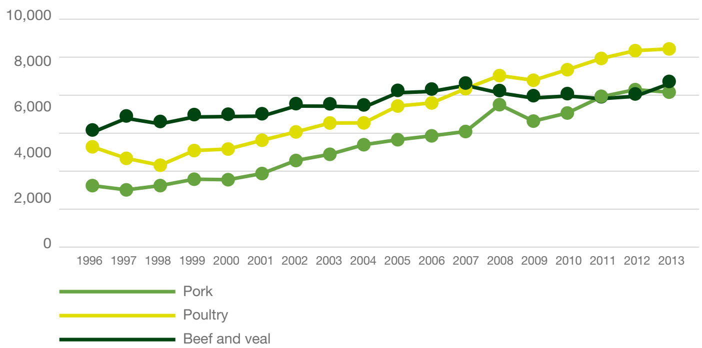
Global meat consumption

thousand tonnes



Global meat trade

thousand tonnes



In line with international market trends, we believe that consumption of chicken meat will grow in the short and medium terms. This is based on the relative affordability of meat for the Ukrainian consumer, the difference in price between poultry and pork and beef, and dietary reasons.

International market

The meat industry worldwide has demonstrated substantial development over the last 20 years and more.

Global meat consumption has increased significantly, driven mostly by the growth of poultry consumption in emerging market countries. During the same period, the growth rate of beef and veal production has been slowing. Poultry, amounting to 34% of the world's meat production volume, is now the second largest meat market after pork.

The growth of poultry consumption reflects changing consumer preferences for making healthier dietary choices. Poultry is also unaffected by religious restrictions. Behind the scenes, a shift from small-to large-scale production units; vertical integration of companies; shorter production cycles; and lower production costs compared to beef and pork have all contributed to the growth of the poultry industry. Future consumer behaviour will be mostly influenced by price, recognising poultry as a highly competitive source of protein.

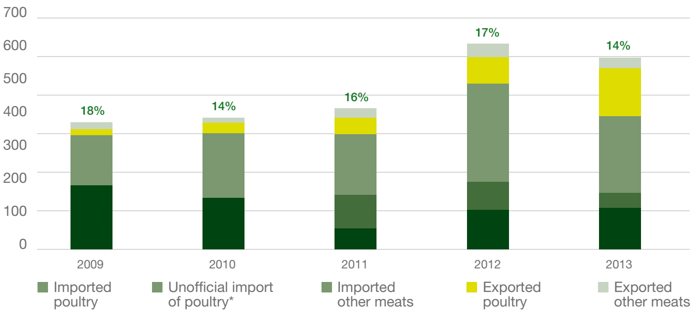
Global meat demand and trade continue to grow strongly, especially in many middle-and low-income countries, including Ukraine. Trade volumes of poultry have increased steadily during the last 40 years. Indeed, poultry meat is now the most traded meat. in 2013, the total volume of imports was around 9 million tonnes – well ahead of pork and beef.

In 2013, the leading global importers were Japan, Saudi Arabia, Mexico, the EU, Iraq and the Russian Federation. The top global exporters were the United States, Brazil, the EU and Thailand.

With Ukraine's strong agricultural heritage, its potential to become a major exporter of chicken meat is considerable. MHP being a leading producer of chicken meat in Ukraine is ready to become one of the leading exporter's of protein to the international markets and has great potential to develop this business direction.

Imported and exported meat

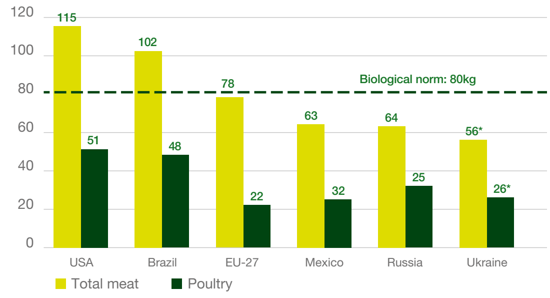
thousand tonnes



Source: SSCU, Poultry Producers Union of Ukraine
** Company's estimates*
% imported as % of total poultry supply

Meat consumption in 2013

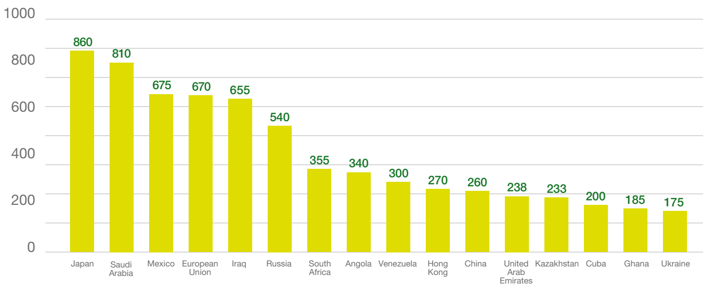
kg per capita



Source: SSCU, Poultry Producers Union of Ukraine
** Company's estimates*
** Includes unofficial poultry import*

Top poultry importers 2013

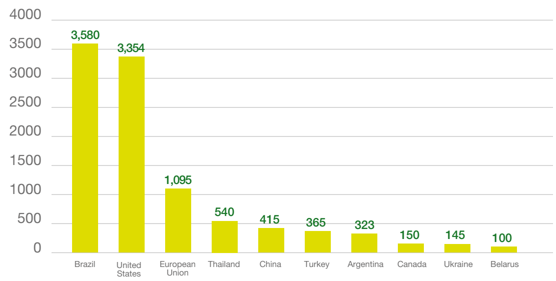
thousand tonnes



Source: SSCU, Poultry Producers Union of Ukraine

Top poultry exporters 2013

thousand tonnes



Source: SSCU, Poultry Producers Union of Ukraine

How does MHP work?

A robust business model of vertical integration

18-19

Grain

Operating one of the largest land banks in Ukraine

360,000
hectares

1,984,170
tonnes per annum

100%
self-sufficiency in corn

Our main crops are corn, sunflower, wheat, soyabeans and rapeseed. Corn and sunflower are used in our fodder mills for fodder production; wheat, soyabeans and rapeseed are sold to third parties through world grain trading companies.
Export revenues from grain sales serve us as 'a natural' hedging.

"MHP's unique vertically integrated business model, intensive capital expenditure and professional personnel are key factors behind our stability and success."

Yuriy Kosyuk
Chief Executive Officer

20-21

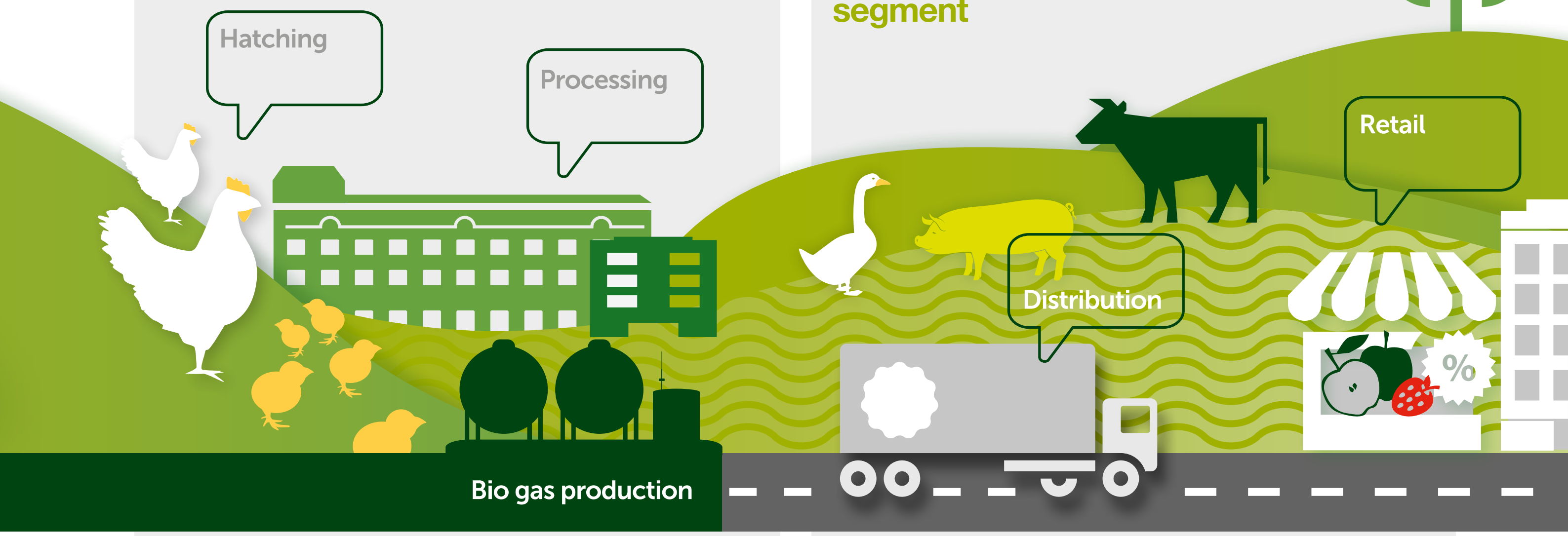
Poultry

Around 50% of industrial production and one third of domestic consumption with one of the strongest food brands "Nasha Riaba"

22-23

Other agricultural activities

Meat processing is a key contributor to the segment



5
broiler farms

2
breeder farms

2,600
franchised outlets

The poultry production sector includes five broiler farms, two breeder farms (with facilities for producing hatching eggs) and six hatcheries. 100% of poultry is processed at our own facilities.

Our 11 distribution centres and around 500 refrigerated delivery vehicles enable us to deliver our products, chilled as well as frozen, to our customers.

3
processing facilities

33,210
tonnes of meat processing products in 2013

35,640
tonnes of fruits

As a logical step in our vertical integration model, MHP produces meat processing products, where chicken meat is a main ingredient.

Approximately 1,500 hectares of land in Crimea are dedicated to orchards, of which 50% is under apple trees.

A fertile year for our talents

Divisional review

Grain

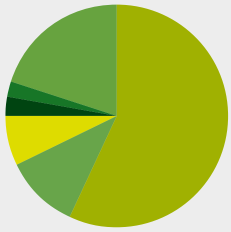
In 2013, we increased our total land bank by 26% and recorded one of our outstanding harvests

Land bank increase
2012–2013

+75,000

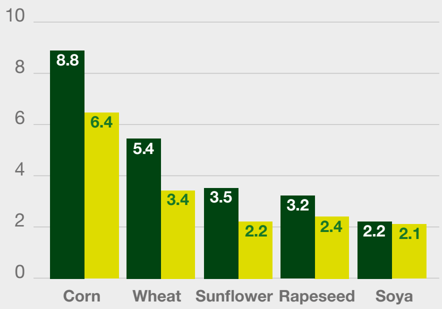
fresh hectares

Grain production
By volume %



Corn	57%
Wheat	11%
Sunflower	7%
Rapeseed	3%
Soya	2%
Other	20%

2013 harvest yields
By tonnes per hectare



* Tonnes per hectare ** Source: SSCU

Percentage increase
2012–2013

23%

harvest of crops

To quote the novelist Mark Twain: "Invest in land. They've stopped making it."

High quality, productive land has always been at the heart of our vertically integrated strategy. We were therefore pleased to make significant gains in our land bank resources during 2013. By cultivating more agricultural land and applying innovative techniques we achieved yields well in excess of the Ukrainian average, we made our business self-sufficient in the grain we need and, importantly protected the Company from volatility in the international grain markets.

As our business expands each year, so does our land bank. We entered 2013 with 285,000 hectares (ha) and were pleased to close it with an additional 75,000 ha.

For the first time, we looked beyond our traditional borders to acquire 40,000 ha in the Voronezh region (the Russian Federation). More than just valuable land, this complex acquisition also included a silo which offers capacity of 200,000 m^3 and a range of agricultural infrastructure and equipment. The deal was a natural fit for MHP, bringing many synergies in terms of techniques, climate, as well as lower capital costs. We are already making good progress in integrating MHP's standards of efficiency and productivity into this new asset and we look forward to its first contribution to our harvest in 2014.

This milestone move for MHP is in tune with other areas of our business where, increasingly, we are exploring for opportunities outside our home country.

In addition, we added a further 35,000 ha in Ukraine, taking our land assets to 360,000 ha.

The acquisitions further cemented our position as one of the largest operators of agricultural land in Ukraine. Indeed, Latifundist.com ranks MHP as having the fourth largest land portfolio in the country.

2013: an excellent harvest

Not even the most effective integrated model can control the weather, but 2013 will be remembered as one of the strongest years when our achievements on the ground were complemented with ideal growing conditions. The summer was hot and wet, the basis for optimum quality and considerable quantity. In 2013 MHP gathered harvest from 287,000 ha and received almost 2 million tonnes of crops (2012: over 1.6 million) and oilseeds, with pleasing results for corn, winter wheat and sunflowers.

Despite challenges with weather during the autumn, through strong management and fully engaged operational teams, we succeeded in gathering the harvest even earlier than in 2012 – and, indeed, from more land.

The majority of our total harvested production – around 65% – is used to meet our own feedstock needs. We also grow non-fodder crops to enable us to operate a crop rotation system. The rest of crop we sell on the market to generate export revenues in US dollars. This protects the Company from currency risks and serves as a natural hedge.

In 2013, grain export sales amounted to US$101 million from 353,000 tonnes. This compared to US$139 million from 480,000 tonnes in 2012.

Grain: a challenging market

During the year crop prices in Ukraine experienced a considerable dip compared with those of 2012, and this was in line with international commodity market trends. In 2013, revenues from grain growing operations decreased to US$133 million (2012: $169 million), generating EBITDA of US$39 million. EBITDA per hectare was US$136 (2012: US$447).

Despite enjoying a strong harvest in 2013, a decrease in market prices meant that increased yields unfortunately did not offset falling prices.

However, with our vertically integrated business model, and the fact that the Company is its own largest customer for crops to feed our livestock, the upside is that lower grain prices in 2013 will lead to the lower production costs per kilo in 2014.

Silo and other storages

The Company's crops are retained for our own fodder production in extensive facilities to store harvested grains in optimum conditions.

We have therefore invested heavily in silo resources, as well as leading-edge ground-based solutions, and have increased our capacity from 1,230,600 m^3 to 1,766,000 m^3. The increase was mainly due to two new elevators totalling 185,000 m^3 capacities in the Sumy and Khmelnytsky regions and a new type of storage (ground plastic bags for crops – "sleeves").

Driven by our rapidly growing poultry volumes, in 2013 MHP produced around 1.4 million tonnes of fodder at four fodder mill complexes, a rise of 16% over 2012.

The power of people

Our ability to out-perform national average yields is a direct result of the talents and skills of our people, coupled with our intensive investment in land. Sowing our crops is, quite literally, sowing the seeds of success of MHP in future years.

The Company has earned a reputation as an employer of choice and all our businesses have access to the wide pool of excellent candidates that we attract. As a result we employ high-calibre people with demonstrable potential or proven success in this particular discipline.

MHP's specialists are supported by a major investments in R&D, laboratory facilities and testing programmes. As importantly, they have access to knowledge-sharing and practical experiences, with an active programme of domestic and international site visits to share techniques and concepts with farmers, scientists and commercial managers.

Our professionals also need to be able to look far ahead: the profit per hectare in the medium-term is already being influenced by actions taken to prepare the ground now. Anticipating the needs of the soil and seeds, and gauging the optimum use of chemical and organic fertilisers, are specialist skills indeed.

MHP's success is rooted in our ability to excel in grains production and remain self-sufficient in meeting the requirements for poultry production. It therefore receives our maximum focus and, we believe, delivers results that reflect that commitment.

Our objectives for grain in 2014

The reporting year was a significant one in terms of our land bank keeping pace with our ambitious production goals. With 75,000 additional hectares to manage and develop, 2014 will be a year of consolidating our assets and ensuring that our rigid quality standards continue to be uncompromised on this larger scale.

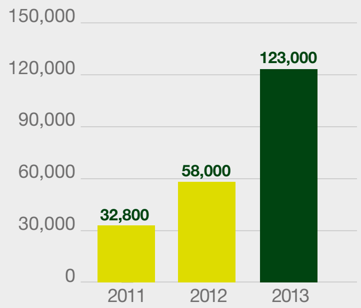
Therefore, we are content at this stage with organic growth in the year ahead. However, by 2015-2016 we are targeting a land bank of approximately 450,000 ha, and if exceptional opportunities present themselves we stand ready to respond.

Poultry

Delivering the efficiencies and reliability of vertical integration

Poultry export

By tonnes



During 2013 MHP increased its export operations by over 100% year-to-year and simultaneously diversified its export channels.

Excellent production in a stable market

The production of chicken, both fresh and frozen, is the core business of MHP and contributed around 92% of EBITDA in 2013.

We were therefore pleased to strengthen our leadership of Ukraine's industrially produced chicken market during 2013. Our market share resulted in around 50% of industrially produced poultry in Ukraine, which is one third of total poultry consumption in the country. In addition, the Company delivered a sizeable increase in production and a considerable uplift in exports.

Domestically, production was the most significant development due to the increasing contribution from the new Vinnytsia poultry farm.

Internationally, MHP's exports recorded a significant increase to 123,000 tonnes (2012: 58,000 tonnes) with significant diversification. Exports accounted for 28% of all our poultry sales volumes.

Overall in 2013 we produced 473,000 tonnes of poultry (2012: 404,000 tonnes), an increase of 17%. Revenue for the year grew by 11% to US$1,201 million (2012: US$1,083 million).

Significant production from Vinnytsia

Vinnytsia is MHP's state-of-the-art production complex.

Phase 1 of the two-phase project is currently in its final stages of completion. During 2013 the number of brigades rose from three to nine, working at 100% capacity. Since H2 2014, Phase 1 of the complex will account for around 220,000 tonnes per annum.

When both phases are fully complete, the Vinnytsia complex will contribute over 400,000 tonnes of chicken meat per year.

The complex includes a fodder plant, a sunflower crushing plant, a hatchery, rearing sites and a slaughterhouse, as well as infrastructure and social responsibility projects.

MHP's integrated model

We believe that MHP is the lowest-cost producer in our field in Ukraine, and indeed one of the most cost-efficient in the world.

Our business is built on a vertically integrated model, supported by three key elements: a major investment in greenfield projects; a corporate culture that never stops looking for even greater efficiencies; and, most important of all, a company of people who are motivated, fulfilled and respected.

We rear our own livestock (both parents and broilers), and as a major crop producer we are self-sufficient in corn, the main ingredient in our poultry fodder.

MHP owns four fodder mills, producing a wide variety of fodder to meet precise vitamin and protein contents for different age requirements. In 2013 we produced around 1.4 million tonnes of fodder, delivered by our own fleet of trucks to our chicken and breeder farms to guarantee its freshness and quality.

In addition we sold 240,100 tonnes of sunflower oil (by-product), a 23% increase on 2012 due to the increased production of the fodder mill at Vinnytsia. This was especially welcome because this product is an important contributor (around 44%) to our overall export sales.

We own six hatcheries, supplied by two breeding farms which in 2013 produced 377 million hatching eggs (2012: 311 million). This not only makes us self-sufficient in hatching eggs but also gives us full biosecurity.

MHP also owns five broiler farms; Myronivska and, increasingly, Vinnytsia make the largest contributions of around 70% to total production volumes. At every stage, quality and efficiency are monitored and targeted. For example, in 2013 we improved survival rates from 96% in 2012 to 97%.

We are also specialists in using our own resources. As an industrial user of energy we aim to extend our self-sufficiency to the gas and electricity we need. For instance, our biogas power plant, 'fuelled' by chicken manure, production wastewater and silage, produces safe and environmentally friendly green energy, while also decreasing production costs at one of our chicken facilities in the Dnepropetrovsk region (Oril Leader).

MHP scrutinises every part of operations to see how it can be optimised. Indeed, even the husks from our own sunflower production are used to provide chicken bedding, and as a partial fuel for fodder production at several fodder plants.

Marketing: domestic and exports

MHP owns one of the most trusted and respected chicken brands in Ukraine: Nasha Riaba.

In a highly competitive consumer market, we adopt a two-pronged strategy to marketing the brand: through supermarkets of all kinds, and via distribution to an extensive network of

Poultry
2012–2013

17%
increase in production

Nasha Riaba-branded franchises. These latter points of sale, which approached 2,600 outlets in 2013, give a balance to our strategy.

During the year, the high quality positioning and price differential of the brand was supported by a creative and emotive advertising campaign based on family values. Our success in exports in 2013 was also particularly pleasing. In addition to achieving a volume increase to 123,000 tonnes of frozen chicken products, we were able to extend our

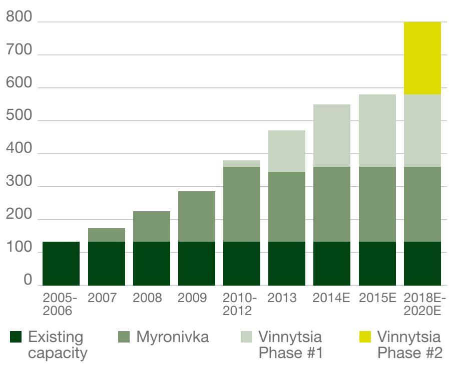
reach from 20 countries to over 40. We added new territories to our portfolio which now stretches across the CIS countries, Asia, the Middle East and Africa.

We also received a green light to begin exports to the EU and we have been fulfilling orders there since October 2013, paving the way for exciting opportunities in the future.

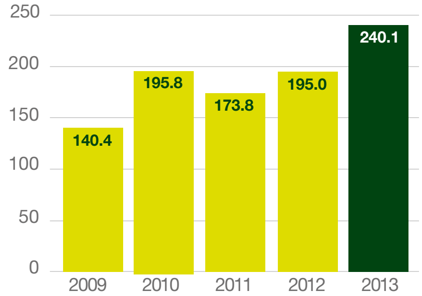
Poultry: objectives for 2014
During 2014 a further three brigades will come into service at the Vinnytsia facility, bringing the total to 12. On this basis we expect total production to rise to in excess of 550,000 tonnes of chicken meat.

Of this production, we expect around 30% to be sold to foreign markets as we increase our exports. We will strengthen our recently created international territories and cultivate the fresh opportunities that the recent EU clearance has presented to us.

Capacity increase schedule
'000 tonnes, adjusted weight



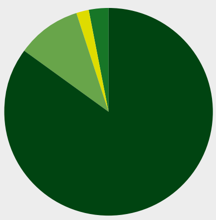
Sunflower Oil, sales
By tonnes



Other agricultural activities

Continued vertical integration into market-leading meat products

Fruit production
%



Apple	85%
Peach	10%
Sweet cherry	2%
Apricot, pear, strawberry and other	3%

MHP fruit company grows apples, strawberries, pears, grapes, peaches, apricots and other fruit. In 2013 we produced 35,640 tonnes of different fruit, which is 24% more than in 2012.

True to our philosophy of vertical integration, chicken meat we produce is also a main ingredient in a diverse range of other product lines. These include cooked and smoked meats, smoked and semi-smoked sausages, ham and convenience foods.

MHP is also active in rearing cattle, pigs and geese, resulting in a range of top quality beef, pork and foie gras. In addition, we own orchards producing varieties of fruit.

The financial performance of other agricultural operations segment significantly improved in 2013 mainly due to increased prices together with stable costs in meat processing, as well as due to positive trends in fruit and milk businesses.

In total an increase in revenues resulted in 4% and reached US$162 million (2012: US$155 million). These additional agricultural activities represented 11% (2012: 11%) of our total gross revenues and 8% of EBITDA (2012: 2%).

Meat processing products

Meat processing is a key sub-segment in other agricultural activities of MHP. The volumes of meat processing products we produced in 2013 almost equalled those of previous years, but achieved better prices.

MHP owns two meat processing facilities: Ukrainian Bacon in the Donetsk Region and Druzhba Narodiv in the Crimea.

We are the leaders in the fragmented Ukrainian meat market, with our high-value meat products sold under three brand names – Baschinsky, Druzhba Narodiv and Europroduct. In 2013, production stood at 33,210 tonnes, a decrease on the previous year of 6%. The portfolio is strongly guided by consumer research, which also informs a constant programme of new product development.

Cattle, pigs and milk

Our Company's integrated production facilities are equipped with the latest technologies for animal rearing.

In 2013 we reared over 27,390 heads of cattle (2012: over 32,000) and 47,100 heads of pigs (2012: over 40,000).

All facilities continued to create a direct, bio-secure and reliable source of top quality meat for our processed meat ranges.

MHP is also a leading producer of milk, with volumes of around 40,000 tonnes in 2013.

Fruit

The southern Ukraine provides an excellent temperate climate for fruit growing. MHP's Crimean Fruit Company grows apples, strawberries, pears, grapes, peaches, apricots and other fruit.

The Company's facility includes approximately 1,500 hectares given over to orchards, with most of the trees planted in 2007. Apples comprise around 50% of the planted area, and 2013's harvest was particularly good, yielding over 30,460 tonnes.

In 2013 our fruit business showed its first strong results and we believe it will be sustainable in the future. In total, we produced more than 35,640 tonnes of various fruits, an increase of 24% on 2012.

The Company is also recognised for the quality of its produce and this is enhanced by storing the harvest in specially equipped modern chilling facilities with adjustable temperatures. The production also meets ISO 9001:2008 and ISO 22000:2005 standards.

Gourmet delicacies: foie gras and Certified Angus

Premium-priced delicacies naturally demand high standards and capabilities, and MHP is proud to be the only Ukrainian certified producer of foie gras. In July 2013 we also received certification from the EU and in December began exports of foie gras, in particular to Hungary.

Production, tonnes
2013

33,210
meat processing products

Production, tonnes
2013

35,640
fruits

We rear geese and produce foie gras and goose meat at our Snyatynska poultry farm in the Ivano-Frankivsk region. Strict quality controls (to international ISO 9001:2008 and ISO 22000:2005 standards) are followed. In 2013, the Company produced over 435 tonnes of foie gras and goose meat.

MHP also offers a small niche production of exceptional Aberdeen Angus beef, sold under the "Certified Angus" trademark. This very fine beef, which also meets the same ISO standards above, is reared on our Druzhba Narodiv farm.

At the international exhibition IFFA – 2013: meat processing products of MHP received the highest grades

Growing sustainably, acting thoughtfully

Sustainability

We believe that the hallmark of a truly successful company does not simply lie in financial performance. The Company sees it as a corporate duty, and a privilege, to contribute to the quality of life in its communities.

In 2013 we continued to build on our community programmes, with three main focus areas: neighbourhood improvements, sport and cultural initiatives, and sponsorship and social programmes.

Neighbourhood improvement

Each year we contribute to the development of our local schools, kindergartens and playgrounds for children. We also assist in improving vital local infrastructure services including hospitals, building and repairing roads, providing lighting for public spaces and addressing other necessary aspects for municipal improvement where our facilities are located.

In particular: in 2013 we carried out a project to help connect local people and state institutions with water and gas supplies.

In the Kaniv district of the Cherkassy region, the home of our Myronivka poultry complex, we built a fire-fighting facility and equipped it with a fire engine. We also reconstructed the central park in the town of Myrne (where our Starynska Poultry farm is located) for local people to enjoy.

Sport and cultural initiatives

The Company is keen to help local children and young people enjoy a healthy start to life and we foster sporting initiatives where our facilities are located. At our Druzhba Narodiv meat processing plant in Crimea we have built a winter sports pavilion and young athletes are able to train there all year round. We also set up a new equestrian sport centre in the town of Ladyzhyn where our Vinnytsia complex is located.

Football also has a passionate followers in our local communities and our Myronivska poultry farm took part in the organisation of the Kaniv district's cup and championship competitions.

Sponsorship and social programmes

MHP is a proud supporter of a variety of local state institutions, cultural centres, NGOs. The Red Cross and other organisations. This support takes the form of our own produce (chicken meat, convenience food etc.), financial aid, equipment and resources. In 2013, we also gave a range of books to local public libraries, and supported the town of Ladyzhyn in their celebrations of Agricultural Workers' Day. We provided a new town clock, together with fireworks and entertainment.

Relations between the Company and employees

With around 30,000 employees across nearly 30 different enterprises, MHP is not only a major business but one of the largest employers in Ukraine. We take this responsibility seriously, looking to safeguard our people's well-being and providing a workplace that is fulfilling and fair. Various initiatives support these aims, ranging from monitoring employee satisfaction to controlling and enhancing quality of life. MHP also makes sure that lines of communication with the labour unions are always open.

Employee benefits

Every employee of MHP receives benefits that include transport, food, schooling and accommodation. In 2013 our enterprises successfully put in place a long-term programme to provide accommodation, ranging from residential homes for families to dormitories and rented apartments. Every month, every employee receives a food package of the Company's own poultry.

MHP also gives employees' children access to kindergartens and arranges transport to take them there. Most of our enterprises also offer programmes for university education as well.

We also care for our employees' health, providing medical services in the event of illness or emergency, as well as family stays at health resorts.

Investing in our people

Like any company that is aiming to build on its success for the long-term, we value our human assets above all others. Each year, it is our aim to make MHP an even better company in which to thrive and develop.

In 2013 we significantly increased our investment in training and launched a series of development programmes. These included development of both "hard and soft" skills, and piloting an extensive scheme that will see every employee in the Company receive his or her own career development plan.

During the year we launched a new assessment system with a view to linking salary increases to individual performance. We also laid the plans for our first Employee Satisfaction Survey, as part of our determination to learn how we can become an even better employer, in a culture of good and open communication.

Nurturing new talent is central to our future success and we work closely with universities; indeed, we are Ukraine's largest employer of agricultural graduates. In 2013 we built on our active programme of internships and training, and around 700 students took part in our "Start Your Career with MHP" programme.

Alongside this, we launched new programmes to advance the careers of existing employees and thus retain talented specialists. We also invested further in our specialist MHP "Agrocentre" agrarian school which teaches the latest skills and techniques in agriculture.

Sport and activities
The many benefits of sport – health, teamwork, strategy, camaraderie – receive our full support at MHP. We offer fully equipped sports halls at our enterprises and support popular football programmes. Most enterprises have their own competitive teams including "Nasha Riaba" at the Myronivska poultry farm which is a regional leader. We also promote annual sports festivals and contests. Just one example is the annual "Tractor-Fast" competition, where entrants showcase their professional tractor skills.

A safe working environment
The most important priority of all at MHP is that our employees go home safe every day. All MHP facilities therefore have well-developed health and safety policies. These require regular safety inspections of equipment, as well as tailor-made programmes with the emphasis on preventing accidents and minimising potential health, safety and environmental risks.

Our Labour Protection Department is responsible for our ongoing compliance with health and safety requirements. This is not only monitored by our regular internal audits but also by those of the European Bank of Reconstruction and Development (EBRD) and the International Finance Corporation (IFC).

Animal welfare
MHP believes that the welfare of poultry is paramount and as the Company we fully share the views of our consumers and customers on this issue. We are committed to the most humane methods of poultry rearing at our enterprises. MHP adheres to the scientific standards directives of the European Union for the protection of animals, and to the guidelines of the International Organization for Animal Health, of which Ukraine is a permanent member. The principles behind these standards and guidelines are focused on the health and humane treatment of birds throughout the entire production cycle, from the incubation and hatching of chicks through to their rearing, transport and slaughter.

The Company's policy also respects five animal freedoms: freedom from hunger and thirst; freedom from discomfort; freedom from pain, injuries and disease; freedom to express their normal behaviour; and freedom from fear and stress.

In July 2013, MHP received official clearance to export products to EU countries from its Myronivka poultry farm (chicken meat), its meat processing plant Legko (convenience food) and the Snyatynska farm (goose meat and foie gras). Exports duly began in October, with full compliance of stringent welfare standards.

Environment
In the course of our daily operations, we are constantly looking for ways to reduce the impact we make on the environment and our use of natural resources.

Energy efficiency
The Company made a major step towards becoming more eco-efficient in 2013 when our new biogas plant at the Oril-Leader poultry farm came online. It serves some of our industrial needs and produces energy under an official green tariff. The plant runs on chicken manure and waste, reducing both our carbon footprint and production costs.

We have also invested in automated systems, solid state lighting and energy-saving plant designed to achieve maximum efficiency from energy resources. As importantly, our staff are trained in the best use of energy and how to reduce our consumption.

Air protection
All MHP sites use a combination of energy reduction technologies and highly efficient dust filters in order to minimise pollutants reaching the air. The Company pays an annual State environmental tariff to compensate for any pollution we cause. We comply with all relevant laws in this area and have never incurred environmental penalties.

Responsibility for the product
The Company takes seriously its responsibility to offer safe and healthy food and therefore controls the use of chemicals from the very earliest stages of production. In our grain operations we have made an official pledge not to use "Ia/Ib" class pesticides. This is consistent with IFC Performance Standards and the World Bank Group EHS guidelines. We also minimise the use of pesticides and agro-chemicals by using crop rotation, and any formulations we do use always comply with all current legislation.

In addition, MHP products do not contain genetically modified materials or steroids. The majority of our enterprises have adopted a new international certification scheme FSSC 2200 which corresponds with ISO 9001 and ISO 22000 standards. This lays down defined standards in each link of the supply chain and is approved by the Global Initiative for Food Safety (GFSI).

Waste disposal
MHP leads by example in using low-waste processes and in finding innovative ways to re-use waste as secondary raw materials. For example, sunflower husks from oil production are used as fuel for boiler houses and as litter for birds. Atmospheric waste from elevators (silos) is sent out to specialised recycling enterprises, and the ash that results from sunflower husk combustion serves as fertiliser.

Water management and wastewater reduction
Water is a precious resource and MHP has made a significant investment in recycling technologies. We also apply scientific techniques to extracting potable water and are equipped with full water treatment technologies.

Quality control is applied according to sanitary and environmental laboratory standards, and in accordance with Ukrainian legislation.

How have we performed

Financial review

MHP is one of Ukraine's leading agro-industrial companies, focused on producing chicken and chicken products, processed meat products and the cultivation of grain. As the leading poultry producer in Ukraine*, MHP accounted for approximately 50% of all industrially produced chicken in Ukraine and about one third of all poultry consumed there in 2013.

We also operate one of the country's largest banks of agricultural land. At the end of 2013 MHP had around 360,000 hectares of land under its control, including 40,000 hectares in Russia.

In addition, we produce and sell sunflower oil as a by-product of producing chicken feed, as well as sausages, fruits, 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. This segment produces and sells chicken and chicken products, sunflower oil, convenience food, mixed fodder and other products related to the poultry production process. In 2013 it accounted for 80% of total sales (2012: 77%) and 92% of total EBITDA (2012: 80%).

Grain Growing operations. This segment produces grain used as fodder for our own operations. A proportion is also sold to third parties and in 2013 this constituted 9% of MHP's total revenue (2012: 12%) and 10% of total EBITDA (2012: 24%).

Other Agricultural operations. This 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% of 2013's total sales (2012: 11%) and 8% of total EBITDA (2012: 2%).

Results

	2013 US$000	2012 US$000	Change %
Revenue	**1,496,079**	1,407,522	6%
Net change in fair value of bio-assets and agricultural produce	**13,634**	16,734	(19%)
Cost of sales	**(1,185,987)**	(1,001,909)	18%
Gross profit	**323,726**	422,347	(23%)
Gross margin, %	**22%**	30%	(8pps)*
Selling, general and administrative expenses	**(130,615)**	(120,485)	8%
Government grants recognised as income	**100,885**	102,369	(1%)
Other operating expenses and income, net	**(22,160)**	(23,648)	(6%)
Operating profit	**271,836**	380,583	(29%)
Depreciation	**119,014**	87,135	37%
EBITDA	**390,850**	467,718	(16%)
EBITDA margin, %	**26%**	33%	(7pps)*
Operating profit	**271,836**	380,583	(29%)
Finance costs, net	**(109,775)**	(59,311)	85%
Finance income	**3,766**	3,350	12%
Foreign exchange gains/(losses)	**(11,052)**	(3,285)	236%
Gain from acquisition of subsidiaries	**6,776**	–	–
Other expenses and income, net	**(1,316)**	(2,633)	(50%)
Profit before tax	**160,235**	318,704	(50%)
Income tax expense	**2,005**	(7,788)	126%
Net income	**162,240**	310,916	(48%)
Net margin, %	**11%**	22%	(11pps)*

*pps –percentage points

In 2013, MHP's consolidated revenue increased by 6% to US$1,496 million (2012: US$1,408 million) as a result of increased sales volumes of chicken meat and sunflower oil.

Gross profit decreased in 2013 by 23% to US$ 324 million against US$ 422 million in 2012. This was driven mainly by lower earnings in the grain segment. Gross margin decreased from 30% in 2012 to 22% in 2013.

In 2013, EBITDA totalled US$391 million, 16% lower than the previous year (2012: US$468 million). This was due to low grain prices for the 2013 harvest and high fodder costs during the first nine months of the year. EBITDA margin decreased from 33% in 2012 to 26% in 2013.

*source: the State Statistics Committee of Ukraine (SSCU)

Net income for the year decreased by 48%, from US$311 million in 2012 to US$162 million in 2013. This was in line with the EBITDA trend combined with increased depreciation (US$119 million in 2013 against US$87 million in 2012) and finance costs (US$110 million in 2013 against US$59 million in 2012). As a result, net income margin decreased from 22% to 11%.

Income Statement by Segments in 2013

	Poultry US$000	Grain US$000	Other agricultural US$000	Unallocated US$000	Total US$000
Revenue					
Total revenue	**1,250,953**	**328,028**	**167,358**	**–**	**1,746,339**
Inter-segment eliminations	(49,853)	(194,764)	(5,643)	–	(250,260)
Sales to external customers	**1,201,100**	**133,264**	**161,715**	**–**	**1,496,079**
Net change in fair value of biological assets and agricultural produce	25,636	(27,368)	15,366	–	13,634
Gross Profit*	**311,650**	**(12,534)**	**24,610**	**–**	**323,726**
Segment result/operating profit	275,026	13,555	25,844	(42,589)	271,836
EBITDA	**358,468**	**39,076**	**32,753**	**(39,447)**	**390,850**
Finance cost					(109,775)
Finance income					3,766
Foreign exchange losses					(11,052)
Other expenses, net					5,460
Profit before tax					**160,235**
Income tax expense					2,005
Net profit from continuing operations					**162,240**

* 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 for the coming years as well as certain changes to the rules of income tax assessment. The tax rate was set at 19% effective 1 January 2013, 18% effective 1 January 2014, 17% effective 1 January 2015 and 16% effective 1 January 2016.

The proposed decrease of the VAT rate to 17%, which was scheduled to begin in 2014 by the Tax Code of Ukraine, has been postponed. The rate in force for 2014 remained at 20%.

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 2013 state support was provided in the form of special tax regimes (VAT and Corporate Income Tax).

The majority of MHP Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Tax Code and are exempt from Corporate Income Tax and other taxes such as Land Tax, Special Water Consumption Duty and Trade Patent. This tax regime is valid until further notice. According to the Tax Code, the special VAT regime for the agricultural industry will be effective until 1 January 2018.

Foreign currency exchange rates and functional currency

MHP's operating assets are located in Ukraine and its revenues and costs are denominated principally in Hryvnias. Almost all financial costs and currency denominated proceeds amounting to 39% of revenue 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 completely hedged by its US dollar revenue earned from the export of sunflower oil, sunflower husks, poultry and grain. In 2013 the Company generated US$585 million of currency denominated proceeds, up by 22% compared with the US$480 million generated in 2012. This is mostly due to increases in poultry export sales volumes.

Export revenues, 2011-2013, US$000

	2013	2012	2011
Sunflower oil and related products	**253,194**	227,835	222,418
Chicken meat	**216,683**	112,931	67,874
Grains*	**114,923**	138,639	63,101
Other agricultural segment products	**405**	431	486
Total currency denominated proceeds	**585,205**	479,836	353,879

*grain export sales during the year ended 31 December 2013 includes USD 14,249 thousand of gain received from operations, when goods are exchanged or swapped for goods which are of similar nature.

Financial review
continued

The functional currency for the Group's companies is the Ukrainian Hryvnia (UAH); the functional currency of the Russian Federation companies of the Group is Russian Rouble (RUB). However, for the convenience of analysts MHP presents its financial statements in US dollars (USD), using the quarterly average and historical exchange rates.

Currency	**Closing rate as of 31 December 2013**	Average for 2013	Closing rate as of 31 December 2012	Average for 2012	Closing rate as of 31 December 2011	Average for 2011
UAH/USD	**7.9930**	7.9930	7.9930	7.9910	7.9898	7.9677
UAH/EUR	**11.0415**	10.6116	10.5372	10.2692	10.2981	11.0926
UAH/RUB	**0.2450**	0.2512	N/A	N/A	N/A	N/A

Poultry and related operations

	2013 US$000	2012 US$000	Growth rate %
Revenue	**1,201,100**	1,082,978	11%
– Chicken meat and other	**952,937**	866,544	10%
– Sunflower oil	**248,163**	216,434	15%
IAS 41 standard gains	**25,636**	11,955	114%
Gross profit	**311,650**	342,836	(9%)
Gross margin	**26%**	32%	(6pps)*
EBITDA	**358,468**	376,459	(5%)
EBITDA margin	**30%**	35%	(5pps)*
EBITDA per 1kg of chicken meat	**0.80**	1.00	(20%)

*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.

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.

Consumer demand for poultry remained high in 2013, and all MHP's poultry production units continued to operate at full capacity. In 2013 poultry production volumes increased by 17% to 472,800 tonnes of poultry (2012: 404,000 tonnes). This volume growth was mostly due to increased operations at the new Vinnytsia poultry complex.

In 2013 MHP's poultry sales volumes to third parties increased by 19% to 447,000 tonnes compared with 375,300 tonnes in 2012. Export sales of poultry increased significantly by over 100% year-on-year and amounted to nearly 123,000 tonnes (2012: 58,000 tonnes). Share of export sales increased from 15% of total sales volume in 2012 to 28% in 2013. In H2 2013 the Company substantially diversified its exports by decreasing the proportion to Custom Union countries and increasing volumes to Arabian countries, Asia and, for the first time, the EU. In total, MHP opened up around 20 new export markets in Asia, the Middle East and Africa, simultaneously increasing its exports trades across all regions.

High volumes of exported chicken meat were the key driver of increased revenue in foreign currencies in 2013. Poultry export sales generated US$217 million, up by 92% compared with US$113 million in 2012, providing an additional hedge against currency risk and devaluation of the Hryvnia.

The average sales price of poultry decreased by 7% to UAH 15.99 per kg in 2013 (2012: UAH 17.19 per kg) as a result of stable domestic prices. This was combined with increased export volumes and lower export prices from new markets.

MHP produces sunflower oil as a by-product of the sunflower seeds we use in the manufacture of chicken feed. Almost 100% of the sunflower oil we produce is exported. In 2013, 240,100 tonnes of sunflower oil were produced and sold for export, which is 23% more than in 2012, due to the high sunflower harvest yield in 2013. Average prices of sunflower oil decreased by 7% to US$1,033 per tonne. This compared to US$1,109 per tonne in 2012 and was in line with world market trends.

The segment's revenue amounted to US$1,201 million, up 11% on the previous year (2012: US$1,083 million), driven mostly by volume growth in poultry and sunflower oil sales.

Average poultry production costs in 2013 increased slightly, by approximately 3%, compared to 2012. As a result of the substantial rise in the grain price at the end of 2012, costs in the first 9 months of 2013 increased by 13% year on year. However, following a sharp reduction in prices for grains harvested in 2013, costs in Q4 2013 decreased by 16%.

The Poultry segment`s cost of raw materials and other inventory mainly comprises feed grain and other items associated with producing fodder, as well as items for producing hatching eggs. Most of the feed grain used in poultry production such as corn, and in part sunflower seeds, is produced by the Company's Grain Growing division. Management believes that the prices at which products are sold between divisions are generally consistent with average market prices during the harvest season.

The gross profit of the Poultry segment was US$312 million in 2013, 9% lower than the previous year (2012: US$343 million). Despite higher volumes sold, gross profit margin declined from 32% in 2012 to 26% in 2013, due to a softening in chicken meat prices and higher production costs.

EBITDA for the Poultry segment decreased by 5% to US$358 million in 2013 (2012: US$376 million), mostly in line with gross profit decline. EBITDA margin decreased to 30% in 2013 compared to 35% in 2012.

Grain growing

	2013 US$000	2012 US$000	Growth rate %
Revenue	**133,264**	169,142	(21%)
IAS 41 standard gains	**(27,368)**	4,329	(732%)
Gross profit	**(12,534)**	72,618	(117%)
EBITDA	**39,075**	111,708	(65%)
EBITDA per 1 hectare	**136**	447	(70%)

In 2013 the Company operated 287,000 hectares of land in Ukraine and 40,000 hectares in the Russian Federation for growing grain. Due to favourable weather conditions the harvest from our Ukrainian land showed a marked increase to 2 million tonnes of grains and oilseeds in 2013 (2012: 1.6 million tonnes). However, high yields around the world led to a sharp decline in prices, and therefore lower revenues than in 2012. The Company's new 40,000 hectares in the Russian Federation were also harvested by MHP in 2013 but were sowed by the previous owner; the contribution of this land to the Grain segment's results was therefore zero in the reporting year.

MHP's grain yields in 2013 were significantly higher than the Ukrainian average. This was due both to the Company's operational efficiency and the best-practice techniques we employ. Our corn yield increased to 8.8 tonnes per hectare in 2013 compared to 7.6 tonnes per hectare in 2012. Similar gains were also achieved in other grains and oilseeds.

MHP uses the majority of the grain it produces (corn and sunflower seeds) in its own operations, while wheat, rape, soybean and barley are sold to third parties. These external sales constitute the revenue of the Grain growing segment. In spite of the high volume of grain harvested, the decline in grain prices saw revenue decrease by 21% to US$133 million in 2013 compared to US$169 in 2012. Consequently, EBITDA per hectare (ha) decreased by 70% from US$447 per ha in 2012 to US$136 per ha in 2013.

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

Other Agricultural Operations

	2013 US$000	2012 US$000	Growth rate %
Revenue	**161,715**	155,402	4%
– Meat processing	**101,070**	102,959	(2%)
– Other	**60,645**	52,443	16%
IAS 41 standard gains	**15,366**	450	n/a
Gross profit	**24,610**	6,892	257%
Gross margin	**15%**	4%	11pps*
EBITDA	**32,754**	10,016	227%
EBITDA margin	**20%**	6%	14pps*

*pps –percentage points

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 fruit, milk, beef, goose and foie gras.

The financial performance of this division showed a significant improvement in 2013, mainly due to better results from its fruit business and positive trends in the meat processing and milk businesses.

MHP's sausage and cooked meat volumes decreased by 6% to 33,210 tonnes in 2013 compared with 35,200 tonnes in 2012. Stable demand for meat processing products had a positive impact on sales prices during 2013. Average sausage and cooked meat prices rose by 6% to UAH 23.53 per kg in 2013. MHP is a market leader in meat processing in Ukraine and its market share remained at around 10%.

Financial review
continued

The cost of raw materials and other inventory primarily consists of seeds, fertilisers, pesticides and veterinary medicines. In addition, costs include payroll expenses, depreciation of agricultural machinery, equipment and buildings, and fuel, electricity and natural gas used in the production process. More than 50% of the meat raw materials required for the Company's meat processing operations is met by internally produced poultry.

Revenue of the segment increased by 4% to US$162 million in 2013 over 2012. Gross profit increased to US$25 million in 2013 (2012: US$7 million) as a result of higher profitability of the meat processing, fruit and milk businesses. Positive IAS 41 effect of US$15 million in 2013 mostly related to the fruit business where the majority of orchards reached the level of full technological productivity.

EBITDA of Other Agricultural operations rose to US$33 million in 2013 in line with the increase in gross profit. EBITDA margin increased from 6% in 2012 to 20% in 2013.

Liquidity and capital resources
MHP's cash flow from operating activities was driven mainly by operating profit adjusted for non-cash items such as depreciation, and for changes in working capital. Cash flow from operations before working capital changes decreased by 21% to US$305 million for the year 2013 (2012: US$384 million) in line with the EBITDA decline.

In 2013 the decrease of working capital amounted to US$ 27 million. In Q4 we usually purchase large volumes of sunflower seeds to meet the considerable stock we will need for the following year. However, in 2013 the investment required for sunflower seeds was lower than usual due to lower prices and forward financing transactions with international grain trader Toepfer. At the same time, lower CAPEX also had a positive effect on working capital dynamics through zero growth of VAT receivables.

Total CAPEX was US$267 million in 2013, mostly related to the Vinnytsia project. Since the start of construction in May 2010, more than US$700 million has been invested in the project by the end of 2013.

Cash flows

	2013 US$00	2012 US$000
Operating activities		
Operating profit before movements in working capital changes	**305,034**	383,731
Change in working capital	**26,592**	(185,597)
Net Cash generated from operating activities	**331,626**	198,134
Investing activities		
CAPEX	**(267,202)**	(387,721)
Including non-cash investments	**39,172**	123,703
Assets sale and other	**3,335**	1,824
Deposits	**629**	1,788
Net cash used in investing activities	**(224,066)**	(260,406)
Financing activities		
Net cash generated from financing activities	**(28,138)**	62,279
Including Treasury shares acquisition	**–**	(41,465)
Dividends	**(99,026)**	–
Net increase in cash and cash equivalents	**79,422**	7
Effects of exchange rates	**(1,737)**	20
Total change in cash	**77,685**	27

Debt

	31 December 2013	31 December 2012	31 December 2011
Total Debt US$, m	**1,302**	1,140	898
Long Term Debt	**1,183**	817	709
Short Term Debt	**119**	323	190
Cash and bank deposits	**(172)**	(95)	(97)
Net Debt	**1,130**	1,045	802
LTM EBITDA	**391**	468	401
Debt/LTM EBITDA	**3.33**	2.44	2.24
Net Debt/LTM EBITDA	**2.89**	2.23	2.00

As of 31 December 2013, MHP's total debt was US$1,302 million, most of which was denominated in US dollars. The average weighted interest rate of debt was below 8%.

Almost 60% of MHP`s total debt is the new 7-year Eurobond issued in April 2013, which matures in April 2020. After the Eurobond issue, MHP's debt structure improved significantly with the share of long-term debt increased to 90% at the end of 2013 compared to 72% at the end of 2012.

US$192 million of our long-term debt is principally represented by loans, covered by the ECA, which matures at various dates up to 2018. US$80 million of our debt is accounted for by IFC and EBRD loans for financing the Company's working capital needs. US$ 60 million represents financing for the lease of agricultural machinery and equipment used in our grain growing activities and for vehicles for distribution, and matures at various dates up to 2018.

As of the end of 2013, MHP had US$172 million in cash. Net Debt increased to US$1,130 million as of 31 December 2013 compared to US$1,045 million as of 31 December 2012. The Net Debt/LTM EBITDA ratio at the end of the period was 2.89 (Eurobond covenant: 3.0).

As a hedge for currency risks, revenues from the export of sunflower oil, sunflower husks and poultry are denominated in US dollars, fully covering debt service expenses. About 39% of the Company's revenue is 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 completely hedged by its US dollar revenue earned from the export of sunflower oil, sunflower husks, poultry and grain. In 2013 the Company generated US$585 million of currency denominated proceeds, up by 22% compared with the US$480 million generated in 2012. This was mostly due to increases in poultry export sales volumes.

A positive outlook

Since November 2013, Ukraine has been subject to political instability. On 22 February 2014 the Parliament of Ukraine voted for a reinstatement of the 2004 Constitution and the dismissal of the incumbent President. New presidential elections are scheduled for May 2014 and a transitional government has been formed.

Despite the political turmoil, domestic demand for chicken meat remains high; during the first months of 2014 it increased by around 20% compared to the same period last year.

At the beginning of February 2014, MHP was banned from exporting its poultry meat to the Russian Federation as well as to other Custom Union countries (Kazakhstan and Belarus). However, taking into account our diversified export channels (with around 40 countries in our portfolio), MHP's export sales across the regions are currently over 20% higher than during the same period last year, and in general are in line with our objectives.

During 2014, and exactly as planned, Phase 1 of the Vinnytsia complex will be fully complete. The final three production brigades are scheduled to be launched in operation in 2014, and by the close of the year the complex will reach its full production capacity of around 220,000 tonnes of chicken meat per annum.

During the first months of 2014 the Ukrainian Hryvnia devalued against major world currencies. However, taking into account the Company's business model of vertical integration, we foresee a positive effect arising from the currency's devaluation because:

- most of our production costs are in local currency;
- we will achieve higher profitability in grains as domestic grain prices correlate with international prices set in hard currency (US dollars).

On 27 February 2014, pro-Russian forces took control of the parliament of Crimea, an autonomous region of Ukraine. The region then voted to hold a referendum on the status of Crimea in March 2014.

MHP owns several production facilities in the region and we are mindful of the uncertain situation there. However, the Group's reports show that, as of 31 December 2013, our Crimean assets generated 10% of operating profit. Therefore, the Company does not consider this disruption to pose a significant risk to its total profitability in the future. Moreover, it is currently "business as usual" at each of those production facilities.

So despite the challenging situation that exists in Ukraine, we feel confident in delivering a strong year for MHP in 2014 both operationally and financially. This will be driven mainly by the increase in overall production of chicken meat at the Vinnytsia complex, and by the additional grains we will produce from our 40,000-hectare land bank expansion in the Russian Federation.

How do we conduct our business?

Corporate governance

MHP is registered in Luxembourg. Its shares are listed on the London Stock Exchange. The Company complies with the Ten Principles of Corporate Governance approved by the Luxembourg Stock Exchange and voluntary corporate governance regime stated in the UK Corporate Governance Code. The Company upholds and practices the highest standards of ethics and integrity in its relationships with its shareholders, directors, personnel, business community and other third parties including government and regulatory agencies. The main aspects of the Company's corporate governance policy are described in the Corporate Governance Charter approved by the Board of Directors in May 2012 and published on the Company's corporate website at http://www.mhp.com.ua.

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 laws and regulations 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 seven Directors, four are independent. The Board is assisted by two Board committees: the Audit Committee and the Nominations and Remuneration Committee. These committees handle business within their respective areas and present recommendations and reports on which the Board may base its decisions and actions.

The Board has a 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, and is responsible for the evaluation of the Chairman and serves as a trusted intermediary for non-executive directors as and when necessary. Starting from 2011, the Board conducts regular effectiveness reviews in order to evaluate its performance as well as that of its committees and individual directors. The evaluation process is normally initiated by a questionnaire and then supplemented by individual interviews by the Chairman with each of the directors. The conclusions are analysed by the Board to further strengthen its composition and performance.

During the year, the Board comprised:
Charles E Adriaenssen, Independent Non-executive Director, Chairman
Dr John C Rich, Independent Non-executive Director
John Grant, Non-executive Director, Senior Independent Director
Philippe Lamarche, Independent Non-executive Director
Yuriy Kosyuk, Chief Executive Officer
Yuriy Melnyk, Deputy CEO, Executive Director
Viktoria Kapelyushnaya, Chief Financial Officer, Executive Director

During 2013 the attendance by directors at the Board's meetings was at the level of 100%.

The term of office of each member of the Board of Directors will expire at the annual general shareholders meeting to be held in 2016. 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 Kapelyushnaya and Mr Melnyk 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 Kosyuk's appointment as Chief Executive Officer (CEO) were agreed and signed on 21 June 2006. The terms are for the duration of his office and do not provide for any benefits on termination of his directorship. Mr Kosyuk may, however, resign from his position as CEO only subject to a prior three months' notice.

The terms contain confidentiality obligations applicable to Mr Kosyuk for a period of five years after termination of his office. The amount of remuneration and benefits paid by the Company to the persons responsible for the day-to-day management of the Company is reported by the Board of Directors to the AGM. The amount of remuneration and benefits of all members of the Board of Directors, including the Chief Executive Officer, regardless of whether such remuneration is paid by the Company or by any other entity within the Group, is established by the Nominations and Remuneration Committee. In addition, the amount of remuneration paid to non-executive directors is approved by the AGM.

Nominations and Remuneration Committee

Charles E Adriaenssen, Chairman
John Grant, Dr John C Rich

The Committee's main tasks are:

- To recommend to the Board the appointment or renewal of Directors, to review remuneration and monitor performance of the Board, and to make recommendations to the Board in respect of the necessary skills and experience required to improve the functioning of the Board.
- To monitor the performance of key officers of the Company and evaluate results versus stated objectives, to monitor training needs and programmes to improve employee effectiveness, to ensure the Company develops successors for all key positions.
- To oversee the development and approval by the Board of the Company's overall compensation policy including its long-term incentive plans, to ensure that top managers are incentivised to achieve and are compensated for exceptional performance, to oversee the maintenance and continuous improvement of the Company's compensation policy with a view to aligning the interests of employees with the interests of shareholders.
- To submit for approval to the Board the compensation packages of the CEO and of the executive management.
- To approve all external hiring of key officers.

During 2013, the Committee held two meetings, and all of the Committee members attended.

Audit Committee

John Grant, Chairman
Dr John C Rich, Philippe Lamarche
The Committee's main tasks are:

- To review and monitor the integrity of the Company's financial statements, announcements of results and any other formal announcement relating to its financial performance, significant financial reporting issues and judgements and to make recommendations to the Board with respect to the financial statements.
- To keep under review and report to the Board on the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, management and reporting of risks.

- To review the Company's policies and procedures for the identification, management and reporting of non-financial risks, to review reports on the risk management process and to report to the Board on the effectiveness of the risk assurance process.
- To monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.
- To approve appointment, reappointment, compensation and oversight of the Company's external auditors.
- To assist the Board in overseeing compliance with all legal and regulatory requirements.

During 2013, the Committee held four meetings, and the average attendance of the Committee members was at the level of 100%.

Remuneration of auditors

Remuneration of auditors amounted to US$1.0 million, US$0.7 million, US$0.8 million in 2013, 2012 and 2011 respectively. Auditor's remuneration is mainly attributable to the audit services and services provided in respect to bonds issued but also includes tax consulting fees of around US$0.1 million per year.

The Company has rules and processes in place to ensure independence of the auditors, including non-audit fees limitation set by the Board and annual investigations by the Audit Committee of whether any services provided are incompatible with independence of the auditors.

Internal control/risk management

The Board of Directors is ultimately responsible for the Company's governance, risk management, internal control environment and processes and formally reviews their effectiveness at least annually. There is a continuous process for identifying, evaluating and managing the significant risks the Company faces and the Board regularly monitors exposure to key business risks. The Company has an independent internal audit function whose activities are overseen by the Audit Committee.

The Board of Directors approved in principle the MHP Anti-Bribery Policy, the document which is aimed at establishing the key principles and requirements in order to prevent corruption and bribery and ensure compliance with the applicable anti-corruption laws (to the extent applicable to MHP Group companies) enacted in the jurisdictions in which MHP Group companies operate. Also, the Board of Directors approved in principle the MHP Code of Ethics and Conflict of Interest Policy.

The aim of the Code of Ethics is to ensure consistency in managers' and employees' behaviour within MHP and their interactions with third parties. To this end, certain procedures have been devised to avoid potential violations of the Code.

The Conflict of Interest Policy

This policy covers any transactions involving conflicts of interest (whether actual or potential) of: (1) MHP's management team members, including directors of subsidiaries and branches ("key management"); (2) MHP's line managers who have authority to authorise transactions on behalf of MHP ("line managers"); (3) other MHP employees who are authorised to internally approve any decisions as to significant provisions of transactions based on the internal policies and instructions ("responsible employees") or have power to influence such decisions.

Financial reporting process

MHP has in place a comprehensive financial review cycle, which includes a detailed annual budgeting process. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board of Directors. Major commercial and financial risks are assessed as part of the business planning process. There is a comprehensive system of financial reporting, with monthly performance reports presented to the Board of Directors. 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 executive management, which consists of contractual salary and performance bonuses, amounted to US$12,969 thousand, US$11,686 thousand and US$8,741 thousand (including performance bonuses of US$4,745 thousand, US$3,493 thousand and US$2,601 thousand) in 2013, 2011 and 2010, respectively. Total compensation of the Group's non-executive directors, which consists of contractual salary, amounted to US$550 thousand, US$407 thousand and US$380 thousand in 2013, 2012 and 2011, respectively.

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:
- any convictions relating to fraudulent offences;
- 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
- 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.

Additional disclosures

At the date of this annual report, there were no takeover bids made over the Company's shares. According to the terms of the Senior Notes, the Company may be required to offer to repurchase the Senior Notes from the holders if a change in control as a result of a takeover bid occurs. There are no agreements between the Company and its Directors or employees providing for compensation on loss of office or employment (whether through resignation, purported redundancy or otherwise) that would occur because of a takeover bid.

Dividend policy

In March 2013 the Board of Directors approved the adoption of a dividend policy which maintains a balance between the need to invest in further development and the right of shareholders to share the net profit of the Company. The new dividend policy confirms the Company's intention to pay annual dividends to the shareholders on a regular basis.

How do we conduct our business?

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2013.

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 five 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 360,000 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 fruit. It incorporates one mixed farm, a goose farm and two facilities for producing prepared meat products. More information about the operations of the business is set out in the Chairman's Statement on pages 10-11, the Chief Executive Officer's review on pages 12-13, and the Business review on pages 16-23.

Future developments

The Group's strategy is:

- to expand its capacity to produce chicken and chicken products in a domestic market which has a 45.5 million population and one of the world's lowest rates of meat consumption per capita;
- to expand its grain production to around 450,000 hectares by 2015-2016 and 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 are ample opportunities for growth as customers choose to buy domestically produced chicken, which is cheaper and fresher than imported meat.

Going concern

After reviewing the 2014 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 2013:

Charles E Adriaenssen
Independent Non-executive Director, Chairman of the Board

Yuriy Kosyuk
Chief Executive Officer

Viktoria Kapelyushnaya
Chief Financial Officer

Yuriy Melnyk
First Deputy CEO

Dr John C Rich
Independent Non-executive Director

John Grant
Non-executive Director, Senior Independent Director

Philippe Lamarche
Independent Non-executive Director

The Directors' biographies are on pages 08-09 of this report.

Election and re-election of directors

Details of the procedure for election and re-election of directors is in the Corporate governance report on pages 32-33 of this report.

Annual general meeting "AGM"

The AGM will be held at the Company's registered office in Luxembourg at 12 noon on 28 April 2014.

Disclosure of information to auditors

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

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

for the year ended 31 December 2013

The Board of Directors is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of MHP S.A. and its subsidiaries (the "Group") as of 31 December 2013 and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

In preparing the consolidated financial statements, the Board of Directors is responsible for:

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

The Board of Directors, within its competencies, is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised for issue by the Board of Directors on 1 April 2014.

Board of Directors' responsibility statement

We confirm that to the best of our knowledge the directors' report, which is incorporated into the annual report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

Independent Auditor's 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 29 April 2013, we have audited the accompanying consolidated financial statements of MHP S.A., which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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.

Responsibility of the réviseur d'entreprises agréé

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 réviseur d'entreprises agréé's judgement 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 réviseur d'entreprises agréé 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 2013, and of its consolidated 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.

Emphasis of matter

We draw your attention to Note 28 "Contingencies and contractual commitments" to the consolidated financial statements, which describes the current political crisis in Ukraine. The impact of the continuing economic crisis and political turmoil in Ukraine and their final resolution are unpredictable and may adversely affect the Ukrainian economy and the operations of the Group. Our opinion is not qualified in respect of this matter.

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 and 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 with respect to the corporate governance statement.

For Deloitte Audit
société à responsabilité limitée
Cabinet de révision agréé

Sophie Mitchell,
Réviseur d'enterprises agréé
Partner

1 April 2014
560, rue de Neudorf
L-2220 Luxembourg

Consolidated statement of comprehensive income

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

	Notes	2013	2012	2011
Revenue	6	**1,496,079**	1,407,522	1,229,090
Net change in fair value of biological assets and agricultural produce		**13,634**	16,734	21,288
Cost of sales	7	**(1,185,987)**	(1,001,909)	(889,127)
Gross profit		**323,726**	422,347	361,251
Selling, general and administrative expenses	8	**(130,615)**	(120,485)	(106,447)
VAT refunds and other government grants income	9	**100,885**	102,369	87,985
Other operating expenses, net		**(22,160)**	(23,648)	(22,045)
Operating profit		**271,836**	380,583	320,744
Finance income		**3,766**	3,350	6,356
Finance costs:	10			
Interests and other finance costs		**(93,121)**	(59,311)	(65,918)
Transaction costs related to corporate bonds		**(16,654)**	–	–
Finance costs		**(109,775)**	(59,311)	(65,918)
Gain from acquisition of subsidiaries	2	**6,776**	–	–
Foreign exchange (loss)/gain, net		**(11,052)**	(3,285)	2,318
Other expenses, net		**(1,316)**	(2,633)	(1,385)
Other expenses, net		**(111,601)**	(61,879)	(58,629)
Profit before tax		**160,235**	318,704	262,115
Income tax benefit/(expense)	11	**2,005**	(7,788)	(2,760)
Profit for the year		**162,240**	310,916	259,355
Other comprehensive income/(loss)				
Items that will not be reclassified to profit or loss:				
Effect of revaluation of property, plant and equipment	12	**–**	5,166	–
Deferred tax charged directly to revaluation reserve		**–**	(826)	–
Cumulative translation difference		**(22)**	(436)	(3,040)
Other comprehensive (loss)/income for the year		**(22)**	3,904	(3,040)
Total comprehensive income for the year		**162,218**	314,820	256,315
Profit attributable to:				
Equity holders of the Parent		**155,907**	297,104	243,376
Non-controlling interests		**6,333**	13,812	15,979
		162,240	310,916	259,355
Total comprehensive income attributable to:				
Equity holders of the Parent		**155,885**	300,756	240,336
Non-controlling interests		**6,333**	14,064	15,979
		162,218	314,820	256,315
Earnings per share				
Basic and diluted earnings per share (USD per share)	33	**1.48**	2.80	2.26

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

The accompanying notes on pages 42 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

as of 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

	Notes	**31 December 2013**	31 December 2012	31 December 2011
ASSETS				
Non-current assets				
Property, plant and equipment	12	**1,493,739**	1,339,687	1,008,923
Land lease rights	13	**48,837**	26,694	27,227
Deferred tax assets	11	**20,022**	8,231	7,795
Long-term VAT recoverable, net	14	**2,414**	35,784	24,850
Non-current biological assets	15	**70,442**	53,695	46,327
Long-term bank deposits		**5,802**	6,154	6,017
Other non-current assets		**17,656**	16,615	14,476
		1,658,912	1,486,860	1,135,615
Current assets				
Inventories	16	**245,861**	274,255	182,240
Biological assets	15	**199,680**	159,276	135,990
Agricultural produce	17	**172,721**	166,128	169,022
Other current assets, net		**38,373**	33,880	21,989
Taxes recoverable and prepaid, net	18	**209,149**	200,308	137,175
Trade accounts receivable, net	19	**70,912**	72,616	65,794
Short-term bank deposits		**–**	–	1,777
Cash and cash equivalents	20	**172,470**	94,785	94,758
		1,109,166	1,001,248	808,745
TOTAL ASSETS		**2,768,078**	2,488,108	1,944,360
EQUITY AND LIABILITIES				
Equity				
Share capital	21	**284,505**	284,505	284,505
Treasury shares	21	**(65,393)**	(65,393)	(40,555)
Additional paid-in capital		**181,982**	181,982	179,565
Revaluation reserve		**22,869**	22,869	18,781
Retained earnings		**1,012,826**	976,919	679,815
Translation reserve		**(241,249)**	(241,227)	(240,791)
Equity attributable to equity holders of the Parent		**1,195,540**	1,159,655	881,320
Non-controlling interests		**53,665**	39,008	44,489
Total equity		**1,249,205**	1,198,663	925,809
Non-current liabilities				
Bank borrowings	22	**192,297**	199,483	109,108
Bonds issued	23	**951,728**	571,515	567,000
Finance lease obligations	24	**39,370**	45,955	32,558
Deferred tax liabilities	11	**7,043**	3,345	2,207
		1,190,438	820,298	710,873
Current liabilities				
Trade accounts payable	25	**101,990**	68,970	52,689
Other current liabilities	26	**86,823**	62,902	53,269
Bank borrowings	22	**98,367**	301,658	170,380
Accrued interest	22, 23	**20,771**	14,125	12,073
Finance lease obligations	24	**20,484**	21,492	19,267
		328,435	469,147	307,678
TOTAL LIABILITIES		**1,518,873**	1,289,445	1,018,551
TOTAL EQUITY AND LIABILITIES		**2,768,078**	2,488,108	1,944,360

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

The accompanying notes on pages 42 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013 (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 2011	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 income	–	–	–	–	–	(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 subsidiaries	–	–	–	–	–	–	–	(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
Profit for the year	–	–	–	–	297,104	–	297,104	13,812	310,916
Other comprehensive loss	–	–	–	4,088	–	(436)	3,652	252	3,904
Total comprehensive income for the year	–	–	–	4,088	297,104	(436)	300,756	14,064	314,820
Acquisition of treasury shares (Note 21)	–	(41,465)	–	–	–	–	(41,465)	–	(41,465)
Acquisition and changes in non-controlling interests in subsidiaries (Note 2 and 21)	–	16,627	2,417	–	–	–	19,044	(19,044)	–
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(501)	(501)
Balance at 31 December 2012	284,505	(65,393)	181,982	22,869	976,919	(241,227)	1,159,655	39,008	1,198,663
Profit for the year	–	–	–	–	155,907	–	155,907	6,333	162,240
Other comprehensive income	–	–	–	–	–	(22)	(22)	–	(22)
Total comprehensive income for the year	–	–	–	–	155,907	(22)	155,885	6,333	162,218
Dividends declared by the Parent (Note 29)	–	–	–	–	(120,000)	–	(120,000)	–	(120,000)
Dividends declared by subsidiaries	–	–	–	–	–	–	–	(804)	(804)
Non-controlling interests acquired (Note 2)	–	–	–	–	–	–	–	9,128	9,128
Balance at 31 December 2013	**284,505**	**(65,393)**	**181,982**	**22,869**	**1,012,826**	**(241,249)**	**1,195,540**	**53,665**	**1,249,205**

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

The accompanying notes on pages 42 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

	Notes	2013	2012	2011
Operating activities				
Profit before tax		**160,235**	318,704	262,115
Non-cash adjustments to reconcile profit before tax to net cash flows				
Depreciation and amortisation expense	5	**119,014**	87,135	80,341
Net change in fair value of biological assets and agricultural produce	5	**(13,634)**	(16,734)	(21,288)
Gain from acquisition of subsidiaries	2	**(6,776)**	–	–
Change in allowance for irrecoverable amounts and direct write-offs		**27,888**	25,605	18,888
Loss on disposal of property, plant and equipment and other non-current assets		**358**	199	551
Finance income		**(3,766)**	(3,350)	(6,356)
Finance costs	10	**109,775**	59,311	65,918
Non-operating foreign exchange loss/(gain), net		**11,052**	3,257	(2,519)
Operating cash flows before movements in working capital		**404,146**	474,127	397,650
Working capital adjustments				
Change in inventories		**9,833**	(75,508)	(29,033)
Change in biological assets		**(6,565)**	(12,059)	(13,011)
Change in agricultural produce		**(32,843)**	2,276	(43,290)
Change in other current assets		**(8,313)**	(13,245)	(886)
Change in taxes recoverable and prepaid		**925**	(92,911)	(47,103)
Change in trade accounts receivable		**3,123**	(7,638)	(12,666)
Change in other liabilities		**32,513**	13,615	7,491
Change in trade accounts payable		**27,919**	(127)	13,350
Cash generated by operations		**430,738**	288,530	272,502
Interest received		**3,766**	3,350	6,645
Interest paid		**(93,581)**	(81,508)	(77,239)
Income taxes paid		**(9,297)**	(12,238)	(4,247)
Net cash flows from operating activities		**331,626**	198,134	197,661
Investing activities				
Purchases of property, plant and equipment		**(157,216)**	(257,667)	(234,895)
Acquisition of land lease rights		**(5,231)**	(1,314)	(5,424)
Purchases of other non-current assets		**(3,020)**	(3,629)	(4,093)
Proceeds from disposals of property, plant and equipment		**2,815**	1,746	369
Purchases of non-current biological assets		**(1,507)**	(1,408)	(2,139)
Acquisition of subsidiaries, net of cash acquired	2	**(61,056)**	–	–
Investments in long-term deposits		**–**	–	(6,017)
Investments in short-term deposits		**–**	(4)	(52,259)
Withdrawals of short-term and long-term deposits		**629**	1,792	184,419
Loans repaid by/(provided to) employees, net		**495**	78	(1,098)
Loans repaid by related parties, net		**25**	–	–
Net cash flows used in investing activities		**(224,066)**	(260,406)	(121,137)

The accompanying notes on pages 42 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

	Notes	2013	2012	2011
Financing activities				
Proceeds from bank borrowings		**65,333**	223,179	158,071
Repayment of bank borrowings		**(323,079)**	(96,666)	(142,867)
Proceeds from bonds issued	23	**400,000**	–	–
Repayment of bonds		**–**	–	(9,976)
Repayment of finance lease obligations		**(23,912)**	(22,268)	(25,740)
Transaction costs related to bank loans received		**(1,172)**	–	–
Transaction costs related to corporate bonds issued		**(45,507)**	–	–
Dividends paid to shareholders	27,29	**(99,026)**	–	–
Dividends paid by subsidiaries to non-controlling shareholders	27,29	**(775)**	(501)	(602)
Acquisition of treasury shares	21	**–**	(41,465)	–
Net cash flows (used in)/from financing activities		**(28,138)**	62,279	(21,114)
Net increase in cash and cash equivalents		**79,422**	7	55,410
Net foreign exchange difference		**(1,737)**	20	27
Cash and cash equivalents at 1 January		**94,785**	94,758	39,321
Cash and cash equivalents at 31 December		**172,470**	94,785	94,758
Non-cash transactions				
Additions of property, plant and equipment under finance leases		**12,510**	30,370	13,895
Additions of property, plant and equipment financed through direct bank-lender payments to the vendor		**26,662**	93,333	72,007
Revaluation of grain storage facilities	12	**–**	5,166	–

On behalf of the Board:

Chief Executive Officer
Yuriy Kosyuk

Chief Financial Officer
Viktoria Kapelyushnaya

The accompanying notes on pages 42 to 77 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

1. Corporate information

MHP S.A. (the "Parent" or "MHP S.A."), a limited liability company (société anonyme) 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 (the "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 fruit 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, fruit and feed grains. During the year ended 31 December 2013 the Group employed about 30,000 people (2012: 27,800 people, 2011: 24,800 people).

The Group has been undertaking a large-scale investment programme to expand its poultry and related operations. In May 2010 the Group commenced construction of the greenfield Vinnytsia poultry complex and in the second half of 2012 started the commissioning of production facilities which were already completed. During 2013 the Group continued commissioning and launching into operations completed production facilities (Note 12). The facilities of Vinnytsia complex which remain under construction as of 31 December 2013 will be commissioned during 2014, as scheduled.

During the year ended 31 December 2013 the Group continued to increase its agricultural land bank as part of its vertical integration and diversification strategy through a number of business acquisitions (Note 13).

The primary subsidiaries, the principal activities of the companies forming the Group and the Parent's effective ownership interest as of 31 December 2013, 2012 and 2011 were as follows:

Name	Country of registration	Year established/ acquired	Principal activities	**2013**	2012	2011
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%
Vinnytska Ptahofabryka	Ukraine	2011	Chicken farm	**99.9%**	99.9%	99.9%
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 Ptahofabryka	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	**99.9%**	99.9%	89.9%
Agrofort	Ukraine	2006	Grain cultivation	**86.1%**	86.1%	86.1%
Urozhayna Krayina	Ukraine	2010	Grain cultivation	**99.9%**	99.9%	99.9%
Ukrainian Bacon	Ukraine	2008	Meat processing	**79.9%**	79.9%	79.9%
AgroKryazh	Ukraine	2013	Grain cultivation	**99.9%**	–	–
Baryshevka	Ukraine	2013	Grain cultivation	**51.0%**	–	–
Voronezh Agro Holding	Russian Federation	2013	Grain cultivation	**100.0%**	–	–

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

2. Changes in the Group structure

Detailed below is the information on incorporations and acquisitions of subsidiaries, as well as changes in non-controlling interests in subsidiaries of the Group during the years ended 31 December 2013, 2012 and 2011.

Incorporations

During the year ended 31 December 2011 the Group established a new subsidiary Vinnytska Ptahofabryka engaged in poultry production at Vinnytsia Complex.

Acquisitions

AgroKryazh

In May 2013 the Group acquired from third parties a 99.9% interest in a group of companies "AgroKryazh", a grain growing business, cultivating a land bank of 12,380 hectares in the Vinnytsia region of Ukraine. The transaction was accounted for under the acquisition method.

Baryshevka

In April 2013 the Group acquired from third parties a 51.0% interest in a group of companies "Baryshevka", a grain growing business cultivating a land bank of 18,810 hectares in the Kyiv region of Ukraine. The transaction was accounted for under the acquisition method.

Voronezh Agro Holding

In July 2013 the Group acquired from third parties a 100% interest in a group of companies "Voronezh Agro Holding", a grain growing business cultivating a land bank of about 40,000 hectares, in the Voronezh region of the Russian Federation, of which 24,000 hectares is owned by "Voronezh Agro Holding" and was included in property plant and equipment (Note 12).

This acquisition also added 200,000 m^3 of storage facilities as well as agricultural machinery to the Group's asset.

The following table presents the fair value of identifiable assets and liabilities acquired during the year ended 31 December 2013:

	AgroKryazh	Baryshevka	Voronezh Agro Holding	Total
Provisional fair value of identifiable assets and liabilities:				
Property, plant and equipment (Note 12)	3,779	3,195	53,896	60,870
Land lease rights (Note 13)	6,187	12,283	3,787	22,257
Inventories and biological assets	3,308	2,363	9,740	15,411
Loans and borrowings	–	–	(12,996)	(12,996)
Trade and other payables	(1,056)	(814)	(2,414)	(4,284)
Deferred tax liabilities	–	–	(3,069)	(3,069)
Non-controlling interests	–	(8,343)	(785)	(9,128)
Total identifiable net assets at fair value	12,218	8,684	48,159	69,061
Gain from acquisition of subsidiaries	(1,708)	(1,229)	(3,839)	(6,776)
Total cash consideration due and payable	10,510	7,455	44,320	62,285
Cash paid	(10,565)	(6,226)	(44,542)	(61,333)
Cash acquired	55	–	222	277

The gain from acquisitions of subsidiaries was recognised within the consolidated statement of comprehensive income for the period ended 31 December 2013. The gain arose as a result of a lack of resources by the previous owners, which did not allow them to manage the assets in the most efficient manner.

From the date of acquisition the acquired group of companies contributed US$19,970 thousand of revenue and US$689 thousand of loss to the consolidated results of the Group. Had the transactions related to acquisitions as discussed above, occurred on 1 January 2013, "Pro forma" revenue and loss for the year ended 31 December 2013 would have been US$6,021 thousand and US$3,816 thousand, respectively.

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 annualised basis. The unaudited "pro forma" information does not purport to represent what the Group's financial position or results of operations would actually have been if these transactions had occurred at such dates or to project the Group's future results of operations.

The non-controlling interest recognised at the acquisition date was measured by reference to the proportionate share of the recognised amounts of the subsidiary's identifiable net assets and amounted to US$9,128 thousands.

2. Changes in the group structure continued

Changes in non-controlling interests in subsidiaries

In December 2012 the Group increased its effective ownership interest in NPF Urozhay to 99.9% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 1,257,032 treasury shares held by the Group. The transaction was recognised within equity (Note 21).

The Group made certain 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 basis of historical cost, except for revalued amounts of grain storage facilities, biological assets, agricultural produce, and certain financial instruments, which are carried at fair value.

Adoption of new and revised International Financial Reporting Standards

The following Standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have an impact on the Group:

- Presentation of items of Other Comprehensive Income" (Amendments to IAS 1). Effective for accounting periods beginning on or after 1 July 2012;
- IFRS 13 "Fair value measurement". Fair value measurement and disclosure. Effective 1 January 2013;
- IAS 19 "Employee Benefits" (2011). The revised version of IAS 19 was effective 1 January 2013; and
- "Disclosures – Offsetting Financial Assets and Financial Liabilities" (Amendments to IFRS 7). The amendments to IFRS 7 were effective 1 January 2013.

"Presentation of items of Other Comprehensive Income" (Amendments to IAS 1)

The main change resulting from amendments to IAS 1 is a requirement to group items presented in "Other comprehensive income" (OCI) on the basis of whether they are potentially able to be reclassified to profit or loss subsequently (reclassification adjustments). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 13 "Fair value measurement"

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The additional disclosures required following the adoption of this standard are provided in the individual notes relating to the assets and liabilities whose fair values were determined using the requirements of IFRS 13. Fair value hierarchy is provided in Notes 15, 17 and 30.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no impact on the measurement of the Group's assets and liabilities.

IAS 19 "Employee Benefits" (2011) and "Disclosures – Offsetting Financial Assets and Financial Liabilities" (IFRS 7 amendments). The Group has also applied IAS 19 Employee Benefits (as revised in 2011), and "Disclosures – Offsetting Financial Assets and Financial Liabilities" (IFRS 7 amendments)".

The adoption of these standards and amendments did not have a material impact on the financial position or performance of the Group.

3. Summary of significant accounting policies continued

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
Amendment to IAS 27 "Separate Financial Statements" (revised 2011) – Investment entities	1 January 2014
IFRS 10 "Consolidated Financial Statements"	1 January 2014
IFRS 11 "Joint Arrangements"	1 January 2014
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2014
IAS 28 "Investments in Associates and Joint Ventures"	1 January 2014
Amendments to IAS 32 "Financial instruments: Presentation" – Application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"	1 January 2014
Amendments to IAS 36 "Recoverable amounts disclosures for non-financial assets"	1 January 2014
Amendments to IAS 39 "Novation of derivatives and continuation of hedge accounting"	1 January 2014
IFRIC 21 "Levies"	1 January 2014
Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS 9[1]	1 January 2015
Amendments to IFRS 9 and 7 – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	1 January 2015
IFRS 9 "Financial Instruments: Classification and Measurement and Accounting for financial liabilities and derecognition"[1]	1 January 2015
Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee contribution[1]	Not yet adopted in the EU
IFRS 14 "Regulatory Deferral Accounts"[1]	Not yet adopted in the EU
Amendments to IFRSs – "Annual Improvements to IFRSs 2010-2012 Cycle"[1]	Not yet adopted in the EU
Amendments to IFRSs – "Annual Improvements to IFRSs 2011-2013 Cycle"[1]	Not yet adopted in the EU

1 This standard and amendment have not yet been endorsed for use in European Union.

Management is currently evaluating the impact of the adoption of IFRS 9 "Financial Instruments", and amendment to IFRS 7 "Financial instruments: Disclosures". For other Standards and Interpretations management anticipates that their adoption in future periods will not have a material effect on the financial statements of the Group in future periods.

Functional and presentation currency

The functional currency of Ukrainian, Cyprus and Luxemburg companies of the Group is the Ukrainian Hryvnia (UAH); the functional currency of the Russian Federation companies of the Group is Russian Rouble (RUB). 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 realised and unrealised 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 reporting date of that statement of financial position;
- income and expenses for each consolidated statement of comprehensive income are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

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.

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

3. Summary of significant accounting policies continued

The relevant exchange rates were:

Currency	Closing rate as of 31 December 2013	Average for 2013	Closing rate as of 31 December 2012	Average for 2012	Closing rate as of 31 December 2011	Average for 2011
UAH/USD	**7.9930**	**7.9930**	7.9930	7.9910	7.9898	7.9677
UAH/EUR	**11.0415**	**10.6116**	10.5372	10.2692	10.2981	11.0926
UAH/RUB	**0.2450**	**0.2512**	N/A	N/A	N/A	N/A

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 or loss 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 unrealised gainsor losseson transactions are eliminated on consolidation, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

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

Accounting for acquisitions

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

The consideration transferred by the Group is measured at fair value, which is the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquired subsidiary and the equity interests issued by the Group in exchange for control of the subsidiary. Acquisition-related costs are generally recognised in the 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 recognised amounts of the subsidiary's identifiable net assets. The choice of measurement basis is made on a 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 interests in the subsidiary and the fair value of the Group's previously-held interest in the subsidiary (if any), the excess is recognised in the consolidated 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 recognised directly in equity and attributed to owners of the Parent.

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

3. Summary of significant accounting policies continued

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 is recognised directly in equity and attributed to owners of the Parent.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Borrowing costs

Borrowing costs include interest expense, finance charges on finance leases and other interest-bearing long-term payables and debt service costs.

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

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

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

Contingent liabilities and assets

Contingent liabilities are not recognised in the consolidated financial statements. Rather, they are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognised only when the contingency is resolved.

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.

3. Summary of significant accounting policies continued

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

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

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

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

VAT refunds and other government grants
The Group's companies are subject to special tax treatment for VAT. The Group's enterprises, which qualify as agricultural producers, are entitled to retain the net VAT payable. VAT amounts payable are not transferred to the State, but credited to the entity's separate special account to support the agriculture activities of the Group. Net result on VAT operations, calculated as excess of VAT liability over VAT credit is charged to profit or loss. VAT receivable exceeding VAT liability is used as a reduction in tax liabilities of the next period.

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

Other government grants are recognised at the moment when the decision to disburse the amounts to the Group is made.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching 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 capitalised in accordance with the Group's accounting policy.

Subsequently capitalised costs include major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the consolidated statement of comprehensive income as incurred.

For grain storage facilities revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the 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 recognised in the statement of comprehensive income to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised 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 derecognised.

3. Summary of significant accounting policies continued

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 amortisation and accumulated impairment losses.

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

Amortisation of intangible assets is recognised on a straight line basis over their estimated useful lives. For land lease rights, the amortisation period varies from 3 to 15 years.

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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 recognised 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.

3. Summary of significant accounting policies continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the 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 recognised directly in statement of comprehensive income in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Income taxes

Income taxes have been computed in accordance with the laws currently enacted or substantially 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 recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 11).

Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

3. Summary of significant accounting policies continued

Biological assets and agricultural produce

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

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

Biological assets are stated at fair value less estimated costs to sell at both initial recognition and as of the reporting date, with any resulting gain or loss recognised 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 recognised as "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. The fair value of broilers is determined by reference to the cash flows that will be obtained from the 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 the production of fruit. Fruit trees achieve their normal productive age in the second to the 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.

(iii) Hatchery eggs

The fair value of hatchery eggs 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.

3. Summary of significant accounting policies continued

Financial instruments
Financial assets and financial liabilities are recognised 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 recognised using settlement date accounting. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Cash and cash equivalents
Cash and cash equivalents include cash on hand, cash with banks, deposits and marketable securities with an 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 recognised 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 recognised 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 2013, 2012 and 2011 there were no material derivative financial instruments that were recognised 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 recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated 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 recognised in the consolidated statement of comprehensive income on a straight line basis over the term of the lease.

3. Summary of significant accounting policies continued

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

Reclassifications and revisions
Certain comparative information presented in the consolidated financial statements for the years ended 31 December 2012 and 2011 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended 31 December 2013. Such reclassifications and revisions were not significant to the Group financial statements.

4. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, which are described in Note 3, management are 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 judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Acquisitions of land lease rights
During the year ended 31 December 2013, 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 judgement, 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 3,607 thousand and USD 22,257 thousand were acquired in assets acquisition and business combination transactions, respectively (Note 13).

Revenue recognition
In the normal course of business, the Group engages in sale and purchase transactions with the purpose of exchanging crops in various locations to fulfill the Group's production requirements. In accordance with the Group's accounting policy, revenue is not recognised with respect to the exchange transactions involving goods of similar nature and value. The Group management applies judgement to determine whether each particular transaction represents an exchange or a transaction that generates revenue. In making this judgement, management considers whether the underlying crops are of similar type and quality, as well as whether the time passed between the transfer and receipt of the underlying crops indicates that the substance of the transaction is an exchange of similar goods. The amount of exchange transaction involving goods of similar nature amounted to USD 81,808 thousand, 33,819 thousand, 4,256 thousand for the years ended 31 December 2013, 2012 and 2011.

Recognition of inventories
During the year ended 31 December 2013, 2012 and 2011, the Group acquired components for mixed fodder production from a local supplier under grain purchase financing arrangements. According to the contractual terms, legal ownership to the goods passed to the Group on physical delivery to the Group's grain storage facilities, which is generally the date when inventories are recognised in the Group's financial statements. However, based on the analysis of the nature of this arrangement, management applied judgement 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 recognised in the Group's financial statements from the date when they were acquired by the supplier.

Revaluation of property, plant and equipment
As described in Notes 3 and 12, the Group applies the 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 should be revalued during the year ended 31 December 2012, only.

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

The Group appointed an independent valuer for revaluation of its grain storage facilities during the year ended 31 December 2012. Key assumptions used by the independent valuer in assessing the fair value of grain storage facilities using the replacement cost method were as follows:

- present condition of particular assets was ranked from excellent to good;
- changes in prices of assets and construction materials from the date of their acquisition/construction to the date of valuation were assessed as 1.15; and
- other external and internal factors that might have effect on fair value of grain-storage facilities.

Results of revaluation based on the replacement cost approach were compared with a revaluation performed using the income approach to check for impairment indicators of revalued assets, if any.

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; and
- discount rate.

During the year ended 31 December 2013 fair value of biological assets and agricultural produce was estimated using discount factors of 14.01% and 12.37% for non-current and current assets respectively.

Although some of these assumptions are obtained from published market data, the majority of these assumptions are estimated based on the Group's historical and projected results (Note 15).

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.

VAT recoverable

Note 14 describes long-term VAT recoverable accumulated by the Group on its capital expenditures and investments in working capital. The balance of VAT recoverable may be realised by the Group either through a cash refund from the State budget or by set off against VAT liabilities in future periods. Management classified the VAT recoverable balance as current or non-current based on expectations as to whether it will be realised within 12 months from the reporting date. In addition, management assessed whether an allowance for irrecoverable VAT needed 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.

Vinnytsia complex commissioning

As discussed in Notes 1 and 12, during 2013 the Group continued commissioning production facilities at Vinnytsia complex. During the period of production trials, when the facilities were not ready to be used in the manner intended by management, no depreciation was charged. After completion of the trial period, the Group commenced depreciation of production facilities when they were launched into operation.

In making the assessment of the trial period length, management considered actual utilisation of production facilities as well as output achieved, for as long as these were significantly lower than the designed capacity of the equipment.

5. Segment information

The majority of the Group's operations are located within Ukraine.

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

Poultry and related operations segment:
- Sales of chicken meat.
- Sales of sunflower oil.
- Other poultry related sales.

Grain growing operations segment:
- Sales of Grain.

Other agricultural operations segment:
- Sales of meat processing products and other meat.
- Other agricultural operations (sales of fruit, 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. The segment result represents operating profit under IFRS before unallocated corporate expenses. Unallocated corporate expenses include management remuneration, representative expenses, and expenses incurred in respect of the 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.

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

Year ended 31 December 2013	Poultry and related operations	Grain growing	Other agricultural operations	Eliminations	Consolidated
External sales	1,201,100	133,264	161,715	–	1,496,079
Sales between business segments	49,853	194,764	5,643	(250,260)	–
Total revenue	1,250,953	328,028	167,358	(250,260)	1,496,079
Segment results	275,026	13,555	25,844	–	314,425
Unallocated corporate expenses					(42,589)
Other expenses, net[1]					(111,601)
Profit before tax					160,235
Other information:					
Additions to property, plant and equipment[2]	171,102	27,930	7,956	–	206,988
Depreciation and amortisation expense[3]	83,442	25,521	6,909	–	115,872
Net change in fair value of biological assets and agricultural produce	25,636	(27,368)	15,366	–	13,634

1 Includes finance income, finance costs, foreign exchange loss (net) and other expenses (net).
2 Additions to property, plant and equipment in 2013 (Note 12) include unallocated additions in the amount of USD 4,115 thousand.
3 Depreciation and amortisation for the year ended 31 December 2013 does not include unallocated depreciation and amortisation in the amount of USD 3,142 thousand.

Year ended 31 December 2012	Poultry and related operations	Grain growing	Other agricultural operations	Eliminations	Consolidated
External sales	1,082,978	169,142	155,402	–	1,407,522
Sales between business segments	42,919	147,719	5,074	(195,712)	–
Total revenue	1,125,897	316,861	160,476	(195,712)	1,407,522
Segment results	318,537	92,139	3,494	–	414,170
Unallocated corporate expenses					(33,587)
Other expenses, net[1]					(61,879)
Profit before tax					318,704
Other information:					
Additions to property, plant and equipment[2]	375,604	21,375	11,679	–	408,658
Depreciation and amortisation expense[3]	57,922	19,569	6,522	–	84,013
Net change in fair value of biological assets and agricultural produce	11,955	4,329	450	–	16,734

1 Includes finance income, finance costs, foreign exchange gain (net) and other expenses (net).
2 Additions to property, plant and equipment in 2012 (Note 12) include unallocated additions in the amount of USD 4,092 thousand.
3 Depreciation and amortisation for the year ended 31 December 2012 does not include unallocated depreciation and amortisation in the amount of USD 3,122 thousand.

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

5. Segment information continued

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[1]					(58,629)
Profit before tax					262,115
Other information:					
Additions to property, plant and equipment[2]	309,072	23,079	7,598	–	339,749
Depreciation and amortisation expense[3]	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 Includes finance income, finance costs, foreign exchange gain (net) and other expenses (net).
2 Additions to property, plant and equipment in 2011 (Note 12) include unallocated additions in the amount of USD 2,527 thousand.
3 Depreciation and amortisation for the year ended 31 December 2011 does not include unallocated depreciation and amortisation in the amount of USD 3,298 thousand.

The Group's export sales to external customers by major product types were as follows during the years ended 31 December 2013, 2012 and 2011:

	2013	2012	2011
Sunflower oil and related products	**253,194**	227,835	222,418
Chicken meat and related products	**216,683**	112,931	67,874
Grain	**100,674**	138,639	63,101
Other agricultural segment products	**405**	431	486
	570,956	479,836	353,879

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 Kazakhstan and the Russian Federation as well as, to the lesser extent, other CIS countries, the Middle East and Central Asia, Africa and the EU.

6. Revenue

Revenue for the years ended 31 December 2013, 2012 and 2011 was as follows:

	2013	2012	2011
Poultry and related operations segment			
Chicken meat	**881,249**	804,381	693,207
Sunflower oil and related products	**258,168**	227,835	222,418
Other poultry related sales	**61,683**	50,762	63,246
	1,201,100	1,082,978	978,871
Grain growing operations segment			
Grain	**133,264**	169,142	103,739
	133,264	169,142	103,739
Other agricultural operations segment			
Other meat	**101,070**	102,959	99,740
Other agricultural sales	**60,645**	52,443	46,740
	161,715	155,402	146,480
	1,496,079	1,407,522	1,229,090

7. Cost of sales

Cost of sales for the years ended 31 December 2013, 2012 and 2011 was as follows:

	2013	2012	2011
Poultry and related operations	**877,540**	705,128	684,001
Grain growing operations	**155,976**	147,821	71,883
Other agricultural operations	**152,471**	148,960	133,243
	1,185,987	1,001,909	889,127

For the years ended 31 December 2013, 2012 and 2011 cost of sales comprised the following:

	2013	2012	2011
Costs of raw materials and other inventory used	**797,239**	700,410	620,385
Payroll and related expenses	**187,493**	151,538	131,840
Depreciation and amortisation expense	**104,619**	74,870	66,675
Other costs	**96,636**	75,091	70,227
	1,185,987	1,001,909	889,127

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

8. Selling, general and administrative expenses

Selling, general and administrative expenses for the years ended 31 December 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Payroll and related expenses	**52,137**	46,414	40,391
Services	**25,561**	20,738	24,381
Fuel and other materials used	**14,991**	13,646	12,433
Depreciation expense	**14,395**	12,265	13,666
Advertising expense	**12,276**	12,691	2,415
Representative costs and business trips	**4,096**	8,641	8,330
Insurance expense	**1,937**	1,594	1,919
Bank services and conversion fees	**480**	474	486
Other	**4,742**	4,022	2,426
	130,615	120,485	106,447

Remuneration to the auditors, included in Services above, approximates to USD 1,025 thousand, USD 744 thousand and USD 832 thousand for the years ended 31 December 2013, 2012 and 2011, respectively. Such remuneration includes both audit and non-audit services, with the audit fees component approximating USD 550 thousand for each of the years ended 31 December 2013, 2012 and 2011.

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.

VAT refunds and other government grants recognised by the Group as income during the years ended 31 December 2013, 2012 and 2011 were as follows:

	2013	2012	2011
VAT refunds	**99,220**	101,581	87,476
Other government grants	**1,665**	788	509
	100,885	102,369	87,985

VAT refunds for agricultural industry

According to the Tax Code of Ukraine issued in December 2010 and effective as of 1 January 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, the VAT rate will be decreased from the currently effective 20% to 17% starting from 1 January 2015. The special VAT regime for the agricultural industry will be effective until 1 January 2018.

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9. VAT refunds and other government grants income continued

Included in VAT refunds for the years ended 31 December 2013, 2012 and 2011 were specific VAT subsidies for the production and sale of milk and live animals for further processing in the amount of USD 1,299 thousand, USD 1,426 thousand and USD 422 thousand, respectively.

Other government grants

Other government grants recognised as income during the years ended 31 December 2013, 2012 and 2011 mainly comprised subsidies related to crop growing. In accordance with the Law "On State Budget of Ukraine", two companies of the Group received grants for the years ended 31 December 2013, 2012 and 2011 for the creation and cultivating of orchards, vines and berry fields.

In addition to the government grants income recognised by the Group, the Group receives a grant to compensate agricultural producers for costs used to finance operations. Agricultural producers are entitled to 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 2013, 2012 and 2011. The eligibility, application and tender procedures related to such grants are defined and controlled by the Ministry of Agrarian Policy of Ukraine.

These grants were recognised as a reduction in the associated finance costs and during the years ended 31 December 2013, 2012 and 2011 comprised USD nil, USD nil, and USD 1,828 thousand, respectively (Note 10).

10. Finance costs

Finance costs for the years ended 31 December 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Interest on corporate bonds	**88,245**	64,449	64,996
Transaction costs related to corporate bonds	**16,654**	–	–
Interest on bank borrowings	**13,911**	15,839	9,720
Interest on obligations under finance leases	**4,964**	4,795	5,157
Bank commissions and other charges	**3,172**	3,786	3,782
Interest on financing arrangements for grain purchases	**1,847**	643	294
Government grants as compensation for the finance costs of agricultural producers (Note 9)	**–**	–	(1,828)
Total finance costs	**128,793**	89,512	82,121
Less:			
Finance costs included in the cost of qualifying assets	**(19,018)**	(30,201)	(16,203)
	109,775	59,311	65,918

For qualifying assets, the weighted average capitalisation rate on funds borrowed generally during the year ended 31 December 2013 was 10.14% (2012: 8.10%, 2011: 9.55%).

Interest on corporate bonds for the years ended 31 December 2013, 2012 and 2011 includes amortisation of premium and debt issue costs on bonds issued in the amounts of USD 9,003 thousand, USD 4,509 thousand and USD 4,124 thousand, respectively.

11. Income tax

The majority of the Group's operating entities are located in Ukraine, therefore the effective tax rate reconciliation is completed based on Ukrainian statutory rates and statutory rates of the Russian Federation for results generated by Voronezh Agro Holding. The net results of the Group companies incorporated in jurisdictions other than Ukraine were insignificant during the years ended 31 December 2013, 2012 and 2011. 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 replaces the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Special Water Consumption Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognised in the statement of comprehensive income in other operating expenses.

During the year ended 31 December 2013, the Group's companies that have the status of Corporate Income Tax (the "CIT") payers in Ukraine were subject to income tax at a rate of 19% (for the year ended 31 December 2012: 21%; 1 January 2011: 1 April 2011: 25%, 1 April 2011: 31 December 2011: 23%).

The Tax Code of Ukraine (Note 28) is introducing gradual decreases in income tax rates from 23% effective 1 April 2011, 21% effective 1 January 2012, 19% effective 1 January 2013, 18% effective 1 January 2014, 17% effective 1 January 2015, 16% effective 1 January 2016 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 2013, 2012 and 2011 were measured based on the tax rates expected to be applied to the period when the temporary differences are expected to reverse.

11. Income tax continued

The components of income tax (benefit)/expense were as follows for the years ended 31 December 2013, 2012 and 2011:

	2013	2012	2011
Current income tax charge	**9,157**	7,915	5,664
Deferred tax benefit	**(11,162)**	(127)	(2,904)
Income tax (benefit)/expense	**(2,005)**	7,788	2,760

The reconciliation between profit before tax multiplied by the statutory tax rate and the tax expense for the years ended 31 December 2013, 2012 and 2011 was as follows:

	2013	2012	2011
Profit before income tax	**160,235**	318,704	262,115
Income tax expense calculated at rates effective during the year ended at respective jurisdictions	**30,470**	66,928	61,010
Tax effect of:			
Income generated by FAT payers (exempt from income tax)	**(44,068)**	(82,443)	(77,043)
Changes in tax rate and law	**3**	–	–
Recognised deferred tax assets on property, plant and equipment	**–**	–	(6,792)
Non-deductible expenses (by law)	**7,263**	19,402	10,332
Expenses not deducted for tax purposes (policy choice)	**4,327**	3,901	15,253
Income tax expense	**(2,005)**	7,788	2,760

As of 31 December 2013, 2012 and 2011 the Group did not recognise deferred tax assets arising from temporary differences of USD 22,724 thousand, USD 18,576 thousand and USD 64,907 thousand, respectively, as the Group did not intend to deduct the relevant expenses for tax purposes in subsequent periods.

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

As of 31 December 2013, 2012 and 2011 deferred tax assets and liabilities comprised the following:

	2013	2012	2011
Deferred tax assets arising from:			
Property, plant and equipment	**3,325**	4,732	5,996
Other current liabilities	**1,780**	1,301	1,518
Inventories	**2,490**	1,081	1,011
Advances received and other payables	**371**	849	1,155
Expenses deferred in tax books	**13,871**	3,484	288
Total deferred tax assets	**21,837**	11,447	9,968
Deferred tax liabilities arising from:			
Property, plant and equipment	**(7,792)**	(4,165)	(2,987)
Inventories	**(943)**	(2,138)	(996)
Prepayments to suppliers	**(123)**	(258)	(397)
Total deferred tax liabilities	**(8,858)**	(6,561)	(4,380)
Net deferred tax assets	**12,979**	4,886	5,588

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 2013, 2012 and 2011:

	2013	2012	2011
Deferred tax assets	**20,022**	8,231	7,795
Deferred tax liabilities	**(7,043)**	(3,345)	(2,207)
	12,979	4,886	5,588

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11. Income tax continued

The movements in net deferred tax assets for the years ended 31 December 2013, 2012 and 2011 were as follows:

	2013	2011	2010
Net deferred tax assets as of beginning of the year	**4,886**	5,588	2,688
Deferred tax benefit	**11,162**	127	2,904
Deferred tax liabilities arising on acquisition of subsidiaries (Note 2)	**(3,069)**	–	–
Deferred tax on property, plant and equipment charged directly to other comprehensive income	**–**	(826)	–
Translation difference	**–**	(3)	(4)
Net deferred tax assets as of end of the year	**12,979**	4,886	5,588

12. Property, plant and equipment

The following table represents movements in property, plant and equipment for the year ended 31 December 2013:

	Land	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 2013	**–**	**453,870**	**49,756**	**434,105**	**76,151**	**265,287**	**18,534**	**399,690**	**1,697,393**
Additions	312	50,767	9,536	41,160	20,907	39,450	525	48,446	211,103
Disposals	–	(1,085)	–	(2,643)	(30)	(5,523)	(208)	(155)	(9,644)
Transfers	–	95,604	3,602	155,851	35,224	254	559	(291,094)	–
Acquired through business combination (Note 2)	20,074	9,727	15,080	2,088	754	11,672	46	1,429	60,870
Translation difference	152	66	118	9	4	(126)	–	–	223
At 31 December 2013	**20,538**	**608,949**	**78,092**	**630,570**	**133,010**	**311,014**	**19,456**	**158,316**	**1,959,945**
Accumulated depreciation and impairment:									
At 1 January 2013	**–**	**66,750**	**75**	**139,043**	**20,081**	**119,542**	**12,215**	**–**	**357,706**
Depreciation charge for the year	–	24,944	1,916	43,675	4,625	37,009	2,848	–	115,017
Elimination upon disposal	–	(261)	–	(1,983)	(20)	(4,039)	(168)	–	(6,471)
Translation difference	–	(4)	(5)	(5)	(1)	(31)	–	–	(46)
At 31 December 2013	**–**	**91,429**	**1,986**	**180,730**	**24,685**	**152,481**	**14,895**	**–**	**466,206**
Net book value									
At 1 January 2013	**–**	**387,120**	**49,681**	**295,062**	**56,070**	**145,745**	**6,319**	**399,690**	**1,339,687**
At 31 December 2013	**20,538**	**517,520**	**76,106**	**449,840**	**108,325**	**158,533**	**4,561**	**158,316**	**1,493,739**

The following table represents movements in property, plant and equipment for the year ended 31 December 2012:

	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 2012	**293,998**	**43,912**	**348,916**	**58,726**	**215,188**	**17,876**	**315,380**	**1,293,996**
Additions	61,598	–	25,487	7,204	53,341	1,383	263,737	412,750
Disposals	(1,293)	–	(2,222)	(147)	(4,352)	(947)	(18)	(8,979)
Transfers	99,744	4,721	62,339	10,495	1,445	343	(179,087)	–
Revaluations	–	1,151	–	–	–	–	–	1,151
Translation difference	(177)	(28)	(415)	(127)	(335)	(121)	(322)	(1,525)
At 31 December 2012	**453,870**	**49,756**	**434,105**	**76,151**	**265,287**	**18,534**	**399,690**	**1,697,393**
Accumulated depreciation and impairment:								
At 1 January 2012	**51,435**	**2,373**	**109,983**	**16,473**	**94,868**	**9,941**	**–**	**285,073**
Depreciation charge for the year	16,365	1,584	31,039	3,750	28,239	3,195	–	84,172
Elimination upon disposal	(938)	–	(1,731)	(75)	(3,380)	(865)	–	(6,989)
Eliminated upon revaluations	–	(4,015)	–	–	–	–	–	(4,015)
Translation difference	(112)	133	(248)	(67)	(185)	(56)	–	(535)
At 31 December 2012	**66,750**	**75**	**139,043**	**20,081**	**119,542**	**12,215**	**–**	**357,706**
Net book value								
At 1 January 2012	**242,563**	**41,539**	**238,933**	**42,253**	**120,320**	**7,935**	**315,380**	**1,008,923**
At 31 December 2012	**387,120**	**49,681**	**295,062**	**56,070**	**145,745**	**6,319**	**399,690**	**1,339,687**

12. Property, plant and equipment continued

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
Elimination upon disposal	(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**

During 2013 the Group continued commissioning production facilities at the Vinnytsia complex. The facilities of Vinnytsia complex remaining under construction as of 31 December 2013 will be commissioned during 2014, as scheduled.

As of 31 December 2013, included within construction in progress were prepayments for property, plant and equipment in the amount of US$9,407 thousand (2012: US$24,796 thousand, 2011: US$46,086 thousand).

As of 31 December 2013, included within property, plant and equipment were fully depreciated assets with the original cost of US$56,817 thousand (2012: US$34,722 thousand, 2011: US$19,647 thousand).

As of 31 December 2013, certain of the Group's machinery and equipment with the carrying amount of USD nil (2012: USD nil, 2011: US$4,648 thousand) were pledged as collateral to secure its bank borrowings (Note 22).

As of 31 December 2013, 2012 and 2011 the net carrying amount of property, plant and equipment, represented by vehicles and agricultural machinery, held under finance lease agreements was US$76,053 thousand, US$69,059 thousand and US$73,798 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, there were no indicators of impairment as of 31 December 2013, 2012 and 2011.

Revaluation of grain storage facilities

During the year ended 31 December 2012, the Group engaged independent appraisers to revalue its grain storage facilities. The effective date of revaluation was 31 October 2012. The valuation, which conformed to the International Valuation Standards, was determined using replacement cost method by reference to observable prices in an active market adjusted based on age and condition of the facilities.

No revaluation of grain storage facilities was performed during the years ended 31 December 2013 and 2011 as, based on management's assessment, the fair value of grain storage facilities as of 31 December 2013 and 2011 did not materially differ from their carrying amount.

If the grain storage facilities were carried at cost and depreciated on a straight line basis based on their original depreciation rate, their net book value as of 31 December 2013 would be US$50,662 thousand (2012: US$24,102 thousand, 2011: US$20,514 thousand).

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13. Land lease rights

Land lease rights represent rights for operating leases of agricultural land plots. The following table represents the movements in land lease rights for the years ended 31 December:

	2013	2012	2011
Cost:			
As of 1 January	**31,634**	30,332	24,439
Additions	**3,607**	1,314	5,995
Acquired through business combinations (Note 2)	**22,257**	–	–
Translation difference	**–**	(12)	(102)
As of 31 December	**57,498**	31,634	30,332
Accumulated amortisation:			
As of 1 January	**4,940**	3,105	1,223
Amortisation charge for the year	**3,721**	1,837	1,891
Translation difference	**–**	(2)	(9)
As of 31 December	**8,661**	4,940	3,105
Net book value:			
As of 1 January	**26,694**	27,227	23,216
As of 31 December	**48,837**	26,694	27,227

14. Long-term VAT recoverable, net

As of 31 December 2013, 2012 and 2011 the balance of long-term VAT recoverable was accumulated on continuing capital expenditures. Management expects that these balances will not be recovered within 12 months from the reporting date.

As of 31 December 2013, an allowance for estimated irrecoverable long-term VAT of USD 338 thousand was recorded by the Group (2012: USD 7,754 thousand, 2011: USD 4,938 thousand).

15. Biological assets

The balances of non-current biological assets were as follows as of 31 December 2013, 2012 and 2011:

	Thousand units	**Carrying amount**	Thousand units	Carrying amount	Thousand units	Carrying amount
	2013		2012		2011	
Orchards, hectare	**1.64**	**38,893**	1.64	30,018	1.64	27,978
Milk cows, boars, sows, units	**22.3**	**26,642**	21.6	18,547	14.1	14,803
Other non-current bearer biological assets		**1,230**		994		906
Total bearer non-current biological assets		**66,765**		49,559		43,687
Non-current cattle and pigs, units	**5.3**	**3,677**	7.1	4,136	5.1	2,640
Total consumable non-current biological assets		**3,677**		4,136		2,640
Total non-current biological assets		**70,442**		53,695		46,327

The balances of current biological assets were as follows as of 31 December 2013, 2012 and 2011:

	Thousand units	**Carrying amount**	Thousand units	Carrying amount	Thousand units	Carrying amount
	2013		2012		2011	
Breeders held for hatchery eggs production, units	**3,121**	**65,907**	2,634	54,273	2,384	39,345
Total bearer current biological assets		**65,907**		54,273		39,345
Broiler poultry, units	**34,438**	**73,267**	26,223	51,051	25,273	55,411
Hatchery eggs, units	**26,570**	**8,841**	20,587	6,628	20,472	5,915
Crops in fields, hectare	**76**	**45,745**	75	39,590	71	23,876
Cattle and pigs, units	**49**	**5,637**	45	7,204	56	10,654
Other current consumable biological assets		**283**		530		789
Total consumable current biological assets		**133,773**		105,003		96,645
Total current biological assets		**199,680**		159,276		135,990

Other current consumable biological assets include geese and other livestock.

15. Biological assets continued

The following table represents movements in biological assets for the years ended 31 December 2013, 2012 and 2011:

	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 2011	17,840	25,768	39,530	43,287	13,997	2,809	9,119
Costs incurred	210,683	20,976	67,498	423,599	9,794	913	22,122
Gains/(losses) arising from change in fair value of biological assets less costs to sell	69,913	(5,669)	26,390	192,844	3,000	(941)	12,072
Transfer to consumable biological assets	–	–	(76,889)	76,889	(1,325)	(285)	1,610
Transfer to bearing non-current biological assets	–	–	–	–	4,071	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)	(186)	(52)	(9)	(37)
As of 31 December 2011	23,876	27,978	39,345	55,411	14,803	2,640	10,654
Costs incurred	236,222	20,270	79,783	475,752	10,784	1,320	31,270
Gains/(losses) arising from change in fair value of biological assets less costs to sell	61,030	(4,410)	35,496	249,694	2,288	(1,655)	1,854
Transfer to consumable biological assets	–	–	(87,496)	87,496	–	(176)	176
Transfer to bearing non-current biological assets	–	–	–	–	9,559	2,498	(12,057)
Decrease due to sale	–	–	–	–	(599)	(13)	(12,303)
Decrease due to harvest	(281,529)	(13,805)	(12,836)	(817,281)	(18,279)	(477)	(12,388)
Translation difference	(9)	(15)	(19)	(21)	(9)	(1)	(2)
As of 31 December 2012	39,590	30,018	54,273	51,051	18,547	4,136	7,204
Costs incurred	304,553	23,944	95,123	602,985	18,218	1,602	40,181
Acquired through business combination (Note 2)	9,187	–	–	–	–	–	–
Gains/(losses) arising from change in fair value of biological assets less costs to sell	11,625	11,815	46,988	219,076	3,505	(2,369)	2,877
Transfer to consumable biological assets	–	–	(110,442)	110,442	(48)	(446)	493
Transfer to bearing non-current biological assets	–	–	–	–	19,019	2,502	(21,520)
Decrease due to sale	–	–	–	–	(1,900)	(195)	(11,904)
Decrease due to harvest	(319,437)	(26,884)	(20,035)	(910,287)	(30,699)	(1,553)	(11,694)
Translation difference	227	–	–	–	–	–	–
As of 31 December 2013	**45,745**	**38,893**	**65,907**	**73,267**	**26,642**	**3,677**	**5,637**

Biological assets of the Group are measured at fair value within level 3 of the fair value hierarchy, except for cattle and pigs that can be measured based on market prices of livestock of similar age, breed and genetic merit, which is measured at fair value within level 1 of the fair value hierarchy. There were no transfers between any levels during the year.

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15. Biological assets continued

The following unobservable inputs were used to measure the biological assets:

Description	Fair value as at 31 December 2013	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (average)	Relationship of unobservable inputs to fair value
Crops in fields	45,745	Discounted cash flows	Crops yield – tonnes per hectare	3.0–5.3 (4.7)	The higher the crops yield, the higher the fair value
			Crops price	USD 200 – 430 (263) per tonne	The higher the market price, the higher the fair value
			Discount rate	12.37%	The higher the discount rate, the lower the fair value
Orchards	38,893	Discounted cash flows	Fruit yield – tonnes per hectare	5.7–39.2 (24.5) per year	The higher the fruit yield, the higher the fair value
			Fruit price	USD 623 – 2,206 (840) per tonne	The higher the market price, the higher the fair value
			Discount rate	14.01%	The higher the discount rate, the lower the fair value
Breeders held for hatchery eggs production	65,907	Discounted cash flows	Number of hatchery eggs produced by one breeder	165–175	The higher the number, the higher the fair value
			Hatchery egg price	USD 0.32 – 0.36 (0.33) per egg	The higher the market price, the higher the fair value
			Discount rate	12.37%	The higher the discount rate, the lower the fair value
Broiler poultry	73,267	Cash flows	Average weight of one broiler – kg	2.26	The higher the weight, the higher the fair value
			Poultry meat price	USD 1.47 – 1.60 (1.54) per kg	The higher the market price, the higher the fair value
Milk cows	24,111	Discounted cash flows	Milk yield – litre per cow	10.96 – 18.79 (15.05) per day	The higher the milk yield, the higher the fair value
			Weight of the cow – kg per cow	475 – 532 (492)	The higher the weight, the higher the fair value
			Milk price	USD 0.40 – 0.50 (0.49) per litre	The higher the market price, the higher the fair value
			Meat price	USD 1.2 – 1.32 (1.25) per kg	The higher the market price, the higher the fair value
			Discount rate	14.01%	The higher the discount rate, the lower the fair value

If the above unobservable inputs to the valuation model were 10% higher/lower while all the other variables were held constant, the carrying amount of the current and non-current biological assets would decrease/increase by USD 39,935 thousand and USD 24,452 thousand respectively.

16. Inventories

The balances of inventories were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Components for mixed fodder production	**121,291**	175,013	111,220
Work in progress	**54,365**	44,043	35,705
Other raw materials	**32,078**	25,023	19,037
Spare parts	**16,593**	10,999	5,373
Sunflower oil	**10,785**	9,662	3,077
Packaging materials	**4,189**	4,533	4,057
Mixed fodder	**3,726**	3,802	2,822
Other inventories	**2,834**	1,180	949
	245,861	274,255	182,240

As of 31 December 2013, 2012 and 2011, work in progress in the amount of USD 54,365 thousand, USD 44,043 thousand and USD 35,705 thousand comprised expenses incurred in cultivating fields to be planted in the years 2014, 2013 and 2012, respectively.

As of 31 December 2013, components for mixed fodder production with a carrying amount of USD nil (2012: USD 62,500 thousand, 2011: USD 45,491 thousand) were pledged as collateral to secure bank borrowings (Note 22).

17. Agricultural produce

The balances of agricultural produce were as follows as of 31 December 2013, 2012 and 2011:

	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount	Thousand tonnes	Carrying amount
	2013		2012		2011	
Chicken meat	**20,440**	**40,035**	14,715	26,206	5,561	11,716
Other meat	**N/A**[1]	**3,724**	N/A[1]	4,059	N/A[1]	6,380
Grain	**776**	**110,233**	631	121,507	841	131,764
Fruits, vegetables and other crops	**N/A**[1]	**18,729**	N/A[1]	14,356	N/A[1]	19,162
		172,721		166,128		169,022

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

The fair value of agricultural produce was estimated based on market price as at date of harvest and is within level 1 of the fair value hierarchy.

18. Taxes recoverable and prepaid, net

Taxes recoverable and prepaid were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
VAT recoverable	**223,037**	213,944	149,853
Miscellaneous taxes prepaid	**6,096**	5,228	1,350
Less: allowance for irrecoverable VAT	**(19,984)**	(18,864)	(14,028)
	209,149	200,308	137,175

19. Trade accounts receivable, net

The balances of trade accounts receivable were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Agricultural operations	**69,207**	59,177	53,750
Due from related parties (Note 27)	**1,018**	10,359	10,895
Sunflower oil sales	**2,061**	4,237	1,934
Less: allowance for irrecoverable amounts	**(1,374)**	(1,157)	(785)
	70,912	72,616	65,794

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.

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19. Trade accounts receivable, net continued

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 2013 the Group determined that trade accounts receivable on sales of poultry meat of USD 445 thousand (2012: USD 456 thousand, 2011: USD 750 thousand) were overdue but do not require allowance for irrecoverable amounts.

For the years ended 31 December 2013, 2012 and 2011 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 2013, 2012 and 2011 was as follows:

	Trade accounts receivable			Allowance for irrecoverable amounts		
	2013	2012	2011	**2013**	2012	2011
Trade accounts receivable on sales of poultry meat:						
Over 30 but less than 270 days	**–**	915	372	**–**	(457)	(93)
Over 270 days	**647**	125	344	**(647)**	(125)	(344)
	647	1,040	716	**(647)**	(582)	(437)
Trade accounts receivable on other sales:						
Over 60 but less than 360 days	**308**	359	199	**(78)**	(141)	(50)
Over 360 days	**649**	434	298	**(649)**	(434)	(298)
	957	793	497	**(727)**	(575)	(348)
	1,604	1,833	1,213	**(1,374)**	(1,157)	(785)

20. Cash and cash equivalents

The balances of cash and cash equivalents were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Cash in hand and with banks	**98,880**	41,027	47,119
USD short-term deposits with banks	**60,170**	45,000	37,000
UAH short-term deposits with banks	**11,885**	8,758	10,639
RUB short-term deposits with banks	**1,535**	–	–
	172,470	94,785	94,758

During the year ended 31 December 2013, UAH, RUB and USD denominated short-term deposits earned an effective interest rate of 13.32%, 5.73% and 5.10%, respectively (2012: 18.00% and 6.42%, respectively, 2011: 5.29% and 5.60%). All cash and cash equivalents are held within reputable foreign and Ukrainian banks.

21. Shareholders' equity

Share capital

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

	2013	2012	2011
Number of shares authorised 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	**105,666,888**	105,666,888	107,854,856

The authorised share capital as of 31 December 2013, 2012 and 2011 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 2012 the Group acquired, under the share buy-back programme, 3,445,000 shares for cash consideration of USD 41,465 thousand. In December 2012 the Group transferred 1,257,032 shares in exchange for a 10% share in NPF Urozhay, the Group's subsidiary. The excess of the fair value of shares transferred (that approximated the carrying value of the non-controlling interest at the transaction date) over the carrying value of the shares bought back, in the amount of USD 2,417 thousand was recognised as an adjustment to additional paid-in capital (Note 2).

22. Bank borrowings

The following table summarises bank borrowings and credit lines outstanding as of 31 December 2013, 2012 and 2011:

		2013		2012		2011	
Bank	Currency	**WAIR[1]**	**USD' 000**	WAIR[1]	USD' 000	WAIR[1]	USD' 000
Foreign banks	USD	**6.05%**	**88,414**	5.14%	190,976	4.39%	95,979
Foreign banks	EUR	**1.81%**	**164,250**	2.15%	162,675	3.13%	97,009
			252,664		353,651		192,988
Ukrainian banks	USD	**4.80%**	**38,000**	5.43%	147,490	5.39%	86,500
			38,000		147,490		86,500
Total bank borrowings			**290,664**		501,141		279,488
Less: Short-term bank borrowings and current portion of long-term bank borrowings			**(98,367)**		(301,658)		(170,380)
Total long-term bank borrowings			**192,297**		199,483		109,108

1 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. 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 2013, 2012 and 2011:

	2013	2012	2011
Credit lines	**38,000**	232,490	146,500
Term loans	**252,664**	268,651	132,988
	290,664	501,141	279,488

The following table summarises fixed and floating interest rate bank loans and credit lines held by the Group as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Floating interest rate	**290,664**	501,141	276,712
Fixed interest rate	**–**	–	2,776
	290,664	501,141	279,488

Bank borrowings and credit lines outstanding as of 31 December 2013, 2012 and 2011 were repayable as follows:

	2013	2012	2011
Within one year	**98,367**	301,658	170,380
In the second year	**58,479**	66,840	30,951
In the third to fifth year inclusive	**125,390**	115,316	60,871
After five years	**8,428**	17,327	17,286
	290,664	501,141	279,488

As of 31 December 2013, the Group had available undrawn facilities of USD 287,844 thousand (2012: USD 133,981 thousand, 2011: USD 251,315 thousand). These undrawn facilities expire during the period from January 2014 until June 2020.

The Group, as well as particular subsidiaries of the Group, has 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.

During the years ended 31 December 2013, 2012 and 2011 the Group has complied with all covenants imposed by banks providing the loans.

As of 31 December 2013, the Group had borrowings of USD nil (2012: USD 50,000 thousand, 2011: USD 52,191 thousand) that were secured. These borrowings were secured by property, plant and equipment with a carrying amount of USD nil (2012: USD nil, 2011: USD 4,648 thousand) (Note 12) and inventories with a carrying amount of USD nil (2012: USD 62,500 thousand, 2011: USD 45,491 thousand) (Note 16).

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22. Bank borrowings continued
As of 31 December 2013, 2012 and 2011 accrued interest on bank borrowings were USD 1,668 thousand, USD 3,969 thousand and USD 1,916 thousand, respectively.

23. Bonds issued
Bonds issued and outstanding as of 31 December 2013, 2012 and 2011 were as follows:

	2013	2012	2011
8.25% Senior Notes due in 2020	**750,000**	–	–
10.25% Senior Notes due in 2015	**234,767**	584,767	584,767
Unamortised premium on bonds issued	**1,426**	2,801	3,755
Unamortised debt issuance cost	**(34,465)**	(16,053)	(21,522)
	951,728	571,515	567,000

As of 31 December 2013, 2012 and 2011 accrued interest on bonds issued were USD 19,103 thousand, USD 10,156 thousand and USD 10,157 thousand, respectively.

8.25% Senior Notes
On 2 April 2013, MHP S.A. issued USD 750,000 thousand 8.25% Senior Notes due in 2020 at an issue price of 100% of the principal amount. USD 350,000 thousand out of the issued USD 750,000 thousand 8.25% Senior Notes were used to facilitate the early redemption and exchange of its existed 10.25% Senior Notes due in 2015.

The early redemption of 10.25% Senior Notes due in 2015 from the issue of 8.25% Senior Notes due in 2020, which were placed with the same holders resulted in a change in the net present value of the future cash flows of less than 10%, and thus was accounted for as modification and all the related expenses, including consent fees, were capitalised and will be amortised over the maturity period of the 8.25% Senior Notes due in 2020 in the amount of USD 28,293 thousand.

Other related expenses, including consent fees, in the amount of USD 16,654 thousand were expensed as incurred.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Druzhba Narodiv, Druzhba Narodiv Nova, Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv, Oril-Leader, Katerynopilsky Elevator, Ptahofabryka Peremoga Nova, Zernoproduct, Myronivska Ptahofabryka, Starynska Ptahofabryka, Ptahofabryka Shahtarska Nova, Agrofort, NPF Urozhay, Vinnytska Ptahofabryka.

10.25% Senior Notes
In November 2006, MHP S.A. issued USD 250,000 thousand 10.25% Senior Notes, due in November 2011, at par.

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

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.

The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Druzhba Narodiv, Druzhba Narodiv Nova, Myronivsky Zavod po Vygotovlennyu Krup i Kombikormiv, Oril-Leader, Katerynopilsky Elevator, Ptahofabryka Peremoga Nova, Zernoproduct, Myronivska Ptahofabryka, Starynska Ptahofabryka, Ptahofabryka Shahtarska Nova, Agrofort, NPF Urozhay and Vinnytska Ptahofabryka. Interest on the Senior Notes is payable semi-annually in arrears. These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness in excess of Net Debt to EBITDA ratio as defined by indebtedness agreement, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates.

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.

During the years ended 31 December 2013, 2012 and 2011 the Group has complied with all covenants defined by indebtedness agreement.

The weighted average effective interest rate on the Senior Notes is 9.9% per annum for the year ended 31 December 2013 and 11.7% per annum for the years ended 31 December 2012 and 2011. The Notes are listed on London Stock Exchange.

24. Finance lease obligations

Long-term finance lease obligations represent amounts due under agreements for the leasing of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2013, the weighted average interest rates on finance lease obligations were 6.85% and 7.90% for finance lease obligations denominated in EUR and USD, respectively (2012: 7.28% and 7.69%, 2011: 8.88% and 7.68%).

The following are the minimum lease payments and present value of minimum lease payments under the finance lease agreements as of 31 December 2013, 2012 and 2011:

	Minimum lease payments			Present value of minimum lease payments		
	2013	2012	2011	**2013**	2012	2011
Payable within one year	**23,748**	25,704	22,736	**20,484**	21,491	19,267
Payable in the second year	**19,323**	20,130	16,391	**17,202**	17,814	14,706
Payable in the third to fifth year inclusive	**23,440**	30,488	19,145	**22,168**	28,142	17,852
	66,511	76,322	58,272	**59,854**	67,447	51,825
Less:						
Future finance charges	**(6,657)**	(8,875)	(6,447)	**–**	–	–
Present value of finance lease obligations	**59,854**	67,447	51,825	**59,854**	67,447	51,825
Less:						
Current portion				**(20,484)**	(21,492)	(19,267)
Finance lease obligations, long-term portion				**39,370**	45,955	32,558

25. Trade accounts payable

Trade accounts payable were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Trade accounts payable to third parties	**101,979**	68,918	52,655
Payables due to related parties (Note 27)	**11**	52	34
	101,990	68,970	52,689

As of 31 December 2013 trade accounts payable included liabilities that bear a floating rate of interest under grain purchase financing arrangements in the amount of USD 60,486 thousand and accrued interest of USD 593 thousand (2012: USD 29,362 thousand and accrued interest of USD 294 thousand, 2011: USD 11,184 thousand and accrued interest of USD 126 thousand).

26. Other current liabilities

Other current liabilities were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Accrued payroll and related taxes	**36,097**	34,285	32,886
Advances from and other payables due to related parties (Note 27)	**20,974**	200	200
Advances from and other payables due to third parties	**9,685**	7,820	1,921
Amounts payable for property, plant and equipment	**7,112**	11,415	10,236
Other payables	**12,955**	9,182	8,026
	86,823	62,902	53,269

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27. 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 the companies 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 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Sales of goods to related parties	**8,103**	9,058	10,649
Sales of services to related parties	**67**	107	89
Purchases from related parties	**228**	544	127

The balances owed to and due from related parties were as follows as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Trade accounts receivable (Note 19)	**1,018**	10,359	10,895
Payables due to related parties (Note 25)	**11**	52	34
Payables for dividends declared, included in Other current liabilities (Note 26)	**20,974**	–	–
Advances received (Note 26)	**–**	200	200
Advances and finance aid receivable	**115**	4,935	2,000

The amount of payables includes payables for dividends related to the liability to the Company's major shareholder for the declared dividends (Note 29). The Board of Directors of MHP S.A. also acknowledged the consent of WTI Trading Limited (the Company's major shareholder) to be paid later than on the declared dividend payment date (but not later than 1 March 2014), with no interest accrued on the amount of dividend paid later.

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 12,969 thousand, USD 11,686 thousand and USD 8,741 thousand for the years ended 31 December 2013, 2012 and 2011, respectively. Compensation of key management personnel consists of contractual salary and performance bonuses.

Total compensation of the Group's non-executive directors, which consists of contractual salary, amounted to USD 550 thousand, USD 407 thousand and USD 380 thousand in 2013, 2012 and 2011, respectively.

Key management personnel totalled 42, 40 and 38 individuals as of 31 December 2013, 2012 and 2011, respectively, including four independent directors as of 31 December 2013, 2012 and 2011.

Other transactions with related parties

In December 2012 the Group increased its effective ownership interest in NPF Urozhay to 99.9% through the acquisition of a non-controlling interest previously held by one of its key management personnel in exchange for 1,257,032 treasury shares held by the Group (Note 2 and 21).

28. Contingencies and contractual commitments

Political crisis

Since November 2013, Ukraine has been in a political and economic turmoil. The Ukrainian Hryvnia devalued against major world currencies and significant external financing is required to maintain stability of the economy. The National Bank of Ukraine, among other measures, has imposed temporary restrictions on processing of client payments by banks and on the purchase of foreign currency on the inter-bank market. In February 2014, Ukraine's sovereign rating has been downgraded to CCC with a negative outlook.

In February 2014, the Parliament of Ukraine voted for reinstatement of the 2004 Constitution and dismissal of the incumbent President. New presidential elections are scheduled for May 2014 and a transitional government has been formed. In March 2014, Crimea, an autonomous region of Ukraine, was effectively annexed by the Russian Federation. The further political developments are currently unpredictable and may adversely affect the Ukrainian economy.

As of 31 December 2013 and for the year then ended, the Group's assets located in the Crimea region amounted to 5% of the Group's total assets generating in average 9% of operating profit per annum.

As of the date of this report, operation of the Group's facilities throughout Ukraine, including those in Crimea, continued to operate normally through the first quarter of 2014.

Taxation

Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and fines. Future tax examinations could raise issues or assessments which are contrary to the Group companies' tax filings. Such assessments could include taxes, penalties and fines, 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, which came into force from 1 April 2011). Apart from changes in CIT rates from 1 April 2011 and planned abandonment of VAT refunds for the agricultural industry from 1 January 2018, as discussed in Notes 11 and 9 respectively, the Tax Code also changed various other taxation rules.

Starting from 1 September 2013, new detailed transfer pricing rules were introduced into the Ukrainian legislation. These rules introduce additional reporting and documentation requirements to certain types of transactions (including, but not limited to, transactions with related parties). The new legislation allows the tax authorities to impose additional tax liabilities in respect of these transactions if they consider the transactions to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated.

Legal issues

In the ordinary course of business, the Group is subject to legal actions and complaints. As of 31 December 2013, the Group companies had ongoing litigations with the tax authorities related to disallowance of certain amounts of VAT refunds and deductible expenses claimed by the Group. According to the assessment performed by the management of the Group on a case by case basis the maximum exposure of the Group to such risks as of 31 December 2013 amounted to USD 32,182 thousand. Out of this amount, USD 31,613 thousand relates to cases where court hearings have taken place and where the court in either the first or second instance has already ruled in favour of the Group. Based on past history of court resolutions of similar lawsuits Management believes that possible exposure relating to these court cases amounts to approximately USD 569 thousand as of 31 December 2013 (2012: USD 1,196 thousand, 2011: USD 2,000 thousand).

Contractual commitments on the purchase of property, plant and equipment

During the years ended 31 December 2013, 2012 and 2011, 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 2013, purchase commitments on such contracts were primarily related to construction of the Vinnytsia poultry complex and amounted to USD 6,993 thousand (2012: USD 14,689 thousand, 2011: USD 80,168 thousand).

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28. Contingencies and contractual commitments continued

Commitments on land operating leases

The Group has the following contractual obligations in respect of land operating leases as of 31 December 2013, 2012 and 2011:

	2013	2012	2011
Within one year	**25,913**	22,011	12,480
In the second to the fifth year inclusive	**81,871**	74,288	41,457
Thereafter	**80,787**	79,551	64,713
	188,571	175,850	118,650

The increase in contractual obligations under land operating leases was attributable to higher rates, introduced by the Ukrainian Government effective from January 2012, used to determine the amount of such obligations.

Ukrainian legislation provides for a ban on sales of agricultural land plots until 1 January 2016. There are significant uncertainties as to the subsequent extension of the ban. The current legislation has resulted in the Group holding land lease rights, rather than the land itself.

29. Dividends

On 4 March 2013 the Company announced that the Board of Directors approved a payment of dividend of US$1.13 per share, equivalent to US$120 million. On 16 May 2013 the Board of Directors approved a payment date of dividends on 28 May 2013 to shareholders of record on 22 May 2013. The Board of Directors approved that no dividend will be paid on the Company's treasury shares.

30. Fair value of financial instruments

Fair value disclosures in respect of financial instruments are made in accordance with the requirements of International Financial Reporting Standards 7 "Financial Instruments: Disclosure" and 13 "Fair value measurement". 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, judgement is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realise in a market exchange from the sale of its full holdings of a particular instrument.

The fair value is estimated to be the same as the carrying value for cash and cash equivalents, short-term bank deposits, trade accounts receivables, 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 the Group's financial instruments, excluding those discussed above, that are carried in the consolidated statement of financial position:

	Carrying amount			Fair value		
	2013	2012	2011	2013	2012	2011
Financial liabilities						
Bank borrowings (Note 22)	**290,664**	501,141	279,488	**297,276**	508,702	283,677
Senior Notes due in 2015 (Note 23)	**234,859**	581,671	577,157	**242,690**	601,385	513,697
Senior Notes due in 2020 (Note 23)	**735,972**	–	–	**669,375**	–	–
Finance lease obligations (Note 24)	**59,854**	67,447	51,825	**60,368**	66,342	51,418

The carrying amount of Senior Notes issued includes interest accrued at each of the respective dates.

The fair value of bank borrowings and finance lease obligations was estimated by discounting the expected future cash outflows by a market rate of interest for bank borrowings of 3.3% (2012: 3.0%, 2011: 4.5%) and for finance lease obligations of 7.5% (2012: 8.0%, 2011: 8.0%), and is within level 2 of the fair value hierarchy.

The fair value of Senior Notes was estimated based on market quotations and is within level 1 of the fair value hierarchy.

31. Risk management policies

During the years ended 31 December 2013, 2012 and 2011 there were no material changes to the objectives, policies and process for credit risk, capital risk, liquidity risk, currency risk, interest rate risk, livestock diseases risk and commodity price and procurement risk managing.

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 3.0. The Group defines its leverage ratio as the proportion of net debt to adjusted operating profit.

As of 31 December 2013, 2012 and 2011 the leverage ratio was as follows:

	2013	2012	2011
Bank borrowings (Note 22)	**290,664**	501,141	279,488
Bonds issued (Note 23)	**951,728**	571,515	567,000
Finance lease obligations (Note 24)	**59,854**	67,447	51,825
Debt	**1,302,246**	1,140,103	898,313
Less:			
Cash and cash equivalents and short-term bank deposits	**(172,470)**	(94,785)	(96,535)
Net debt	**1,129,776**	1,045,318	801,778
Operating profit	**271,836**	380,583	320,744
Adjustments for:			
Depreciation and amortisation expense (Notes 7 and 8)	**119,014**	87,135	80,341
Adjusted operating profit	**390,850**	467,718	401,085
Net debt to adjusted operating profit	**2.89**	2.23	2.00

Debt is defined as bank borrowings, bonds issued and finance lease obligations. 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 25). Adjusted operating profit is defined as operating profit adjusted for the depreciation and amortisation 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

	2013	2012	2011
Financial assets:			
Long-term bank deposits	**5,802**	6,154	6,017
Loans to employees and related parties	**1,645**	1,966	2,437
Other receivables	**19,789**	5,750	1,828
Trade accounts receivable, net (Note 19)	**70,912**	72,616	65,794
Short-term bank deposits	**–**	–	1,777
Cash and cash equivalents (Note 20)	**172,470**	94,785	94,758
	270,618	181,271	172,611
Financial liabilities:			
Bank borrowings (Note 22)	**290,664**	501,141	279,488
Bonds issued (Note 23)	**951,728**	571,515	567,000
Finance lease obligations (Note 24)	**59,854**	67,447	51,825
Amounts payable for property, plant and equipment (Note 26)	**7,112**	11,415	10,236
Accrued interest (Note 22 and 23)	**20,771**	14,125	12,073
Trade accounts payable (Note 25)	**101,990**	68,970	52,689
Other current liabilities (Note 26)	**12,943**	9,182	8,026
	1,445,062	1,243,795	981,337

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.

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

31. Risk management policies continued

Credit risk

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

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

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 the credit period is expired. About 38% (2012: 31%, 2011: 28%) 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 2013, 2012 and 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.

	Carrying amount	Contractual amounts	Less than 1 year	From 2nd to 5th year	After 5th year
Year ended 31 December 2013					
Bank borrowings	**290,664**	**318,603**	**106,083**	**203,978**	**8,542**
Bonds issued	**951,728**	**1,423,050**	**85,939**	**494,298**	**842,813**
Finance lease obligations	**59,854**	**66,080**	**23,664**	**42,416**	**–**
Total	**1,302,246**	**1,807,733**	**215,686**	**740,692**	**851,355**
Year ended 31 December 2012					
Bank borrowings	501,141	526,824	313,702	195,146	17,976
Bonds issued	571,515	734,613	59,939	674,674	–
Finance lease obligations	67,447	76,735	25,705	51,030	–
Total	1,140,103	1,338,172	399,346	920,850	17,976
Year ended 31 December 2011					
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

All other financial liabilities (excluding those disclosed above) are repayable within one year.

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 2013, 2012 and 2011, the current ratio was as follows:

	2013	2012	2011
Current assets	**1,109,166**	1,001,248	808,745
Current liabilities	**328,435**	469,147	307,678
	3.38	2.13	2.63

31. Risk management policies continued

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, but the management of the Group sets limits on the level of exposure to foreign currency fluctuations in order to manage currency risk.

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

	2013		2012		2011	
	USD	**EUR**	USD	EUR	USD	EUR
ASSETS						
Long-term bank deposits	**–**	**5,802**	–	6,154	–	6,017
Trade accounts receivable	**12,429**	**–**	8,607	–	3,794	–
Other current assets, net	**928**	**39**	732	35	688	–
Cash and cash equivalents	**118,211**	**540**	73,270	1,017	71,766	1,165
	131,568	**6,381**	82,609	7,206	76,248	7,182
LIABILITIES						
Current liabilities						
Trade accounts payable	**66,088**	**5,637**	30,592	4,897	12,146	3,522
Other current liabilities	**21,145**	**3,373**	593	5,508	266	7,389
Accrued interest	**19,892**	**878**	13,312	813	11,416	657
Short-term bank borrowings	**59,401**	**38,966**	270,362	31,296	151,918	17,264
Short-term finance lease obligations	**14,088**	**6,312**	12,794	8,698	9,605	9,662
	180,614	**55,166**	327,653	51,212	185,351	38,494
Non-current liabilities						
Long-term bank borrowings	**65,729**	**126,568**	68,104	131,379	30,561	79,745
Bonds issued	**984,782**	**–**	584,767	–	584,767	–
Long-term finance lease obligations	**23,317**	**15,705**	25,013	20,536	25,581	6,977
	1,073,828	**142,273**	677,884	151,915	640,909	86,722
	1,254,442	**197,439**	1,005,537	203,127	826,260	125,216

The table below illustrates the Group's sensitivity to a change in the exchange rate of the Ukrainian Hryvnia against the US dollar and EUR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a possible change in foreign currency rates.

	Change in foreign currency exchange rates	Effect on profit before tax
2013		
Increase in USD exchange rate	10%	(112,287)
Increase in EUR exchange rate	10%	(19,106)
Decrease in USD exchange rate	5%	56,144
Decrease in EUR exchange rate	5%	9,553
2012		
Increase in USD exchange rate	10%	(92,293)
Increase in EUR exchange rate	10%	(19,592)
Decrease in USD exchange rate	5%	46,146
Decrease in EUR exchange rate	5%	9,796
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

The effect of foreign currency sensitivity on shareholders' equity is included in the statement of comprehensive income. There are no hedging activities in the other comprehensive income, so the statement of comprehensive income and the statement of changes in equity impacts are the same.

for the year ended 31 December 2013 (in thousands of US dollars, unless otherwise indicated)

31. Risk management policies continued

During the years ended 31 December 2013, 2012 and 2011, the Ukrainian Hryvnia was relatively stable against the US dollar. During the year ended 31 December 2013 the Ukrainian Hryvnia depreciated against the EUR by 4.79% (2012: depreciated against the EUR by 2.32%, 2011: appreciated against the EUR by 2.60%). As a result, during the year ended 31 December 2013 the Group recognised net foreign exchange losses in the amount of USD 11,052 thousand (2012: foreign exchange losses in the amount of USD 3,285 thousand, 2011: foreign exchange gains in the amount of USD 2,318 thousand) in the consolidated statement of comprehensive income.

In November 2012 the National Bank of Ukraine ("NBU") introduced a requirement whereby a company is required to sell 50% of their foreign currency proceeds from any export sales at Ukrainian interbank currency market. During the year ended 31 December 2013 a USD 6,841 thousand (2012: USD 3,578 thousand) net foreign exchange gain resulting from the difference in NBU and Ukrainian interbank currency market exchange rates, was included in Other operating expenses.

The 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 sufficient for servicing the Group's foreign currency denominated liabilities and were as follows during the years ended 31 December 2013, 2012 and 2011:

	2013	2012	2011
Sunflower oil and related products	**253,194**	227,835	222,418
Chicken meat and related products	**216,683**	112,931	67,874
Grain[1]	**114,923**	138,639	63,101
Other agricultural segment products	**405**	431	486
	585,205	479,836	353,879

1 Grain export sales during the year ended 31 December 2013 includes USD 14,249 thousand of gain received from operations, when goods are exchanged or swapped for goods which are of similar nature.

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 illustrates the Group's sensitivity to increases or decreases of interest rates by 5% (2012: 5%, 2011: 5%). 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 US$'000
2013		
LIBOR	5%	(6,381)
LIBOR	–5%	6,381
EURIBOR	5%	(8,320)
EURIBOR	–5%	8,320
2012		
LIBOR	5%	(17,146)
LIBOR	–5%	17,146
EURIBOR	5%	(8,189)
EURIBOR	–5%	8,189
2011		
LIBOR	5%	(9,263)
LIBOR	–5%	9,263
EURIBOR	5%	(4,781)
EURIBOR	–5%	4,781

The effect of interest rate sensitivity on shareholders' equity is equal to that on the 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 minimise and manage this risk. The Group's management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

31. Risk management policies continued

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 the vertical integration strategy, and also accumulates sufficient commodity stock to meet its production needs.

32. Pensions and retirement plans

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund for the year ended 31 December 2013 was USD 68,297 thousand and is recorded in the consolidated statement of comprehensive income on an accrual basis (2012: USD 58,450 thousand, 2011: USD 48,563 thousand). In January 2011 in accordance with the Law of Ukraine "On charge and accounting of unified social contribution" certain changes in the administration of social charges were made and social charges are to become payable in the form of Unified Social Contribution, including contributions to the State Pension Fund in range of 36.76% – 49.7% of gross salary cost. 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.

33. Earnings per share

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

	2013	2012	2011
Profit for the year attributable to equity holders of the Parent	**155,907**	297,104	243,376
Earnings used in calculation of earnings per share	**155,907**	297,104	243,376
Weighted average number of shares outstanding	**105,666,888**	106,242,419	107,854,856
Basic and diluted earnings per share (USD per share)	**1.48**	2.80	2.26

The Group has no potentially dilutive ordinary shares nor other dilutive instruments; therefore, the diluted earnings per share equal basic earnings per share.

34. Subsequent events

There are no subsequent events to mention.

35. Authorisation of the consolidated financial statements

These consolidated financial statements were authorised for issue by the Board of Directors of MHP S.A. on 1 April 2014.

Notes

Notes

Myronivsky Hliboproduct

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