



## PRESS RELEASE

March 28, 2011, Kyiv, Ukraine

### MHP S.A.

#### Financial Results for the Fourth Quarter and Full Year ended December 31, 2010

MHP S.A. ("MHP" or the "Company", LSE ticker: "MHPC"), one of the leading agro-industrial companies in Ukraine, focusing on the production of poultry and the cultivation of grain, today announces its financial results for the fourth quarter 2010 and full year ended 31 December 2010.

#### Key operational highlights

##### *Poultry*

- Myronivka poultry farm successfully achieved its first year at full capacity outperforming the production target of 220,000 tonnes; as a result Company's total sales of chicken meat to third parties increased by 21% to 331,400 tonnes (2009: 272,900 tonnes).
- During the year, consumer demand for chicken remained high; all MHP's poultry production units continued to operate at 100% of capacity and the Company was able to sell close to 100% of the chicken produced.
- MHP's market share of industrially produced chicken in Ukraine increased to around 50% (2009: 43%) and of total poultry consumption to 33% (2009: 27%).
- Average chicken meat sales prices to third parties in Q4 2010 increased by 16% to UAH 14.35 per kg of adjusted weight when compared to the fourth quarter of 2009. For the full year 2010 the average price increased by almost 7% against 2009 to UAH 13.65 per kg.
- Annual sales of sunflower oil increased by 39% to 195,800 tonnes (2009: 140,400 tonnes) following a year of full capacity operation of MHP's Katerynopilsky sunflower crushing plant.
- Convenience food production grew by 126% year-on-year

##### *Grain Growing*

- MHP's 2010 harvested more than 900,000 tonnes
- MHP's 2010 yields as usual are significantly higher than Ukraine's average per hectare, although lower than in 2009 due to adverse weather conditions across the region.
- Higher world grain prices caused Ukrainian domestic grain prices increase, resulting in higher profitability per hectare for MHP in 2010 compared to 2009. EBITDA per hectare in 2010 increased by 52% to US\$ 458 compared to US\$ 301 in 2009.
- During 2010 the Company aggressively increased its land bank and at the end of the period it had around 280,000 hectares of land under control. In 2010, the bulk of the Company's harvest was generated from land that was under the Company's control at the beginning of the year

(total land bank as on January 1, 2010: 180,000 hectares, including 150,000 hectares in Grain Growing segment).

#### *Other Agricultural*

- Sales volumes of processed meat products, the main driver in this business segment, increased by 34% to 32,900 tonnes in 2010 compared to 24,600 tonnes in 2009.
- MHP is a market leader with close to 10% market share in meat processing in Ukraine in 2010 and management expects further increases in its market share.

### **Key financial highlights**

#### *Q4 2010 highlights*

- Revenue increased by 28% to US\$ 268 million (Q4 2009: US\$ 209 million).
- EBITDA increased by 26% to US\$ 93 million (Q4 2009: US\$ 74 million).
- EBITDA margin remained at 35%, the same as Q4 2009.
- Net income from continuing operations was unchanged at US\$ 57 million.

#### *FY 2010 highlights*

- Revenue increased by 33% to US\$ 944 million (2009: US\$ 711 million).
- EBITDA increased by 20% to US\$ 325 million (2009: US\$ 271 million).
- EBITDA margin decreased from 38% to 34% due partially to the increased share of sunflower oil sales as a share of total sales.
- Net income from continuing operations increased by 35% to US\$ 215 million (2009: US\$ 160 million).

Commenting on the results, Yuriy Kosiuk, Chief Executive Officer of MHP, said:

“I am very pleased to announce an excellent set of results for the year to 31 December 2010. This performance reflects the strength of our uniquely self-sufficient business model and puts us in a strong position to continue delivering against our targets in the period ahead. Our objective is to carry on expanding and strengthening our leading market position, whilst achieving sector leading results by focusing on doing what we do best – producing and marketing a range of dependable, high-quality, value for money products.

Despite unfavorable weather in summer 2010 we achieved excellent results, meeting most of our production targets.

We are delighted to report that development of our new Vinnytsia poultry complex project continues to plan. Construction of Phase 1 was launched in May 2010 with capital investments expected to be approximately US\$ 750 million. This is scheduled to come into operation in 2013 and to reach its full annual capacity of 220,000 tonnes of chicken meat in 2015.

The market environment in Ukraine is favorable and we are confident that we will be able to continue to implement our strategy and deliver strong financial results.

Our unique business model is the core of our strong profitability and gives us confidence in the future”.

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MHP's management will host a conference call for investors and analysts followed by a Q&A session. The dial-in details are:

The dial-in details are:

Date: Monday, 28 March 2011  
Time: 16.00 Kyiv / 14.00 London / 9.00 New York / 17.00 Moscow  
Title: MHP – FY 2010 FINANCIAL RESULTS  
Conference ID 53197015

**The participants will be asked for their full name and conference ID.**

UK Standard International +44 (0) 1452 555 566  
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**A live webcast of the presentation will be available at:**

<https://webconnect.webex.com/webconnect/onstage/g.php?t=a&d=932051421>

Attendees can login 15 minutes prior to the official start time. Attendees that are having login problems are advised to dial-in to the audio part of the call and ask the Operator to let them speak to the Web Technician.

**Click on “Unlisted Events”**

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## Financial overview

In UAH		12M 2010	12M 2009	% change	Q4 2010	Q4 2009	% change
<b>Revenue</b>	UAH, m	<b>7 490</b>	<b>5 552</b>	<b>35%</b>	<b>2 126</b>	<b>1 668</b>	<b>28%</b>
IAS 41 standard gains	UAH, m	229	273	-16%	-9	39	n/a
<b>Gross profit</b>	UAH, m	<b>2 319</b>	<b>1 923</b>	<b>21%</b>	<b>531</b>	<b>435</b>	<b>22%</b>
<i>Gross margin</i>	%	31%	35%	-11%	25%	26%	-4%
<b>Operating profit*</b>	UAH, m	<b>2 035</b>	<b>1 709</b>	<b>19%</b>	<b>540</b>	<b>443</b>	<b>22%</b>
<i>Operating margin</i>	%	27%	31%	-12%	25%	27%	-4%
<b>EBITDA</b>	UAH, m	<b>2 574</b>	<b>2 113</b>	<b>22%</b>	<b>737</b>	<b>591</b>	<b>25%</b>
<i>EBITDA margin</i>	%	34%	38%	-10%	35%	35%	-2%
<b>Net income</b>	UAH, m	<b>1 708</b>	<b>1 245</b>	<b>37%</b>	<b>455</b>	<b>454</b>	<b>0%</b>
<i>Net income margin</i>	%	23%	22%	2%	21%	27%	-21%

In US\$		12M 2010	12M 2009	% change	Q4 2010	Q4 2009	% change
<b>Revenue</b>	US\$, m	<b>944</b>	<b>711</b>	<b>33%</b>	<b>268</b>	<b>209</b>	<b>28%</b>
IAS 41 standard gains	US\$, m	29	35	-18%	-1	5	n/a
<b>Gross profit</b>	US\$, m	<b>293</b>	<b>247</b>	<b>18%</b>	<b>67</b>	<b>54</b>	<b>23%</b>
<i>Gross margin</i>	%	31%	35%	-11%	25%	26%	-4%
<b>Operating profit*</b>	US\$, m	<b>257</b>	<b>219</b>	<b>17%</b>	<b>68</b>	<b>55</b>	<b>23%</b>
<i>Operating margin</i>	%	27%	31%	-12%	25%	27%	-4%
<b>EBITDA</b>	US\$, m	<b>325</b>	<b>271</b>	<b>20%</b>	<b>93</b>	<b>74</b>	<b>26%</b>
<i>EBITDA margin</i>	%	34%	38%	-10%	35%	35%	-2%
<b>Net income</b>	US\$, m	<b>215</b>	<b>160</b>	<b>35%</b>	<b>57</b>	<b>57</b>	<b>0%</b>
<i>Net income margin</i>	%	23%	23%	1%	21%	27%	-22%

\* Operating profit before loss on impairment of property, plant and equipment

### Q4 2010 Consolidated Financial Results

Revenue increased by 28% to US\$ 268 million (Q4 2009: US\$ 209 million) as a result of higher chicken prices and higher sunflower oil prices.

EBITDA increased by 26% to US\$ 93 million (Q4 2009: US\$ 74 million) compared to the same period last year. EBITDA margin remained high and flat at 35%.

Net income from continuing operations remained flat at US\$ 57 million.

## *FY 2010 Consolidated Financial Results*

For the full year MHP's revenue increased by 33% to US\$ 944 million (2009: US\$ 711 million) due to the growth in both the price of chicken meat and sunflower oil.

Full year EBITDA increased by 20% to US\$ 325 million (2009: US\$ 271 million). EBITDA margin decreased from 38% to 34%, but continued to outperform the sector.

Net income from continuing operations increased significantly by 35% to US\$ 215 million (2009: US\$ 160 million). Net income margin remained stable at 23%.

### **State support for agricultural production in Ukraine**

In view of the agricultural sector's importance to the national economy, as well as the need to improve living conditions in rural areas, support for the sector is a major priority for the Ukrainian government. During 2010, as with previous years, State support was provided in the form of special tax regimes (VAT and Corporate Income Tax).

According to the New Tax Code the special VAT regime for agricultural industry will be effective until 1 January 2018 and the Fixed Agricultural Tax (the "FAT") regime will continue indefinitely.

### **Functional currency**

The functional currency for the Group's companies is the Ukrainian hryvna (UAH), however, for the purpose of the financial statements, the Group's results have been translated into the presentation currency of US dollars in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".

	<b>As of 31 December 2010</b>	<b>Average for 2010</b>	<b>As of 31 December 2009</b>	<b>Average for 2009</b>
UAH/USD	7.9617	7.9353	7.9850	7.7916
UAH/EUR	10.5731	10.5313	11.4489	10.8736

MHP's operating assets are located in Ukraine and its revenues and costs are principally denominated in hryvnas. Approximately 25% of our revenue and almost all our financial costs are denominated in foreign currencies, primarily US dollars. Management believes that MHP's exposure to currency exchange rate fluctuations as a result of foreign currency costs is almost completely offset by its US dollar revenue earned from the export of sunflower oil, sunflower husks, chicken meat and grains. In total, during 2010, the Company generated US\$ 240 million of revenue in foreign currencies (US\$ 153 million in 2009).

US\$, m	2010	2009
Sunflower oil and related products	188,156	104,864
Chicken meat	29,147	17,650
Grains	22,454	30,109
Other agricultural segment products	290	270
<b>Total export revenue</b>	<b>240,047</b>	<b>152,893</b>

### Poultry and related operations

		12M 2010	12M 2009	% change	Q4 2010	Q4 2009	% change
<b>Revenue</b>	US\$, m	<b>800</b>	<b>577</b>	<b>39%</b>	<b>221</b>	<b>167</b>	<b>32%</b>
- Poultry and other	US\$, m	620	476	30%	167	129	29%
- Sunflower oil	US\$, m	180	101	78%	54	38	43%
<b>IAS 41 standard gains</b>	US\$, m	<b>9</b>	<b>17</b>	<b>-43%</b>	<b>1</b>	<b>5</b>	<b>-76%</b>
<b>Gross profit</b>	US\$, m	<b>240</b>	<b>219</b>	<b>10%</b>	<b>56</b>	<b>48</b>	<b>17%</b>
Gross margin	%	30%	38%	-21%	25%	29%	-12%
<b>EBITDA</b>	US\$, m	<b>273</b>	<b>234</b>	<b>17%</b>	<b>65</b>	<b>55</b>	<b>18%</b>
EBITDA margin	%	34%	41%	-16%	29%	33%	-11%
EBITDA per 1 kg	US\$	0.82	0.86	-5%	0.80	0.69	16%

### Q4 2010 Poultry and related operations segment financial results

	Q4 2010	Q4 2009	% change
<b>Poultry</b>			
Sales volume, third parties tonnes	81,900	80,000	2%
Price per 1 kg net VAT, UAH	14.35	12.37	16%
<b>Sunflower oil</b>			
Sales volume, third parties tonnes	46,200	49,150	-6%
Price per 1 tonne net VAT, US\$	1,174	770	53%

During the fourth quarter of 2010 the volume of chicken meat sales to third parties increased by 2% compared to the fourth quarter of 2009, reaching 81,900 tonnes.

Average chicken meat sales prices to third parties in Q4 2010 increased by 16% to UAH 14.35 per kg of adjusted weight (excluding VAT) when compared to the fourth quarter of 2009.

Poultry production costs in Q4 2010 rose slightly in UAH terms compared to Q4 2009 affected by increase of the price of corn on the Ukrainian market, which the Company uses to calculate its costs.

However, as MHP is 100% self sufficient in corn and has a high level of vertical integration, these higher prices in Q4 2010 had a positive effect on the financial performance of the Company's Grain Growing segment.

In Q4 2010, 46,200 tonnes of sunflower oil were produced and sold for export at an average price of US\$ 1,174 per tonne (Q4 2009: US\$ 770).

Revenue increased by 32% to US\$ 221 million (Q4 2009: US\$ 167 million) as a result of higher chicken prices and sunflower oil prices.

EBITDA increased by 18% to US\$ 65 million (Q4 2009: US\$ 55 million) compared to the same period last year, and EBITDA margin decreased to 29% (Q4 2009: 33%) due partially to the increase of the share of sunflower oil sales as a share of total sales.

*FY 2010 Poultry and related operations segment financial results*

	FY 2010	FY 2009	% change
<b>Poultry</b>			
Sales volume, third parties tonnes	331,400	272,900	21%
Price per 1 kg net VAT, UAH	13.65	12.79	7%
<b>Sunflower oil</b>			
Sales volume, third parties tonnes	195,800	140,400	39%
Price per 1 tonne net VAT, US\$	919	721	27%

In 2010, chicken meat sales volumes to the third parties on an adjusted-weight basis increased by 21% to 331,400 tonnes (2009: 272,900 tonnes). This significant volume growth, achieved as a result of the Myronivka poultry farm operated at full capacity full year, was despite Ukraine's total poultry production volumes in 2010 only increasing by a moderate 9%. Sales of sunflower oil increased by 39% to 195,800 tonnes (2009: 140,400 tonnes) following a year of full capacity operation at MHP's Katerynopilsky sunflower crushing plant.

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

As a result, segment revenue increased by 39% to US\$ 800 million (2009: US\$ 577 million).

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

Gross profit in the segment in 2010 increased by 10% from US\$ 219 million in 2009 to US\$ 240 million in 2010, while the gross profit margin decreased from 38% in 2009 to 30% in 2010. This decrease is partly attributable to the increase in the share of sunflower oil sales as a share in total poultry segment sales. According to the Group accounting policy sunflower oil gross margin is zero.

Segment EBITDA in 2010 increased by 17% to US\$ 273 million (2009: US\$ 234 million). Lower EBITDA margin in poultry segment in 2010 (34% compared to 41% in 2009) was compensated by the higher financial result in grain growing segment.

### Grain growing operations

		12M 2010	12M 2009	% change	Q4 2010	Q4 2009	% change
<b>Revenue</b>	US\$, m	<b>36</b>	<b>46</b>	<b>-22%</b>	<b>14</b>	<b>20</b>	<b>-30%</b>
<b>IAS 41 standard gains</b>	US\$, m	<b>17</b>	<b>18</b>	<b>-5%</b>	<b>-5</b>	<b>-3</b>	<b>93%</b>
<b>Gross profit</b>	US\$, m	<b>46</b>	<b>25</b>	<b>86%</b>	<b>9</b>	<b>6</b>	<b>54%</b>
<b>EBITDA</b>	US\$, m	<b>67</b>	<b>44</b>	<b>52%</b>	<b>29</b>	<b>23</b>	<b>25%</b>
<i>EBITDA per 1 hectare</i>	US\$	<i>458</i>	<i>301</i>	<i>52%</i>			

During 2010 the Company continued to execute its stated strategy of gradually increasing its land bank and at the end of the period it had around 280,000 hectares of land under control. At the same time, in 2010 the bulk of the Company's harvest is generated from land that was under the Company's control at the beginning of the year (total land bank as on January 1, 2010: 180,000 hectares, including 150,000 hectares in Grain Growing segment).

MHP currently uses the majority of the grain it produces in its own operations. Revenue from the Grain division is attributable to the sale of a certain quantity of grain to third parties, mainly wheat and rape.

MHP's 2010 harvest was lower yielding than 2009 due to adverse weather conditions, but still significantly higher than Ukraine's average yields per hectare. The price increases for domestic crops were in line with world grain prices resulted in higher profitability per hectare for MHP in 2010 compared to 2009. EBITDA per hectare in 2010 increased by 52% to US\$ 458 compared to US\$ 301 in 2009.

	2010* (for land under control as of 01.01.2010)		2009	
	MHP's average*	Ukraine's average**	MHP's average*	Ukraine's average**
Corn	7.8	4.3	9.0	5.0
Wheat	4.7	2.9	5.8	3.1
Sunflower	2.6	1.6	3.3	1.5
Rapeseed	3.0	1.7	2.7	1.9

\* - Tonnes per hectare

\* - Source: the State Committee on Statistics of Ukraine.

\* -Ukrainian average yields are based on bunker weight



	<b>Production, tonnes</b>	<b>Cropped hectares*</b>	<b>Production, tonnes</b>	<b>Cropped hectares*</b>
Corn	492,642	63,165	432,603	48,540
Wheat	183,785	39,360	208,002	35,591
Sunflower	65,455	25,630	79,845	24,002
Rapeseed	9,010	3,020	38,618	14,423
Other**	162,166	15,442	201,412	24,757
<b>Total:</b>	<b>913,058</b>	<b>146,617</b>	<b>960,480</b>	<b>147,313</b>

\* - Actual hectares under crop and excluding land left fallow as part of crop rotation

\*\* - Includes soybean, barley and sugar beet

### Other agricultural operations

		<b>12M 2010</b>	<b>12M 2009</b>	<b>% change</b>	<b>Q4 2010</b>	<b>Q4 2009</b>	<b>% change</b>
<b>Revenue</b>	US\$, m	<b>108</b>	<b>88</b>	<b>23%</b>	<b>33</b>	<b>22</b>	<b>50%</b>
- Meat processing	US\$, m	79	60	32%	22	15	53%
- Other	US\$, m	29	28	4%	11	7	45%
<b>IAS 41 standard gains</b>	US\$, m	<b>3</b>	<b>1</b>	<b>259%</b>	<b>3</b>	<b>2</b>	<b>18%</b>
<b>Gross profit</b>	US\$, m	<b>6</b>	<b>3</b>	<b>88%</b>	<b>2</b>	<b>1</b>	<b>163%</b>
Gross margin	%	6%	4%	53%	6%	3%	75%
<b>EBITDA</b>	US\$, m	<b>9</b>	<b>9</b>	<b>7%</b>	<b>4</b>	<b>3</b>	<b>46%</b>
EBITDA margin	%	9%	10%	-13%	13%	14%	-3%

<b>Meat processing products</b>	<b>FY 2010</b>	<b>FY 2009</b>	<b>% change</b>	<b>Q4 2010</b>	<b>Q4 2009</b>	<b>% change</b>
Sales volume, third parties tonnes	32,900	24,600	34%	8,800	6,400	38%
Price per 1 kg net VAT, UAH	17.59	17.33	2%	18.52	17.24	7%

Revenue from Other Agricultural Operations was US\$ 108 million (2009: US\$ 88 million) a 23% increase year-on-year following further expansion at its Ukrainian Bacon facility. MHP's sausage and cooked meat production volumes increased by 34% to 32,900 tonnes in 2010 compared to 24,600 tonnes in 2009.

Average sausage and cooked meat prices during 2010 increased by 2% to UAH 17.59 UAH per kg excluding VAT (FY 2009: UAH 17.33 UAH per kg) MHP is a market leader in meat processing in Ukraine and management expects further increases in its market share (currently market share is about 10%).

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

## Current financial position, cash flow and liquidity

Cash Flows US\$, m	Q4 2010	Q4 2009	FY 2010	FY 2009
<b>Cash from operations</b>	<b>74</b>	<b>54</b>	<b>263</b>	<b>201</b>
Change in working capital	(85)	(26)	(167)	(78)
<b>Net Cash from operating activities</b>	<b>(11)</b>	<b>28</b>	<b>97</b>	<b>123</b>
Cash from investing activities	(90)	(23)	(203)	(144)
Non-cash investments	(6)	(10)	(20)	(27)
<b>CAPEX</b>	<b>(96)</b>	<b>(33)</b>	<b>(223)</b>	<b>(171)</b>
<i>Cash from financing activities</i>	76	(6)	250	(28)
<i>incl. Treasury shares acquisition</i>	-	-	(46)	-
<i>Non-cash financing</i>	6	10	20	27
Deposits	-	(7)	(127)	18
<b>Total financial activities</b>	<b>82</b>	<b>(3)</b>	<b>143</b>	<b>17</b>
Effects of exchange rates on cash	-	(1)	-	(1)
<b>Total change in cash</b>	<b>(25)</b>	<b>(9)</b>	<b>17</b>	<b>(32)</b>

In Q4 2010, cash flow from operations before working capital changes was US\$ 74 million (Q4 2009: US\$ 54) and in full year 2010, it was US\$ 263 million (2009: US\$ 201 million) in line with higher Company's EBITDA.

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

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

Total CAPEX in 2010 of US\$ 223 million was mostly related to the Vinnytsia project financing as well as the expansion of land under control in grain growing segment. Since the start of the Vinnytsia project financing in the second half of 2010, approximately US\$ 100 million has been invested.

During 2010, the Company acquired, under the share buy-back programme, 3,370,144 shares for a cash consideration of US\$ 46 million, of which 455,000 shares were further used for the Company's compensation scheme. MHP intends to use some of these newly purchased GDR for its compensation and incentive program and non-used GDR with the reminder to be held in treasury until their resale within the next three years.

<b>Debt</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
<b>Total Debt U.S.\$, m</b>	<b>832</b>	<b>519</b>
Cash and bank deposits	174	30
<b>Net Debt</b>	<b>658</b>	<b>489</b>
LTM EBITDA	325	271
<i>Debt /LTM EBITDA</i>	<i>2.56</i>	<i>1.92</i>
<i>Net Debt /LTM EBITDA</i>	<i>2.03</i>	<i>1.81</i>

MHP's debt structure improved substantially as a result of successful completion of new Eurobond transaction. In 2010 MHP has successfully issued US\$ 330 million 10.25% senior notes due 2015 for an issue price of 101.452% of principal amount (effective coupon rate 9.875%) in addition to approximately US\$ 255 million 10.25% senior notes of exchange notes which were issued to exchange 96% of the outstanding US\$ 250 million existing notes.

Currently US\$ 585 million of MHP's debt (nominal value) is in Eurobonds, which do not mature until April 2015.

US\$ 57 million of our long-term debt is in the form of loans, covered by ECA, which mature at various times up to 2018.

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

US\$ 61 million represents financing for the lease of agricultural machinery and equipment used in our grain growing activities and for vehicles for distribution, and has maturities up to 2015.

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

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

At the end of 2010 MHP had US\$ 174 million in cash and short term bank deposits including approximately US\$ 100 million denominated in US dollars.

### **Current trading and outlook**

Consumer demand for poultry continues to be high and the Company's production facilities are all operating at full capacity. Until the production at the Vinnytsia commences in 2013 our poultry production growth is limited as our facilities are operating at full capacity. As a result, our growth strategy will be focused on increasing the share of value-added, high margin, products in our product mix.

In 2011 we will increase land under cultivation by additional 100,000 hectares.

We will continue to increase the quantity of sausages and cooked meat that we produce, whilst also producing a wider range of value-added products at our meat processing plants. This will be driven by further increase in production at the Ukrainian Bacon facility.

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

Looking ahead, demand for our products is high and the overall market environment in Ukraine remains favorable for our business. We are therefore confident that we will be able to continue to implement our strategy and keep on delivering strong financial results cementing our position as one of the leading agro-industrial companies in Ukraine and the region.

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#### **Notes to Editors:**

##### **About MHP**

MHP is the leading producer of poultry products in Ukraine with the greatest market share and highest brand recognition for its products. MHP owns and operates each of the key stages of chicken production processes, from feed grains and fodder production to egg hatching and grow out to processing, marketing, distribution and sales (including through MHP's franchise outlets). Vertical integration reduces MHP's dependence on suppliers and its exposure to increases in raw material prices. In addition to cost efficiency, vertical integration also allows MHP to maintain strict biosecurity and to control the quality of its inputs and the resulting quality and consistency of its products through to the point of sale. To support its sales, MHP maintains a distribution network consisting of 11 distribution and logistical centres, within major Ukrainian cities. MHP uses its trucks for the distribution of its products, which Management believes reduces overall transportation costs and delivery times. MHP also has a leading grain cultivation business growing corn to support the vertical integration of its chicken production and increasingly other grains, such as wheat and rape, for sale to third parties. MHP leases agricultural land located primarily in the highly fertile black soil regions of Ukraine.

Since May 15, 2008, MHP has traded on the London Stock Exchange under the ticker symbol MHPC.

##### **Forward-Looking Statements**

This press release might contain forward-looking statements that refer to future events or forecast financial indicators for MHP S.A. Such statements do not guarantee that these are actions to be taken by MHP S.A. in the future, and estimates can be inaccurate and uncertain. Actual final indicators and results can considerably differ from those declared in any forward-looking statements. MHP S.A. does not intend to change these statements to reflect actual results.

**MHP S.A.  
AND ITS SUBSIDIARIES**

**Consolidated Financial Statements**  
Year Ended 31 December 2010

# MHP S.A. AND ITS SUBSIDIARIES

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# MHP S.A. AND ITS SUBSIDIARIES

## STATEMENT OF BOARD OF DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

---

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

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

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


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

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

The consolidated financial statements of the Group for the year ended 31 December 2010 were authorized for issue by the Board of Directors on 25 March 2011.

On behalf of the Board:

  
Yuriy Kosyule/Chief Executive Officer

  
Viktoria Kapelyushnaya/Chief Financial Officer

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

## INDEPENDENT AUDITOR'S REPORT

### Report on the consolidated financial statements

We have audited the consolidated financial statements of MHP S.A., which comprise the consolidated balance sheet as of 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Board of Directors' responsibility for the consolidated financial statements*

The board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Independent auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.





An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the independent auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of MHP S.A. as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **Report on other legal and regulatory requirements**

The directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

For Deloitte S.A., *Cabinet de révision agréé*

Sophie Mitchell, *Réviseur d'entreprises agréé*  
Partner


25 March 2011

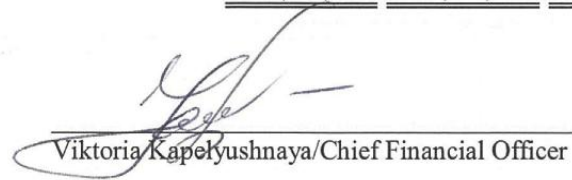
# MHP S.A. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2010 (in US Dollars and in thousands)

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

On behalf of the Board:

  
Yuriy Kosyuk/Chief Executive Officer

  
Viktoriya Kapelyushnaya/Chief Financial Officer

The notes on pages 9 to 62 form an integral part of these consolidated financial statements.  
Independent auditors' report is on pages 2-3.

# MHP S.A. AND ITS SUBSIDIARIES


## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

On behalf of the Board:

  
Yuriy Kosyuk/Chief Executive Officer

  
Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages 9 to 62 form an integral part of these consolidated financial statements.  
Independent auditors' report is on pages 2-3.

## MHP S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010 (in US Dollars and in thousands)

	Attributable to Equity Holders of the Parent					Retained earnings	Total	Non-controlling interest	Total equity
	Share capital	Treasury shares	Additional paid-in capital	Revaluation reserve	Cumulative translation differences				
<b>1 January 2008</b>	<b>251,311</b>	-	<b>60,059</b>	<b>9,410</b>	<b>6,292</b>	<b>80,962</b>	<b>408,034</b>	<b>11,372</b>	<b>419,406</b>
Profit for the year	-	-	-	-	-	1,518	1,518	3,675	5,193
Other comprehensive income	-	-	-	-	(228,991)	-	(228,991)	-	(228,991)
Total comprehensive income for the year	-	-	-	-	(228,991)	1,518	(227,473)	3,675	(223,798)
Increase in share capital (net of issue costs) (Note 21)	33,194	-	118,756	-	-	-	151,950	-	151,950
Acquisition and changes in non-controlling interest in subsidiaries (Note 2)	-	-	-	-	-	-	-	(1,341)	(1,341)
<b>31 December 2008</b>	<b>284,505</b>	-	<b>178,815</b>	<b>9,410</b>	<b>(222,699)</b>	<b>82,480</b>	<b>332,511</b>	<b>13,706</b>	<b>346,217</b>
Profit for the year	-	-	-	-	-	148,564	148,564	11,439	160,003
Other comprehensive income	-	-	-	9,371	(15,822)	-	(6,451)	-	(6,451)
Total comprehensive income for the year	-	-	-	9,371	(15,822)	148,564	142,113	11,439	153,552
Acquisition and changes in non-controlling interest in subsidiaries (Note 2)	-	-	-	-	-	-	-	(5,361)	(5,361)
<b>31 December 2009</b>	<b>284,505</b>	-	<b>178,815</b>	<b>18,781</b>	<b>(238,521)</b>	<b>231,044</b>	<b>474,624</b>	<b>19,784</b>	<b>494,408</b>
Profit for the year	-	-	-	-	-	205,395	205,395	10,053	215,448
Other comprehensive income	-	-	-	-	770	-	770	-	770
Total comprehensive income for the year	-	-	-	-	770	205,395	206,165	10,053	216,218
Acquisition of treasury shares (Note 21)	-	(46,288)	-	-	-	-	(46,288)	-	(46,288)
Treasury shares disposed of under a compensation	-	5,733	750	-	-	-	6,483	-	6,483
Dividends declared by subsidiary	-	-	-	-	-	-	-	(453)	(453)
<b>31 December 2010</b>	<b>284,505</b>	<b>(40,555)</b>	<b>179,565</b>	<b>18,781</b>	<b>(237,751)</b>	<b>436,439</b>	<b>640,984</b>	<b>29,384</b>	<b>670,368</b>

On behalf of the Board

  
Yuriy Kosyuk/Chief Executive Officer

  
Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages 9 to 62 form an integral part of these consolidated financial statements.  
Independent auditors' report is on pages 2-3.

## MHP S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(in US Dollars and in thousands)

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

## MHP S.A. AND ITS SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

(in US Dollars and in thousands)

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

On behalf of the Board:

  
\_\_\_\_\_  
Yuriy Kosyuk/Chief Executive Officer

  
\_\_\_\_\_  
Viktoria Kapelyushnaya/Chief Financial Officer

The notes on pages 9 to 62 form an integral part of these consolidated financial statements.  
Independent auditors' report is on pages 2-3.

## **MHP S.A. AND ITS SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

*(in US Dollars and in thousands)*

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#### **1. DESCRIPTION OF THE BUSINESS**

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

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

The principal business activities of the Group are poultry and related operations, grain growing, as well as other agricultural operations (meat processing, cultivation and selling fruits and producing beef and meat products ready for consumption). The Group’s poultry and related operations integrate all functions related to the production of chicken, including hatching, fodder manufacturing, raising chickens to marketable age (“grow-out”), processing and marketing of branded chilled products and include the production and sale of chicken products, sunflower oil, mixed fodder and convenience food products. Grain growing comprises the production and sale of grains. Other agricultural operations comprise the production and sale of cooked meat, sausages, beef, milk, goose meat, foie gras, fruits and feed grains. During each of the years presented in these financial statements, the Group employed over 22,000 people.

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

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

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

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

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

\* Effective voting rights in subsidiaries did not differ from effective ownership rights. Direct ownership interest in subsidiaries by the Parent differs from the effective ownership interest due to cross holdings between subsidiaries.



## 2. CHANGES IN THE GROUP STRUCTURE

Detailed below is the information on acquisitions and disposals of subsidiaries, as well as changes in non-controlling interests in subsidiaries of the Group during the years ended 31 December 2010, 2009 and 2008.

### *Acquisitions*

#### *2010 acquisitions in grain growing segment*

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

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

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

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

### *Ukrainian Bacon*

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

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

Property, plant and equipment	28,737
Prepayments for property, plant and equipment	662
Other non-current assets	302
Taxes recoverable and prepaid	3,492
Other current assets	2,605
Trade accounts receivable	107
Accounts receivable from the Group	732
Inventories	1,408
Cash and cash equivalents	456
<b>Total assets</b>	<b>38,501</b>
Deferred tax liabilities	(2,630)
Trade accounts payable	(7,501)
Accounts payable to the Group	(20,344)
Other current liabilities	(2,989)
<b>Total liabilities</b>	<b>(33,464)</b>
<b>Net assets acquired</b>	<b>5,037</b>
Fair value of net assets attributable to 80% ownership interest	4,030
Fair value of the consideration transferred	(469)
<b>Gain realized upon acquisition</b>	<b>3,561</b>
Cash consideration transferred	-
Cash acquired	456
<b>Net cash inflow arising on the acquisition</b>	<b>456</b>

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

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

“Pro forma” revenue and profit from continuing operations for the year ended 31 December 2008, had the acquisition of Ukrainian Bacon been completed on 1 January 2008, would have been USD 809,358 thousand and USD 3,793 thousand, respectively. “Pro forma” earnings per share for the year ended 31 December 2008 would have been USD 0.11 and USD 0.01 per share from continuing and discontinued operations, respectively.

These “pro forma” revenue and profit for the year from continuing operations do not reflect any adjustments related to other transactions. “Pro forma” results represent an approximate measure of the performance of the combined group on an annualized basis. The unaudited “pro forma” information does not purport to represent what the Group’s financial position or results of operations would actually have been if these transactions had occurred at such dates or to project the Group’s future results of operations.

## ***Disposal of subsidiaries***

### ***Kyivska***

In December 2008, prior to the sale of its interest, the Group increased the share capital of Kyivska, a cattle breeding farm, which resulted in an increase in the Group's effective ownership to 99.7%. The transaction did not have effect on the non-controlling interests due to negative net assets of Kyivska as of the date of the transaction.

In December 2008, the Group sold its voting rights in Kyivska to a third party for a consideration of USD 974 thousand, receivable in cash during the period from 2011 till 2017. The fair value of the consideration receivable was determined at USD 341 thousand which is the present value of the expected future cash flows.

Assets and liabilities of Kyivska as of the date of disposal were as follows:

Property, plant and equipment, net	3,709
Biological assets	1,723
Agricultural produce	1,507
Amounts receivable from the Group	8,300
Inventories	224
Taxes recoverable and prepaid, net	1,123
Cash and cash equivalents	17
<b>Total assets</b>	<b>16,603</b>
Accounts payable to the Group	(9,315)
Trade accounts payable	(501)
Other current liabilities	(240)
<b>Total liabilities</b>	<b>(10,056)</b>
<b>Net assets disposed</b>	<b>6,547</b>
Group's share in net assets disposed (99.8%)	6,534
Fair value of consideration receivable	(341)
<b>Loss on disposal</b>	<b>(6,193)</b>
Cash consideration received	-
Cash disposed	(17)
<b>Net cash outflow arising on the disposal</b>	<b>(17)</b>

The disposal of Kyivska was accounted for in these consolidated financial statements as a discontinued operation (Note 6). The loss realized on disposal of Kyivska in the amount of USD 6,193 thousand was recognized in these consolidated financial statements in *Loss for the year from discontinued operations, net of income tax*.

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

## ***Changes in non-controlling interests in subsidiaries***

### *Druzhba*

In August 2008, Druzhba decreased its share capital by repurchasing shares from a number of its minority shareholders, which resulted in an increase of the Group's effective ownership in Druzhba from 95.3% to 99.0%. Consideration payable to the minority shareholders in exchange for the shares in the amount of USD 1,744 thousand was determined based on the respective shareholder's share in the net assets of Druzhba, as recorded in the statutory financial statements as of the date of transaction, and was payable in cash or in kind, depending on the agreements reached with each shareholder. The excess of the fair value of the acquired share over the consideration payable of USD 161 thousand was recognized in these consolidated financial statements in *Gain realized from acquisitions and changes in non-controlling interest in subsidiaries*.

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

### *MHP*

In September 2008 the Group increased the share capital of MHP, which resulted in the Group owning 99.9% in MHP as of 31 December 2008. The gain on the transaction in the amount of USD 718 thousand was recognized in these consolidated financial statements in *Gain realized from acquisitions and changes in non-controlling interest in subsidiaries*.

### *MZVKK*

During the year ended 31 December 2008, through a series of transactions, the Group increased its effective share in MZVKK from 84.7% to 88.5%. The excess of the fair value of the share of the net assets acquired over the purchase price in the amount of USD 42 thousand was recognized in these consolidated financial statements in *Gain realized from acquisitions and changes in non-controlling interest in subsidiaries*.

### *Starynska*

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

### *Other*

The Group made other insignificant acquisitions during each of the periods presented. These acquisitions have been accounted for based on the Group's accounting policies. The impact of these acquisitions was not significant to the consolidated financial statements of the Group.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of presentation and accounting*** – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). The operating subsidiaries of the Group maintain their accounting records under Ukrainian Accounting Standards (“UAS”). UAS principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities’ UAS records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements of the Group are prepared on the historical cost basis, except for revalued amounts of property, plant and equipment, biological assets, agricultural produce, and certain financial instruments.

***Adoption of new and revised International Financial Reporting Standards*** – The following new and revised Standards and Interpretations have been adopted in the current year:

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

IFRS 3 “Business Combinations” (Revised 2008) has been applied effective 1 January 2010 prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. The most significant changes affecting the Group’s accounting policies are as follows:

- IFRS 3 (Revised 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as “minority” interests) either at fair value or at the non-controlling interests’ share of recognized identifiable net assets of the acquired subsidiary.
- IFRS 3 (Revised 2008) changes the recognition and subsequent accounting for contingent consideration. Previously, contingent consideration was recognized at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of twelve months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration are recognized in profit or loss.
- IFRS 3 (Revised 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquired subsidiary.
- IFRS 3 (Revised 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The application of IAS 27 “Consolidated and Separate Financial Statements” (Revised 2008) resulted in changes in the Group’s accounting policies for changes in ownership interests in subsidiaries, which were applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions:

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

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

In the current year, the Group also adopted amendments to a number of Standards resulting from annual improvements to IFRS that are effective for annual periods beginning on or after 1 January 2010. Adoption of these amendments, as well as adoption of other Standards and Interpretations did not have any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions and arrangements.

**Standards and Interpretations in issue but not effective** – At the date of authorization of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

<b>Standard / Interpretation</b>	<b>Effective for annual accounting period beginning on or after:</b>
IAS 24 “Related Party Disclosures” (2009)	1 January 2011
Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
Amendments to IAS 32 “Financial Instruments: Presentation” – Classification of Rights Issues	1 February 2010
IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”	1 July 2010
IFRS 9 “Financial Instruments: Classification and Measurement”	1 January 2013*
Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets	1 July 2011*
Improvements to IFRS issued in 2010	1 July 2010 and 1 January 2011 (as appropriate)*
Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets	1 January 2012*
Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011*

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

Management is currently evaluating the impact of the adoption of IFRS 9 “Financial Instruments: Classification and Measurement”. For other Standards and Interpretations management anticipates that their adoption in future periods will have no material effect on the consolidated financial statements of the Group.

**Functional and presentation currency** – The functional currency of the entities within the Group is the Ukrainian Hryvnia (“UAH”). Transactions in currencies other than the functional currency of the entities concerned are treated as transactions in foreign currencies. Such transactions are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. All realized and unrealized gains and losses arising on exchange differences are included in the consolidated statement of comprehensive income for the period.

These consolidated financial statements are presented in US Dollars (“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 balance sheet presented are translated at the closing rate as of the date of that balance sheet;
- Income and expenses for each consolidated statement of comprehensive income are translated at exchange rates at the dates of the transactions;
- All resulting exchange differences are recognized as a separate component of equity.

For practical reasons, the Group translates items of income and expenses for each period presented in the financial statements using the quarterly average rates of exchange, if such translations reasonably approximate to the results of transactions translated at historical currency rates.

The relevant exchange rates were:

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

**Basis of consolidation** – The consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Parent (its subsidiaries). Control is achieved when the Parent has the power to govern the financial and operating policies of an entity, either directly or indirectly, so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when control effectively commences.

All significant intercompany transactions, balances and unrealized gains/(losses) on transactions are eliminated on consolidation, except when the intragroup losses indicate an impairment that requires recognition in the consolidated financial statements.

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

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

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

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

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



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

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

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

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

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

***Discontinued operations*** – Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' carrying amount and fair value less costs to sell.

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

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

***Property, plant and equipment*** – Property, plant and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses, except for grain storage facilities, which are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent depreciation and impairment losses.

The historical cost of an item of property, plant and equipment comprises (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; (b) any costs directly attributable to bringing the item to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Group; (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, (d) the obligation for which the Group incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period; and (e) for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy.

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

For grain storage facilities revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. If the asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a revaluation reserve. However, such increase is recognized in the profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in the profit or loss. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the profit or loss. However, such decrease is debited directly to the revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Depreciation on revalued assets is charged to the profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognized.

Depreciation of property, plant and equipment is charged so as to write off the depreciable amount over the useful life of an asset and is calculated using a straight line method. Useful lives of the groups of property, plant and equipment are as follows:

Buildings and structures	15-35 years
Grain storage facilities	20-35 years
Machinery and equipment	10-15 years
Utilities and infrastructure	10 years
Vehicles and agricultural machinery	5-15 years
Office furniture and equipment	3-5 years

Depreciable amount is the cost of an item of property, plant and equipment, or revalued amount, less its residual value. The residual value is the estimated amount that the Group would currently obtain from disposal of the item of property, plant and equipment, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The depreciable amount of assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The residual value, the useful lives and depreciation method are reviewed at each financial year-end. The effect of any changes from previous estimates is accounted for prospectively as a change in an accounting estimate.

The gain or loss arising on a sale or disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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

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

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

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

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to

reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**Income taxes** – Income taxes have been computed in accordance with the laws currently enacted in jurisdictions where operating entities are located. Income tax is calculated based on the results for the year as adjusted for items that are non-assessable or non-tax deductible. It is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

Deferred tax assets and liabilities are offset when:

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

The majority of the Group companies that are involved in agricultural production (poultry farms and other entities engaged in agricultural production) benefit substantially from the status of an agricultural producer. These companies are exempt from income taxes and pay the Fixed Agricultural Tax instead (Note 10).

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

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

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

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

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

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

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

The change in this adjustment from one period to another is recognized in *Net change in fair value of biological assets and agricultural produce* in the profit or loss.

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

Based on the above policy, the principal groups of biological assets and agricultural produce are stated as follows:

#### Biological Assets

(i) Broilers

Broilers comprise poultry held for chicken meat production. Fair value of broilers is determined by reference to the cash flows that will be obtained from sales of 44-day aged chickens, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

(ii) Breeders

The fair value of breeders is determined using the discounted cash flow approach based on hatchery eggs market prices.

(iii) Cattle and pigs

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

(iv) Orchards

Orchards consist of plants used for fruits production. Fruit trees achieve the normal productive age in the second to fifth year. The fair value of orchards which have attained normal productive age is determined using the discounted cash flow approach.

(v) Crops in fields

The fair value of crops in fields is determined by reference to the cash flows that will be obtained from sales of harvested crops, with an allowance for costs to be incurred and risks to be faced during the remaining transformation process.

## Agricultural Produce

- (i) Dressed poultry, beef and pork

The fair value of dressed poultry, beef and pork is determined by reference to market prices at the point of harvest.

- (ii) Fodder grain and fruits

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

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

**Financial instruments** – Financial assets and financial liabilities are recognized on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. The settlement date is the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity. The accounting policies for initial recognition and subsequent measurement of financial instruments are disclosed in the respective accounting policies set out below in this Note.

**Accounts receivable** – Accounts receivable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Short-term accounts receivable, which are non-interest bearing, are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognized in the profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

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

**Derivative financial instruments** – Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates. The Group does not enter into financial instruments that would be accounted for as derivatives. Changes in the fair value of derivative financial instruments are recognized in the consolidated statement of comprehensive income as they arise.

**Trade and other accounts payable** – Accounts payable are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method.

**Leases** – Leases are classifieded as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets received by the Group under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss and classified as finance costs.

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

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

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

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

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

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

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

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

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

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

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

**Government grants** – Government grants received or receivable for processing of live animals and value added tax (“VAT”), and grants for the agricultural industry (conditional upon reinvestment of the granted funds for agricultural production purposes) are recognized as income over the periods necessary to match them with the related costs, or as an offset against finance costs when received as compensation for the finance costs for agricultural producers. To the extent the conditions attached to the grants are not met at the balance sheet date, the received funds are recorded in the Group’s consolidated financial statements as deferred income. Other government grants are recognized at the moment when the decision to disburse the amounts to the Group is made.

**Contingent liabilities and assets** – Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are recognized only when the contingency is resolved.

**Reclassifications** – Certain reclassifications have been made to the consolidated balance sheets and statements of comprehensive income as of 31 December 2009 and 2008 and for the years then ended to conform to the current year presentation. The reclassifications were made due to changes in relative significance of the following items:

- Land lease rights, net;
- Prepayments for property, plant and equipment;
- Accounts payable for property, plant and equipment;
- Deferred income;
- Other operating income and expenses;
- Other income and expenses.

#### **4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

##### *Critical judgements in applying accounting policies*

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

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



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

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

**Revaluation of property, plant and equipment** – As described in Note 8, the Group applies revaluation model to the measurement of grain storage facilities. At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether the carrying amount differs materially from fair value. The Group carries out such review by preparing a discounted cash flow analysis involving assumptions on projected revenues and costs, and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value assessment in a given period. Based on the results of this review, the Group concluded that grain storage facilities need not be revalued as of 31 December 2010.

#### *Key sources of estimation uncertainty*

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

**Fair value less costs to sell of biological assets and agricultural produce** – Biological assets are recorded at fair values less costs to sell. The Group estimates the fair values of biological assets based on the following key assumptions:

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

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

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

**Impairment of property, plant and equipment** – As described in Note 8, during the periods presented, the Group identified indicators of impairment associated with the assets used in the production of goose meat and foie gras, assets used in production of convenience foods under the “Legko!” brand, and administrative office premises, and assessed the assets’ recoverable amount. In determining the recoverable amount of these assets, Group management referred to the assets’ value in use due to lack of reliable basis of estimates of the amounts obtainable from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties.

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

**VAT recoverable** – Note 11 describes long-term VAT recoverable accumulated by the Group on its capital expenditures and investments in working capital. The balance of VAT recoverable may be realized by the Group either through a cash refund from the state budget or by set off against VAT liabilities with the state budget in future periods. Management classified VAT recoverable balance as current or non-current based on expectations as to whether it will be realized within twelve months from the reporting date. In addition, management assessed whether the allowance for irrecoverable VAT needs to be created.

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

## 5. SEGMENT INFORMATION

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

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

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

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

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

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

During the year ended 31 December 2008 the Group disposed of its shareholding in Kyivska, which was reported in Other agricultural operations segment. The segment information reported below does not include any amounts of these discontinued operations, which are described in more detail in Note 6.

The following table presents revenue, results of operations and certain assets and liabilities information regarding segments for the year ended 31 December 2010. Unallocated corporate assets comprise of assets that are not directly attributable to particular segment. Unallocated corporate liabilities comprise of interest-bearing liabilities and liabilities that are not directly attributable to a particular segment.

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

\* Additions to property, plant and equipment in 2010 (Note 8) include unallocated additions to property, plant and equipment in the amount of USD 4,818 thousand.

\*\*Depreciation and amortization for the year ended 31 December 2010 includes unallocated depreciation and amortization in the amount of USD 3,320 thousand.

The following table presents revenue, results of operations and certain assets and liabilities information regarding business segments for the years ended 31 December 2009 and 2008:

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

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

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

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

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

## 6. DISCONTINUED OPERATIONS

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

The results of Kyivska for the year ended 31 December 2008 were as follows:

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

During the year ended 31 December 2008 the results from discontinued operations were attributable to equity holders of the Parent.

The assets and liabilities comprising the discontinued operations were as follows:

	<b>2008</b>
Total assets	16,603
Total liabilities	10,056

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

	<b>2008</b>
Operating activities	(3,019)
Investing activities	(867)
Financing activities	<u>3,893</u>
<b>Net increase in cash and cash equivalents</b>	<b><u><u>7</u></u></b>

## 7. RELATED PARTY BALANCES AND TRANSACTIONS

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

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

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

Terms and conditions of sales to related parties are determined based on arrangements specific to each contract of transaction. Management believes that the accounts receivable due from related parties do not require allowance for irrecoverable amounts and that the amounts payable to related parties will be settled at cost. The terms of the payables and receivables related to trading activities of the Group do not vary significantly from the terms of similar transactions with third parties.

The transactions with the related parties during the years ended 31 December 2010, 2009 and 2008 were as follows:

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

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

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

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

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

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

## 8. PROPERTY, PLANT AND EQUIPMENT, NET

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

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



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

	<b>Buildings and structures</b>	<b>Grain storage facilities</b>	<b>Machinery and equipment</b>	<b>Utilities and infrastructure</b>	<b>Vehicles and agricultural machinery</b>	<b>Office furniture and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost or valuation</b>								
As of 1 January 2009	137,697	21,060	174,310	26,043	125,081	4,438	153,417	642,046
Additions	48,026	-	57,579	3,118	35,888	9,600	3,916	158,127
Disposals	(117)	-	(844)	(2)	(2,749)	(54)	(544)	(4,310)
Transfers	38,164	-	21,859	25,189	1,870	300	(87,382)	-
Increase from revaluation	-	10,739	-	-	-	-	-	10,739
Impairment loss	(941)	-	(153)	-	(210)	-	-	(1,304)
Translation difference	(5,473)	(870)	(8,053)	(1,591)	(5,310)	(387)	(3,085)	(24,769)
<b>As of 31 December 2009</b>	<b>217,356</b>	<b>30,929</b>	<b>244,698</b>	<b>52,757</b>	<b>154,570</b>	<b>13,897</b>	<b>66,322</b>	<b>780,529</b>
<b>Accumulated depreciation</b>								
As of 1 January 2009	19,250	445	41,377	6,488	32,728	1,925	-	102,213
Depreciation charge for the year	5,040	734	20,492	3,418	20,740	1,925	-	52,349
Eliminated on disposal	(40)	-	(285)	(2)	(1,966)	(45)	-	(2,338)
Eliminated on revaluation	-	(1,173)	-	-	-	-	-	(1,173)
Translation difference	(803)	(6)	(1,950)	(311)	(1,606)	(115)	-	(4,791)
<b>As of 31 December 2009</b>	<b>23,447</b>	<b>-</b>	<b>59,634</b>	<b>9,593</b>	<b>49,896</b>	<b>3,690</b>	<b>-</b>	<b>146,260</b>
<b>Net book value</b>								
<b>31 December 2009</b>	<b>193,909</b>	<b>30,929</b>	<b>185,064</b>	<b>43,164</b>	<b>104,674</b>	<b>10,207</b>	<b>66,322</b>	<b>634,269</b>
<b>1 January 2009</b>	<b>118,447</b>	<b>20,615</b>	<b>132,933</b>	<b>19,555</b>	<b>92,353</b>	<b>2,513</b>	<b>153,417</b>	<b>539,833</b>

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

	<b>Buildings and structures</b>	<b>Grain storage facilities</b>	<b>Machinery and equipment</b>	<b>Utilities and infrastructure</b>	<b>Vehicles and agricultural machinery</b>	<b>Office furniture and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost or valuation</b>								
As of 1 January 2008	184,169	31,497	244,200	32,115	135,930	5,016	100,258	733,185
Additions	13,643	626	18,643	6,063	54,164	1,335	153,803	248,277
Disposals	(3,218)	(2)	(10,392)	(471)	(3,297)	(92)	-	(17,472)
Transfers	7,353	7	4,879	892	3,326	273	(16,730)	-
Disposal of Kyivska (Note 2)	(1,317)	(38)	(1,429)	(81)	(1,488)	(31)	(1,287)	(5,671)
Acquired through business combination (Note 2)	6,143	-	8,587	992	408	165	12,442	28,737
Impairment loss	(2,653)	-	-	-	-	-	(9,114)	(11,767)
Translation difference	(66,423)	(11,030)	(90,178)	(13,467)	(63,962)	(2,228)	(85,955)	(333,243)
<b>As of 31 December 2008</b>	<b>137,697</b>	<b>21,060</b>	<b>174,310</b>	<b>26,043</b>	<b>125,081</b>	<b>4,438</b>	<b>153,417</b>	<b>642,046</b>
<b>Accumulated depreciation</b>								
As of 1 January 2008	19,922	-	41,976	6,779	31,974	1,895	-	102,546
Depreciation charge for the year	10,011	686	22,798	3,052	19,937	1,108	-	57,592
Eliminated on disposal	(375)	-	(1,603)	(32)	(1,559)	(78)	-	(3,647)
Disposal of Kyivska (Note 2)	(410)	(25)	(659)	(25)	(820)	(23)	-	(1,962)
Translation difference	(9,898)	(216)	(21,135)	(3,286)	(16,804)	(977)	-	(52,316)
<b>As of 31 December 2008</b>	<b>19,250</b>	<b>445</b>	<b>41,377</b>	<b>6,488</b>	<b>32,728</b>	<b>1,925</b>	<b>-</b>	<b>102,213</b>
<b>Net book value</b>								
<b>31 December 2008</b>	<b>118,447</b>	<b>20,615</b>	<b>132,933</b>	<b>19,555</b>	<b>92,353</b>	<b>2,513</b>	<b>153,417</b>	<b>539,833</b>
<b>1 January 2008</b>	<b>164,247</b>	<b>31,497</b>	<b>202,224</b>	<b>25,336</b>	<b>103,956</b>	<b>3,121</b>	<b>100,258</b>	<b>630,639</b>

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

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

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

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

**Impairment assessment** – The Group reviews its property, plant and equipment each period to determine if any indication of impairment exists. Based on these reviews, indicators of impairment were identified in 2009 and 2008 associated with the assets used in the production of goose meat and foie gras, assets used in production of convenience foods under the “Legko!” brand, and administrative office premises. As a result, the Group estimated the recoverable amount of these assets and determined that the carrying value exceeded the recoverable amount. Accordingly, during the years ended 31 December 2009 and 2008 the Group recognized impairment losses of USD 1,304 thousand and USD 11,767 thousand, respectively, for the difference in these amounts. No impairment losses were recognized in the year ended 31 December 2010.

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

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

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

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

The discount rates used in the assessment of the recoverable amounts of impaired assets vary depending on the currency denomination of future cash flows and different levels of business risks assessed for each group of assets.

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

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

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

## 9. LAND LEASE RIGHTS, NET

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

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

### Cost:

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

## 10. TAXATION

The majority of the Group companies that are involved in agricultural production pay the Fixed Agricultural Tax (the "FAT") in accordance with the Law "On Fixed Agricultural Tax".

The FAT substitutes the following taxes for agricultural producers: Corporate Income Tax, Land Tax, Municipal Tax, Natural Resources Usage Duty, Geological Survey Duty, and Trade Patent. The FAT is calculated by local authorities and depends on the area and valuation of land occupied. This tax regime is valid indefinitely. FAT does not constitute an income tax, and as such, is recognized in the statement of comprehensive income in Other operating expenses.

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

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

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

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

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

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are presented in the consolidated balance sheet as of 31 December 2010, 2009 and 2008:

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

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

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

## 11. LONG-TERM VAT RECOVERABLE, NET

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

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

## 12. BIOLOGICAL ASSETS

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

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

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

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

Other current consumable biological assets include geese and other livestock.

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

	<b>Crops in fields</b>	<b>Orchards</b>	<b>Breeders held for hatchery eggs production</b>	<b>Broiler poultry</b>	<b>Milk cows, boars, sows</b>	<b>Non-current cattle and pigs</b>	<b>Cattle, pigs</b>
<b>As of 1 January 2008</b>	<b>26,229</b>	<b>27,100</b>	<b>23,710</b>	<b>22,798</b>	<b>8,305</b>	<b>6,491</b>	<b>10,538</b>
Increase due to purchases	7,431	185	5,238	26	655	23	5,642
Gains arising from change in fair value of biological assets less costs to sell	92,705	15,239	80,106	353,078	7,231	1,240	36,091
Transfer to consumable biological assets	-	-	(72,914)	72,914	(953)	(63)	1,016
Transfer to bearing non-current biological assets	-	-	-	-	4,475	859	(5,334)
Decrease due to sale	-	-	-	-	(661)	(12)	(6,135)
Decrease due to harvest	(93,553)	(13,335)	(6,917)	(414,073)	(9,890)	(3,904)	(26,201)
Translation difference	(5,972)	(9,255)	(9,900)	(11,617)	(3,129)	(1,647)	(5,231)
<b>As of 31 December 2008</b>	<b>26,840</b>	<b>19,934</b>	<b>19,323</b>	<b>23,126</b>	<b>6,033</b>	<b>2,987</b>	<b>10,386</b>
Increase due to purchases	7,323	1,434	6,635	14,720	265	672	1,710
Gains/(losses) arising from change in fair value of biological assets less costs to sell	118,257	8,578	66,934	408,338	8,443	(106)	19,801
Transfer to consumable biological assets	-	-	(50,617)	50,615	(825)	(59)	884
Transfer to bearing non-current biological assets	-	-	-	-	2,167	816	(2,983)
Decrease due to sale	-	-	-	-	(192)	(3)	(9,745)
Decrease due to harvest	(125,193)	(5,631)	(5,313)	(458,654)	(6,023)	(1,539)	(13,051)
Translation difference	(967)	(837)	(1,117)	(1,188)	(308)	(101)	(288)
<b>As of 31 December 2009</b>	<b>26,260</b>	<b>23,478</b>	<b>35,845</b>	<b>36,957</b>	<b>9,560</b>	<b>2,667</b>	<b>6,714</b>
Increase due to purchases	3,135	1,537	8,176	2,830	176	65	1,756
Acquired through business combinations (Note 2)	2,234	-	-	-	3,411	71	3,560
Gains/(losses) arising from change in fair value of biological assets less costs to sell	160,106	10,104	72,341	504,092	10,599	(1,976)	23,792
Transfer to consumable biological assets	-	-	(69,968)	69,968	(1,782)	(295)	2,077
Transfer to bearing non-current biological assets	-	-	-	-	2,162	3,724	(5,886)
Decrease due to sale	-	-	-	-	(529)	(7)	(8,371)
Decrease due to harvest	(154,791)	(9,455)	(6,957)	(570,647)	(9,611)	(1,449)	(14,535)
Translation difference	(4)	104	93	87	11	9	11
<b>As of 31 December 2010</b>	<b>36,940</b>	<b>25,768</b>	<b>39,530</b>	<b>43,287</b>	<b>13,997</b>	<b>2,809</b>	<b>9,118</b>



### 13. OTHER NON-CURRENT ASSETS

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

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

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

### 14. INVENTORIES

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

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

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

### 15. AGRICULTURAL PRODUCE

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

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

## 16. OTHER CURRENT ASSETS, NET

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

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

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

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

## 17. TAXES RECOVERABLE AND PREPAID, NET

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

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

## 18. TRADE ACCOUNTS RECEIVABLE, NET

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

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

The allowance for irrecoverable amounts is estimated at the level of 25% of trade accounts receivable on sales of poultry meat which are over 30 days past due (for trade accounts receivable on other sales – over 60 days). Trade accounts receivable on sales of poultry meat which are aged over 270 days and trade accounts receivable on other sales which are aged over 360 days are provided in full.

The Group also performs specific analysis of trade accounts receivable due from individual customers to determine whether any further adjustments are required to the allowance for irrecoverable amounts assessed on the percentages disclosed above. Based on the results of such review as of 31 December 2010 the Group determined that trade accounts receivable on sales of poultry meat of USD 305 thousand were overdue but do not require allowance for irrecoverable amounts.

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

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

## 19. SHORT-TERM BANK DEPOSITS

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

Currency	Effective rate	2010	Effective rate	2009	Effective rate	2008
UAH	15.93%	59,460	16.14%	7,632	16.69%	1,248
USD	8.37%	75,000	-	-	10.98%	24,094
<b>Total</b>		<b>134,460</b>		<b>7,632</b>		<b>25,342</b>

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

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

As of 31 December 2009, the balances of short-term deposits with UniCreditBank for the total amount of USD 7,619 thousand represented security for bank guarantees issued against the Group's liabilities under grain financing arrangements (Note 25, 26).

## 20. CASH AND CASH EQUIVALENTS

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash in hand and with banks	39,321	22,248	18,975
Short-term deposits with banks	<u>-</u>	<u>-</u>	<u>35,097</u>
<b>Total</b>	<b><u><u>39,321</u></u></b>	<b><u><u>22,248</u></u></b>	<b><u><u>54,072</u></u></b>

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

<b>Currency</b>	<b>Effective rate</b>	<b>2008</b>
USD	11.71%	32,500
UAH	18.00%	<u>2,597</u>
		<b><u><u>35,097</u></u></b>

## 21. SHAREHOLDERS' EQUITY

### *Share capital*

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Number of shares authorized for issue	170,000,000	170,000,000	170,000,000
Number of shares issued and fully paid	110,770,000	110,770,000	110,770,000
Number of shares outstanding	107,854,856	110,770,000	110,770,000

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

As of 1 January 2008 the issued share capital of MHP S.A. was EUR 200,040 thousand (USD 251,311 thousand) and consisted of 100,020,000 ordinary shares. The share capital contributions as of that date were fully paid in cash for USD 50 thousand and by exchange of 100% shareholding in RHL. The fair value of the exchange was USD 251,261 thousand, determined by an independent appraiser as of the date of the contribution.

On 15 May 2008 MHP S.A. issued 10,750,000 new ordinary shares. After the issue MHP S.A.'s issued share capital consists of 110,770,000 ordinary shares at par value EUR 2 each. The offering was completed at USD 15 per share. The increase in MHP S.A. share capital amounted to USD 33,194 thousand at the transaction date. Share premium on issue constituted USD 128,056 thousand at the transaction date. The net expenses related to the issue amounted to USD 9,300 thousand. Net proceeds, after deducting expenses, of the offering amounted to USD 151,950 thousand.

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

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

## 22. BANK BORROWINGS

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

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

The Group's borrowings are drawn from various banks as term loans, credit line facilities and overdrafts. Repayment terms of principal amounts of bank borrowings vary from monthly repayment to repayment on maturity depending on the agreement reached with each bank. The interest on the borrowings drawn with Ukrainian banks is payable on a monthly or quarterly basis. Interest on borrowings drawn with foreign banks is payable semi-annually.

Term loans and credit line facilities were as follows as of 31 December 2010, 2009 and 2008:

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

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

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

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

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

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

The Group as well as particular subsidiaries of the Group have to comply with certain covenants imposed by the banks providing the loans. The main covenants which are to be complied by the Group are as follows: total equity to total assets ratio, net debt to EBITDA ratio, EBITDA to interest expenses ratio and current ratio. The Group subsidiaries are also required to obtain approval with lenders regarding the property to be used as collateral.

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

## 23. BONDS ISSUED

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

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

### *10.25% Senior Notes*

In November 2006, MHP S.A. issued USD 250 million 10.25% Senior Notes (“Senior Notes”), due in November 2011, at par. The Senior Notes are jointly and severally guaranteed on a senior basis by MHP, Peremoga, Druzhba Nova, Oril, MZVKK, Zernoproduct and Druzhba. Interest on the Senior Notes is payable semi-annually in arrears. Up to 30 November 2009, the Group had the right to redeem up to 35% of the aggregate principal amount of the Senior Notes with the net proceeds of any offering of MHP S.A. common equity at a redemption price of 110.25% of the principal amount, plus accrued and unpaid interest up to the redemption date. This option was not exercised by the Group.

These Senior Notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. The effective interest rate on the Senior Notes is 11.43% per annum.

The notes are listed on London Stock Exchange.

If the Group fails to comply with the covenants imposed, all outstanding Senior Notes will become due and payable without further action or notice. If change of control occurs the Group shall make an offer to each holder of the Senior Notes to purchase such Senior Notes at a purchase price in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

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

In addition, as of 13 May 2010 the 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 2015. As a result of the exchange, new Senior Notes were issued for the total par value of USD 254,767 thousand.

## 24. FINANCE LEASE OBLIGATIONS

Long-term finance lease obligations represent amounts due under agreements for lease of trucks, agricultural machinery and equipment with Ukrainian and foreign companies. As of 31 December 2010, the weighted average interest rates on finance lease obligations were 8.92 % and 7.91% for finance lease obligations denominated in EUR and USD, respectively.

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

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

## 25. TRADE ACCOUNTS PAYABLE

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

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

As of 31 December 2009 trade accounts payable included liabilities that bear a floating rate of interest under grain purchase financing arrangements in the amount of USD 51,970 thousand and accrued interest of USD 1,932 thousand (2010: nil, 2008: liabilities of USD 6,205 thousand and accrued interest of USD 136 thousand).



## 26. OTHER CURRENT LIABILITIES

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

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

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

## 27. VAT REFUNDS AND OTHER GOVERNMENT GRANTS INCOME

The Ukrainian legislation provides for a number of different grants and tax benefits for companies involved in agricultural operations. The below-mentioned grants and similar privileges are established by Verkhovna Rada (the Parliament) of Ukraine, as well as by the Ministry of Agrarian Policy of Ukraine, the Ministry of Finance of Ukraine, the State Committee of Water Industry, the customs authorities and local district administrations.

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

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

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

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

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

**Government grants on fruits and vine cultivation** – In accordance with the Law “On State Budget of Ukraine” two companies of the Group were entitled to receive grants for the years ended 31 December 2010, 2009 and 2008 for creation and cultivating of orchards, vines and berry-fields.

**Government grants on processing of live animals** – During the year ended 31 December 2008, the Law “On State Budget of Ukraine” established subsidies for companies engaged in processing of live animals (chicken and other poultry, cows and pigs). This subsidy was provided to the Group’s chicken farms in the form of payment for each item of poultry slaughtered at the farms. This subsidy was also available to the Group’s beef and pork processing facilities. Effective 1 January 2009, the government suspended this type of subsidies.

**Other government grants** – Other government grants recognized as income during the years ended 31 December 2010, 2009 and 2008 mainly comprised of subsidies related to crop growing.

In addition to the government grant income recognized by the Group, the Group receives a grant to compensate agricultural producers for costs used to finance operations. Agricultural producers are entitled to compensation of finance costs incurred on bank borrowings in accordance with the Law “On State Budget of Ukraine” during the years ended 31 December 2010, 2009 and 2008. The eligibility, application and tender procedures related to such grants are defined and controlled by the Ministry of Agrarian Policy of Ukraine.

These grants were recognized as a reduction in the associated finance costs and during the years ended 31 December 2010, 2009 and 2008 were USD 4,999 thousand, USD 900 thousand and USD 2,406 thousand, respectively (Note 34).

## **28. CONTINGENCIES AND CONTRACTUAL COMMITMENTS**

**Operating environment** – The principal business activities of the Group are within Ukraine. Emerging markets such as Ukraine are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Ukraine and the Ukraine’s economy in general. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes and the Group’s assets and operations could be at risk if there are any adverse changes in the political and business environment.

The global financial turmoil has negatively affected Ukraine’s financial and capital markets in 2008 and 2009. While due to the nature of the Group’s business the Group’s revenues and margins were not affected by these factors, the Group’s net profit was impacted by the significant depreciation of Ukrainian currency during the year ended 31 December 2008. The Ukrainian currency remained relatively stable in 2010 and 2009.

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

**Taxation** – Ukrainian tax authorities are increasingly directing their attention to the business community as a result of the overall Ukrainian economic environment. In respect of this, the local and national tax environment in Ukraine is constantly changing and subject to inconsistent application, interpretation and enforcement. Non-compliance with Ukrainian laws and regulations can lead to the imposition of severe penalties and interest. Future tax examinations could raise issues or assessments which are contrary to the Group companies’ tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Group believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years which are not always clearly written.

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

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

**Legal issues** – The Group is involved in litigations and other claims that are in the ordinary course of its business activities. Management believes that the resolution of such matters will not have a material impact on its financial position or operating results.

**Contractual commitments on purchase of property, plant and equipment** – During the years ended 31 December 2010, 2009 and 2008, the companies of the Group entered into a number of contracts with foreign suppliers for the purchase of property plant and equipment for development of agricultural operations. As of 31 December 2010, purchase commitments on such contracts were primarily related to construction of Vinnytsya poultry complex and amounted to USD 79,746 thousand (2009: USD 2,307 thousand; 2008: USD 20,927 thousand).

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

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

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

## 29. RISK MANAGEMENT POLICIES

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

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

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

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

Debt is defined as bank borrowings, bonds issued, finance lease obligations, and payables on other financing arrangements. Net debt is defined as debt less cash and cash equivalents and bank deposits. For the purposes of the leverage ratio, debt does not include interest-bearing liabilities, which are included in trade accounts payable (Note 25). Adjusted operating profit is defined as operating profit adjusted for the depreciation expense and losses and gains believed by the management to be non-recurring in nature, as this measure produces results substantially comparable to those reviewed for the purposes of financial covenants under the Group's borrowings.

*Major categories of financial instruments*

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Financial assets:</b>			
Cash and cash equivalents	39,321	22,248	54,072
Short-term bank deposits	134,460	7,632	25,342
Trade accounts receivable, net	53,395	43,377	31,531
Government grants receivable (Note 16)	-	29	3,397
Loans to employees and related parties (Notes 13 and 16)	1,673	1,649	1,486
VAT bonds (Note 16)	5,038	-	-
Other receivables (Note 16)	2,320	3,418	2,346
	<u>236,207</u>	<u>78,353</u>	<u>118,174</u>
<b>Total financial assets</b>	<b>236,207</b>	<b>78,353</b>	<b>118,174</b>
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Financial liabilities:</b>			
Bank borrowings (Note 22)	198,518	195,833	187,697
Bonds issued	572,778	248,046	246,903
Finance lease obligations	60,815	69,004	69,597
Accounts payable for property, plant and equipment	4,396	6,340	8,116
Interest accrued	11,573	3,526	3,520
Trade accounts payable	19,012	72,380	22,170
Other long-term payables	401	310	400
Other current liabilities (Note 26)	4,781	9,991	15,033
	<u>872,274</u>	<u>605,430</u>	<u>553,436</u>
<b>Total financial liabilities</b>	<b>872,274</b>	<b>605,430</b>	<b>553,436</b>

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

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

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

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

**Liquidity risk** – Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows as of 31 December 2010. The amounts in the table may not be equal to the balance sheet carrying amounts since the table includes all cash outflows on an undiscounted basis.

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

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

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

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

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

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

The below details the Group's sensitivity to strengthening of the Ukrainian Hryvnia against US Dollar and EUR by 5% and weakening of the Ukrainian Hryvnia against US Dollar and EUR by 10% (2009 and 2008: Group's sensitivity to strengthening of the Ukrainian Hryvnia against US Dollar and EUR by 5% and weakening of the Ukrainian Hryvnia against US Dollar and EUR by 15%). This sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for expected change in foreign currency rates.

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

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

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

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

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

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

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

The below details the Group's sensitivity to increase or decrease of floating rate by 10%. The analysis was applied to interest bearing liabilities (bank borrowings, finance lease obligations and accounts payable under grain purchase financing arrangements) based on the assumption that the amount of liability outstanding as of the balance sheet date was outstanding for the whole year.

	2010		2009		2008		NBU discount rate
	LIBOR	EURIBOR	LIBOR	EURIBOR	LIBOR	EURIBOR	
Profit/(loss)	11,825/(11,825)	5,778/(5,778)	9,741/(9,741)	6,490/(6,490)	12,209/(12,209)	6,496/(6,496)	500/(500)

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

**Livestock diseases risk** – The Group’s agro-industrial business is subject to risks of outbreaks of various diseases. The Group faces the risk of outbreaks of diseases, which are highly contagious and destructive to susceptible livestock, such as avian influenza or bird flu for its poultry operations. These and other diseases could result in mortality losses. Disease control measures were adopted by the Group to minimize and manage this risk. The Group’s management is satisfied that its current existing risk management and quality control processes are effective and sufficient to prevent any outbreak of livestock diseases and related losses.

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

### 30. REVENUE

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

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

### 31. COST OF SALES

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

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

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

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

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



### 32. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

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

### 33. OTHER OPERATING EXPENSES, NET

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

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

### 34. FINANCE COSTS, NET

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

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

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

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

### 35. PENSIONS AND RETIREMENT PLANS

The employees of the Group receive pension benefits from the government in accordance with the laws and regulations of Ukraine. The Group's contributions to the State Pension Fund are recorded in the consolidated statement of comprehensive income on the accrual basis. The Group companies are not liable for any supplementary pensions, post-retirement health care, insurance benefits or retirement indemnities to its current or former employees, other than pay-as-you-go expenses. During the year ended 31 December 2010 the Group remitted 33.2% for both CIT and FAT payers (2009 and 2008: 33.2% for CIT payers and 26.56% FAT payers), of the aggregate employees' salaries to the State Pension Fund subject to the following limits:

Period	Limit per employee per month, USD
1 January 2008 – 31 March 2008	624
1 April 2008 – 30 June 2008	649
1 July 2008 – 30 September 2008	667
1 October 2008 – 31 December 2008	536
1 January 2009 – 31 October 2009	430
1 November 2009 – 31 December 2009	464
1 January 2010 – 31 March 2010	545
1 April 2010 – 30 June 2010	555
1 July 2010 – 30 September 2010	557
1 October 2010 – 30 November 2010	569
1 December 2010 – 31 December 2010	579

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

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosure of financial instruments is made in accordance with the requirements of International Financial Reporting Standard 7 “Financial Instruments: Disclosure”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

The fair value of bank borrowings as of 31 December 2010 is estimated at USD 199,185 thousand compared to carrying amount of USD 198,518 thousand. The fair value of finance lease obligations as of 31 December 2010 is estimated at USD 63,420 thousand compared to carrying amount of USD 60,815 thousand. Fair value of these liabilities was estimated by discounting the expected future cash outflows by a market rate of interest.

The fair value of Senior Notes due 2015 is estimated at USD 613,339 thousand compared to the carrying value of USD 562,886 thousand; the fair value of Senior Notes due 2011 is estimated at USD 10,092 thousand compared to the carrying value of USD 9,892 thousand. The fair value was estimated based on market quotations.

### 37. EARNINGS PER SHARE

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

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

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

### **38. SUPPLEMENTAL CASH FLOW INFORMATION**

Operating, investing and financing transactions that did not require the use of cash or cash equivalents were as follows in the years ended 31 December:

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

### **39. AUTHORIZATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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